

Examiners' Report

June 2025

GCE Economics A 9EC0 03

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June 2025

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Introduction

Overall, the paper was very similar compared to previous years in terms of structure and accessibility of data, but some questions were a little more specific than in previous years, and there were fewer opportunities to write a more general, non-rigorous answer. The accessibility of the 25-mark essays were the main reason for the overall higher performance.

One issue that the area of development in Section B is often hard for candidates - the particular requirement of the 25-mark essays requiring micro analysis for development areas of the specification, and the sometimes inappropriateness of AD/AS analysis in development causes a lower general performance. However, this year candidates performed better on all four of the 25-mark essay questions

On some specific questions, candidates had a lower performance than in the past equivalent 5, 8 or 12 mark-based questions:

- Question 1(a): The question usually scores an average 4-5 but this year the question expected more cognitively, on social optimum.
- Question 1(c): Game theory is a trickier part of the specification than previous 12-mark questions. The game theory question needed specific knowledge and analysis - a payoff matrix or similar, and more steps in the reasoning to pick up the analysis marks than in previous years.
- Question 2(a): Cost of the subsidy rather than merely the effect had issues, and was a new question. Many answers were about the **effect** of the subsidy.
- Question 2(b): The explanation or content of HDI was not given in the extracts, just in the table, so pre-learning was required and some candidates had gaps in their knowledge.

However, some questions did have a higher than usual performance:

- Question 1(b): The concept of paying more than the minimum wage was one clearly understood by candidates and there was useful data.
- Question 1(d): The effects of high inflation had been examined in a 25-mark question on 9EC0 02 in June 2019. This was a good basis for candidates, but clearly the microeconomic side had not been examined and this question produced some very unusual and innovative responses, which were enjoyable to mark.

Question 1(a)

Candidates were generally able to show an understanding of a social optimum and contrast this with a private or market equilibrium. Many repeated elements of the question as part of their analysis. Most answers discussed the reasons why people prefer unhealthy food rather than healthy food. Several candidates did attempt to include more than one factor.

A few candidates misinterpreted the text, and in particular the phrase 'less healthy products' was interpreted to mean that healthy products were not being promoted when it actually referred to unhealthy foods. However, when the Extract was read as a whole it was clear that the unhealthy food was being taken away from the checkouts rather than being made more prominent for shoppers.

This short answer scores well below the average for this simple starter question.

- 1 (a) Explain **one** reason why consumers buy less than the social optimum quantity of healthy food.

(5)

Due to government regulation ~~is limiting~~ limiting the location of unhealthy food the less healthy products are no longer promoted in key location there, this is due to consumer choice and rationality and consumer satisfaction they like eating ~~un~~ unhealthy food therefore consume more of it and purchase less less healthier food ~~per~~ and the



Ap - government regulation to limit location of unhealthy foods (1)

K/An - like eating unhealthy food - BOD (1)

1K + 1AP = 2 marks

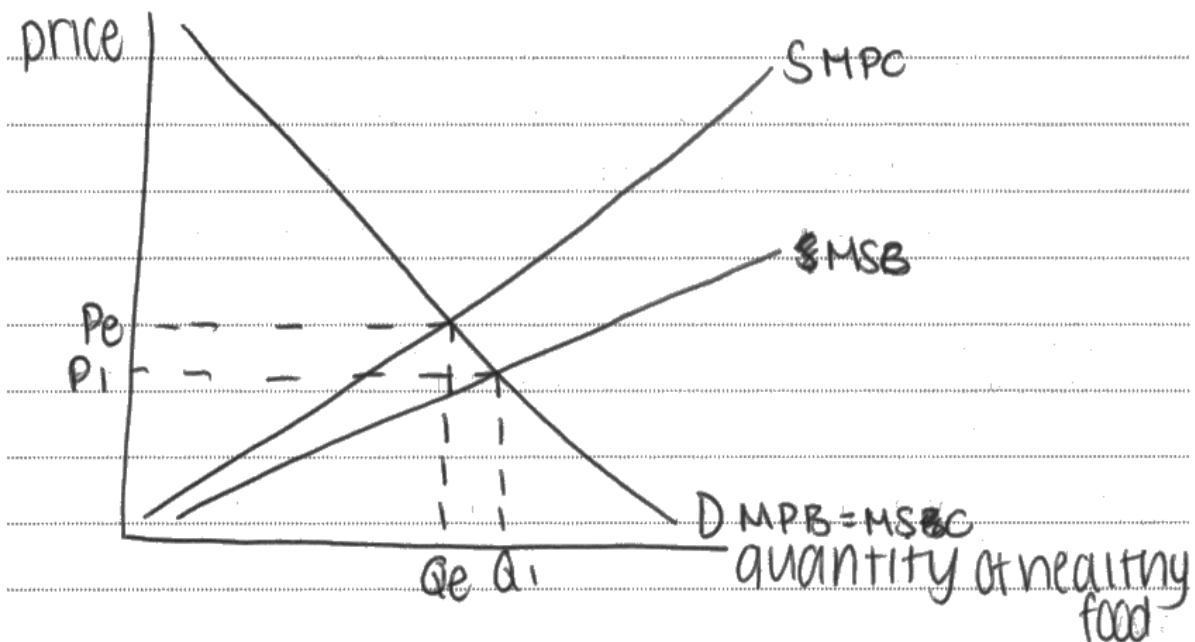


Application is worth 2 marks so scour the data for ideas to use. Make sure you look at the key words - 'less than', and 'social optimum'.

Usually in a question such as this, a diagram can add a mark or even two. However, it must be linked to the question and must be correct!

- 1 (a) Explain **one** reason why consumers buy less than the social optimum quantity of healthy food.

(5)



a positive consumption externality occurs when the price for a consumed good or service is too high ~~where~~ as it has a good impact on third parties. consumers buy less than the social optimum quantity of healthy food where Q_i meet P_i because the prices are higher than HFSS products as ~~then~~ they have "multi buy deals" including "BOGOF", "3 for 2" whereas healthy food doesn't. this can also be due to lack of information. unhealthy foods are constantly advertised leading to over consumption without stating the health risks. healthy foods are rarely advertised therefore not bought as often.



Diagram is incorrect - do not award

K/An - positive consumption externality (1)

K/An - prices are higher than HFSS food (1)

Ap - multi-buy deals on unhealthy food (1)

K/An - lack of information on unhealthy foods (1) people are not aware of the health risk (1)

Ap - unhealthy food constantly advertised (1)

An - healthy foods are rarely advertised so not bought as often (1)

3K/An and 2Ap = 5 marks

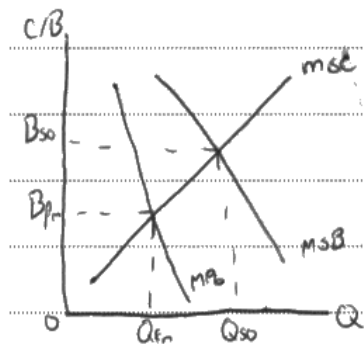


It is normal to see some labelling errors on diagrams, such as the MSB MPB the wrong way, or downward sloping MPC curves. However, **you do not lose marks** for an incorrect diagram - you can find the marks another way if needed, as here.

Short answers can perform very well.

- 1 (a) Explain **one** reason why consumers buy less than the social optimum quantity of healthy food.

(5)



A knowledge gap could be causing consumers to buy less than the social optimum quantity of healthy food. These knowledge gaps may have been caused by advertisements for HFSS foods, which have been set to be banned before 9pm for January 2024.

These advertisements may have caused consumers to swap out healthy food for HFSS foods, causing consumers to consume less than the social optimum quantity of Q_{so} .



K/An - Knowledge gap (1)

Ap - 'advertising of HFSS foods' (1)

Ap - 'set to ban advertising before 9pm' (1)

K/An - An advertising caused consumers to swap out healthy foods (1)

Ap and An - diagram (1 + 1) - Social Optimum is clear on diagram

3K/An and 2 Ap = 5 marks



Do not use the number of lines as a guide to the length of your answer. Just follow the system for the Assessment Objectives that are required.

Question 1(b)

The knowledge, application and analysis (KAA) in this question was mainly very well answered, with many scoring the full 6 KAA marks. However, evaluation was either not attempted or was very limited. The extract made it easy to pick out KAA points, and most candidates were able to come up with two points and explain them. Some candidates are very concise and gained all the marks in a very short two paragraphs of systematic writing, for example with point, explanation, example and evaluation twice over.

Candidates need to practise how to evaluate factors/reasons and not just to give subsequent points (KAA) albeit with a 'however' at the start of the concluding sentence.

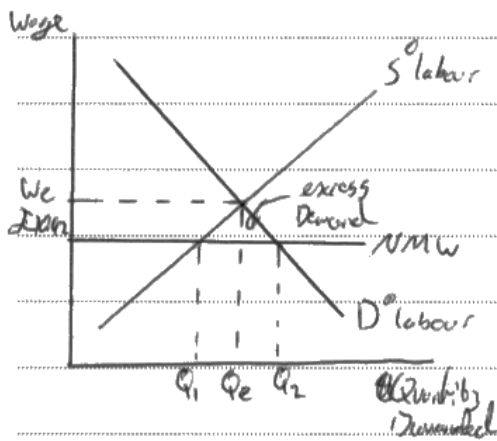
On 8-mark questions that require more than one point, make sure you make two separate application comments too.

(b) With reference to Extract B, examine **two** likely reasons why wages in supermarkets are above the National Minimum Wage of £10.42.

- $\nearrow$ 15%
- $\rightarrow$ Trade Unions
(8)

National Minimum Wage is the lowest legal limit a firm can pay ~~business~~ an employee per hour.

One reason wages in supermarkets are higher is due to the lack of willingness to work in that industry. This means that there



is less supply of labour for firms such as 'Tesco' or 'Aldi' to hire. This means that for this market the equilibrium wage (W_e) is above the National minimum wage

(£10.42). This means that the NMW wage would create excess demand for labour as people are only willing and able to supply at Q_1 for that wage and demand is at Q_2 for that wage meaning the market fixes itself and rises up to (Q_e, W_e).

Another reason for higher wages could be due to 'Trade Unions'. This means that employees of 'supermarket chains' can come together to try and force higher wages. They do this through 'taking industrial action, such as strikes' (extract 13). This means that firms struggle to cope with the lack of workers when they are on strike. Meaning they have to give workers higher wages to be able to keep operating. This results in an increase in wage from £10.42 'to above £11 per hour' (extract 13) or even £11.40 in Aldi's case.



K - due to low supply of labour/labour shortages (1)

An - market equilibrium is above NMW (explained & with diagram) (1)

Ap - awarded **on the diagram** by showing 'We' above £10.42

K - response to trade union behaviour (1)

Ap - 'taking industrial action Ext 13' (1)

An - pay higher wages to be able to keep operating (1)

Note - lots of application but 1 mark **Ap** per knowledge point

No evaluation

2K, 2Ap, 2An = 6 marks



8-mark questions need you to examine - which means there are two marks for evaluation.

This is a good example of how to respond to an 8-mark question in a very efficient style.

(b) With reference to Extract B, examine **two** likely reasons why wages in supermarkets are above the National Minimum Wage of £10.42.

(8)

Wages are above the National Minimum Wage in supermarkets because of how competitive the market is. This is because supermarkets need to compete for workers in order to have an advantage over competitors in their quantity of labour - as seen "with Sainsbury's and Asda increasing pay to above £11 per hour" to compete with Tesco. However, increasing wages also increases costs, which would have a negative impact on profit and could decrease competitiveness.

Another reason for higher wages is due to pressure from trade unions. This is due to "some workers taking industrial action, such as strikes", which would halt output for a time and decrease profits. As a result, meeting wage demands from unions keeps workers satisfied and working effectively. However, the government also aims to raise National Minimum Wage in line with inflation, so the difference between wages should be due to something else.



K - to be more competitive (1)

An - need to compete for staff to get ahead of rivals/have better quality labour (1)

Ap - wages over £11 per hour (1)

Ev - higher costs could decrease competitiveness (criticism of their KAA point) (1)

K - due to pressure from trade unions (1)

Ap - industrial action and 'strikes' (1)

An - Meeting wage demands keeps workers satisfied and working effectively (1)

Ev - likely due to other reasons and NMW moves with inflation anyway (1)

2K, 2Ap, 2An, 2Ev = 8 marks



Again, it is very clear that short answers can score full marks, as long as they are systematic in their coverage of the assessment objectives.

Question 1(c)

Candidates drew some very good payoff matrices, but there were many very confused or non-sensical ones too. Many were able to draw a generic payoff matrix, but responses were mixed in terms of application to context, or clear analytical explanation linked to collusion. It is important to explain the process of the payoff matrix, for example starting with the collusive outcome and then explaining what happens when one firm undercuts the agreed high price.

General problems with this question:

- Several responses were more focused on market structure/oligopoly and its characteristics, rather than the focus of the question itself, which was evidence of collusion.
- There are some gaps in the understanding of the dynamics of game theory. Many matrices were only partially correct and many had no dominant strategy. Whilst this wasn't fully required for the questions, there are some pre-learned numbers that were not put in the context of price changes or supermarkets, but this is evidence of misunderstanding of the numerical relationship in the Prisoners' Dilemma, and the explanation of how firms reach Nash equilibrium (although the term 'Nash' is not required).

This is an answer which is limited to Level 2 KAA but it does scrape into Level 2 for evaluation.

(c) With reference to Figure 1 and Extract C, discuss whether supermarkets charging similar prices for petrol is evidence of collusion. Use game theory to support your answer.

Yes - agree tacit
no - price leadership - interdependence - game

(12)

Collusion is where firms agree to limit competition and therefore divide the market, set prices or output, at the benefit of the firms colluding at the detriment of other consumers and producers. It is illegal due to its restrictive nature. Yes supermarkets charging similar prices for petrol is evidence of collusion. Tesco, Sainsbury's, Asda operate in an oligopoly where collusion occurs. This is an example of tacit collusion where no formal agreement or communication is made between the firms colluding.

On the other hand no, supermarkets charging similar prices for petrol is not evidence of collusion. This is an example of a type of price leadership. When Tesco (market leader) change their prices the other firms follow because they don't want to lose market share and these are the dominant firms in the market. Also they have the best knowledge of prevailing market conditions. This is also related to game theory as game theory talks about the Prisoner's Dilemma and interdependence and how the actions of one firm

~~However~~ price lead
affect another.

However price leadership may be seen as a form of collusion by the CMA leading to them investigating the firm, where they must check if the dominant firm's market share is over 25% and they have a turnover of £70m or more.



No game theory - limit to Level 2 KAA

Para 1: Level 2+ KAA

Para 2: Level 2 EV. It is not collusion based on price leadership and same market conditions. Reference to the prisoner's dilemma is not sufficient for game theory reference.

Para 3: Level 2 KAA further development - more evidence of collusion here referring to market share and high profits.

Level 2 KAA 5 marks + Level 2 EV 3 marks = 8 marks

Only one evaluation point was made (with standard development) - so just Level 2 EV overall with 3 marks.



Try to use a pay-off matrix and explain why the numbers are chosen.

Payoff matrix is not accurate - low price does not gain a first mover advantage (Limit to Level 2 KAA).

- (c) With reference to Figure 1 and Extract C, discuss whether supermarkets charging similar prices for petrol is evidence of collusion. Use game theory to support your answer.

(12)

Supermarkets charging similar prices for petrol may be evidence of collusion. Collusion refers to ~~an~~ a mutual understanding, either tacit or an open agreement, to fix prices in order to ~~of~~ maintain or gain profits. Supermarkets may be colluding in order to keep petrol prices high at 140p per litre as shown in Figure 1. This exhibits game theory where the dominant strategy is to fix prices high to increase revenue. This is shown below in the prisoner's dilemma table. If both Morrisons and Sainsbury's keep prices high they will gain revenue of £100,000, shown in the top left box. Therefore,

		Morrisons	
		Price High	Price Low
Sainsbury's	Price High	£100	£75
	Price Low	£50	£60

revenue in 000s

firms may be colluding to keep prices

higher than the competitive level shown by the bottom right box.

However, ~~there~~ collusive agreements typically break down. This is because firms will try and undercut competition at a lower price, for instance if Morrison's lowers price and Sainsbury's keeps theirs high then Morrison's will gain £15,000 and Sainsbury's will gain £50,000 in revenue. This same incentive exists for competitors and, since the supermarket/~~retail~~ petrol industry is ~~competit~~ an oligopoly, price cut by one firm results in other firms lowering prices too. Therefore if supermarkets are colluding it's likely the agreement will break down in the long run.



Para 1: Level 3 KAA

Para 2: Level 2 EV. SR V LR & 'typically will breakdown'.

Level 2 KAA 5 marks and Level 2 EV 4 marks = 9 marks

KAA kept at maximum of Level 2.



Make sure you know how a payoff matrix **works**.

This response has an unusual payoff matrix with no numbers - but makes sense (allow).

- (c) With reference to Figure 1 and Extract C, discuss whether supermarkets charging similar prices for petrol is evidence of collusion. Use game theory to support your answer.

(12)

Supermarkets charging similar prices for petrol is evidence of collusion. This is because the petrol market is oligopolistic in nature. Therefore the firms have interdependence with one another, which encourages collusive behaviour to maintain similar prices. ~~This leads to~~ This leads to high prices ~~in the petrol~~ for petrol by a 'few large supermarkets'. The high prices are a result of tacit collusion in which the actions of one firm are closely monitored and replicated by the others, ~~with the result~~ in order to achieve high profits as seen by supermarkets' 8% profit return ~~in~~ since 2017. This is demonstrated by game theory.

		Tesco	
		high price	low price
Asda	high price	high profit high profit	loss very high profit
	low price	very high profit loss	low profit low profit

In order to achieve high profit ~~and both~~ both achieve high profits both Tesco and Asda should collude to set high prices. This leads to similar prices by all supermarkets in order to receive high profits.

However similar prices could occur as a result of a price war. ~~However~~ There is a profit incentive to abandon collusion and set a lower price in order to receive very high profits at the expense of other firms. This could occur as a result of a comparison website in which firms can anticipate the prices set by competitors in order to undercut them. This will lead to similar low prices as a result of a price war as ~~not colluding~~ all firms aim to achieve the highest level of profit leading to a less optimal result for all. If profit by selling low prices. This leads to a less optimal result of low profit for all firms.



Para 1: Level 3+ KAA. Clear explanation & use of data

Para 2: Level 2 EV. Could just be due to competitive nature of market e.g. price wars (both drop prices)/is it not collusion - one well developed point.

One very well-developed evaluation point is sufficient for all the EV marks.

Level 3 KAA 8 marks & Level 2 EV 4 marks = 12 marks



With this question, remember one written paragraph of KAA is fine. There is no expectation to make two KAA points. You must have game theory within the answer to achieve Level 3 KAA.

Question 1(d)

This question was very similar to one in June 2019 Paper 2. There is a significant difference, however, and the microeconomic effects are very rarely rehearsed. Generally, the micro answer given by candidates was valid, and tended to involve AC/MC diagrams, and when linked to fixed incomes, a decrease in AR/MR. Macro points were either very good, focused on real wage falling, or export competitiveness falling etc was common but many candidates just said AD falls, as consumption falls and drew a diagram. Some candidates talked about factors which were essentially reasons for inflation, some focused on positive impacts of low unemployment but were not well answered.

- A few candidates clearly misinterpreted the question and made the classic mistake of switching 'effects' with 'causes' of inflation.
- Most candidates were using indirect chains of analysis rather than direct ones which led to muddled analyses of both macro and micro points.
- Often candidates discussed the impact of government or MPC policies to reduce inflation (raising IR etc.) instead of the impact of inflation, failing to really grasp the question.
- Evaluation was seen as the weakest area, as candidates were suggesting solutions for inflation and the chains of reasonings were shallow without using any extract.
- Many evaluation attempts are weak because they tend to summarise the arguments or merely conclude rather than making a clear judgement with critical distance.

Quite a few answers including analysis of the effects of higher interest rates or weaker currency values without explicit link to why inflation might cause these factors in the economy. Every step in the chain of reasoning should be spelt out clearly, and no connections should just be assumed.

Make sure the Marshall-Lerner condition is **only** used for the impact on the current account when the **exchange rate** changes.

Write your answer here:

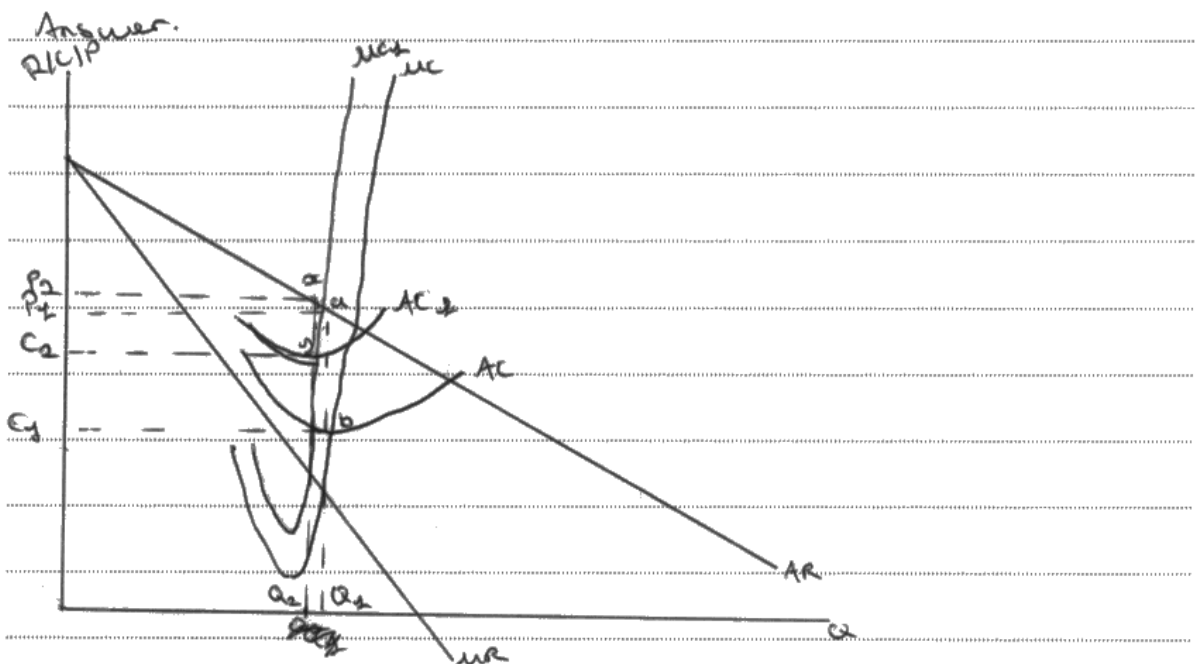
Plan:

Micro $\rightarrow$ decreased profits

Pr. depends it price increase

Micro $\rightarrow$ ~~low unemployment~~ BOP

Pr. Marshall corner of other countries



The microeconomic effect of high inflation could be decreased profits. This is because, as inflation increases, workers feel ^{that} they pay should rise "in line with inflation". If supermarkets for example, don't do this, they ~~be~~ could face "industrial action". This leads to supermarkets increasing their wages, which increases their variable costs, which is shown on the diagram shifts it from AC to AC_1 and AC to AC_2 . This results in a new level of supermarket profit, going from level "Profit₁" to level "Profit₂", which is smaller. Therefore, profits decrease.

However, this depends on the elasticity of demand for the products they sell. Supermarkets for example sell food which is a necessity. The demand therefore for a lot of their products would be price inelastic. ~~for~~ This would then mean that they would pass on the increased cost to their consumers through higher prices, therefore still maintaining a large supermarket profit.

The macroeconomic effect of high inflation could be an increased current account deficit. This is because, ^{high} inflation in the UK (4.4%) results in UK goods and services appearing more expensive to other countries. This leads to less foreign demand, increasing the deficit of trade in goods and services, therefore resulting in an increased current account deficit. As because as "net trade in goods" and "net trade in services" are lower, the current account deficit increases. Furthermore, high inflation discourages FDI into the UK, as it appears ~~that UK exports~~ more expensive, hence affecting the financial account, another component of the balance of payments, like the current account.

However, this depends on the mainstream lower theory. The UK's main export is financial services. As many countries rely on the UK for financial services, it is likely that their demand is quite inelastic. Therefore, they will still continue to purchase financial services, hence not increasing the UK's current account deficit.

In conclusion, the most likely effect would probably be the effect on the balance of payments, as increased imports effects on the current account and financial account. Points can still be maintained through higher prices, which supermarkets could likely do.



Para 1: MIC Level 4 KAA. Clear use of cost/rev diagram to show wage bargaining claims on profits, in context. Just slightly lacks further development of the further consequences.

Para 2: Level 3 EV. Clear evaluation of how the extent to which profits falls depends on PED.

Para 3: MAC Level 3+ KAA. Clear explanation of the link to current account & FDI.

Para 4: Level 2 EV. Depends on elasticity of UK exports (Marshall Lerner not relevant).

Judgement - just repetition.

KAA Level 4 13 marks and EV Level 2+ 6 marks = 19 marks Level 3 evaluation is not sustained throughout.



Your evaluation is not a conclusion or a repeat of your points. It must be **critical distance**.

This candidate makes good use of one MIC point at Level 4 and one MAC point at Level 4. An excellent way to structure an answer for 9EC0 03.

EITHER

- (d) Evaluate the microeconomic and macroeconomic effects of high levels of inflation. Refer to the UK or any other developed economy in your answer.

wealth effect + speculative
(25)

OR

- (e) Evaluate the microeconomic and macroeconomic effects of a regional trade agreement between the UK and the EU.

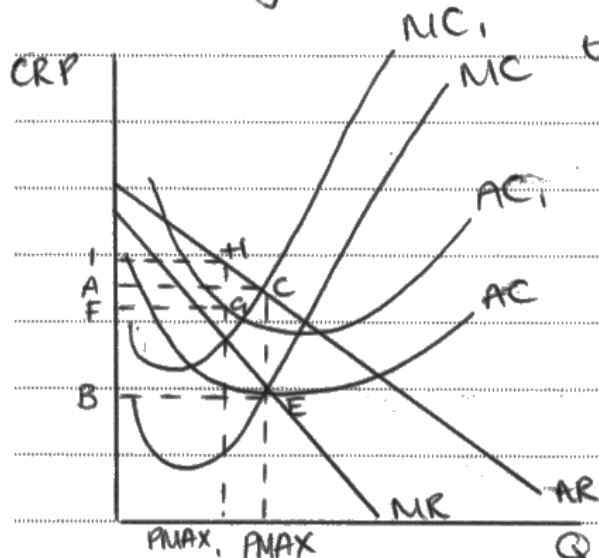
(25)

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:

one microeconomic effect of high levels of inflation is an increase in the cost of production for a firm. As evidenced by Figure 2, inflation rose from approximately 2% in 2017 (Bank of England's target) to 9.4% in 2022. This increase in the general price level makes goods more expensive for firms



to produce, therefore increasing cost push inflation. The increase in costs shifts MC to MC₁ and AC to AC₁, reducing supernormal profit for an oligopolistic firm from ACBE to IHFG, therefore

firms have less profit to invest in research and development which means that their dynamic efficiency will decrease, therefore innovative products will not be ~~reduced~~ produced, reducing quality and choice for consumers and making firms at risk to creative destruction i.e. Sony's ~~lose~~ inability to compete with Samsung and LG. Furthermore, if firms are in monopolistic competition they could go from normal profit to an economic loss, which in the SK could reach shutdown point ($AVC = AR$) where firms will remain operating to see if market conditions improve however in the UK if $AVC > AR$ then the firm will close. $\rightarrow$ subsequently this causes higher unemployment - currently at 4.5% in the UK - which decreases people's living standards. ~~and~~ Furthermore, if wages do not rise in line with inflation as seen in Figure 2 (wage growth 4.7% and inflation 9.4%) then workers' real wage will in fact decrease and "trade union" action will rise to advocate and negotiate for an increase in wages consequently the

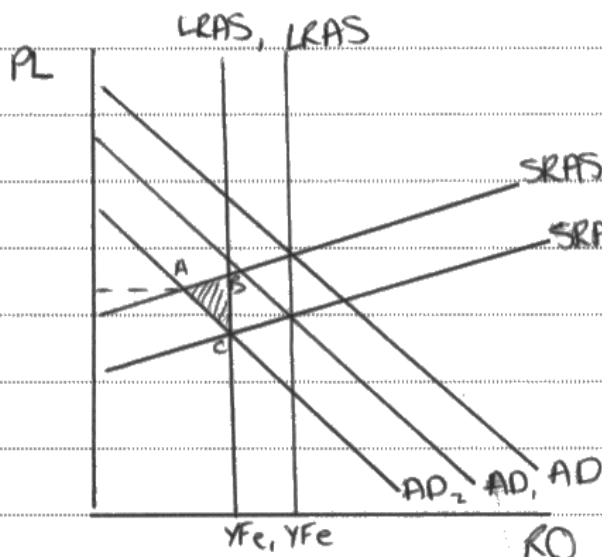
demand for labour might fall, especially if trade unions are competing with monopsonists who labour maximise.

However, businesses may not shutdown depending on the elasticity of demand for their products. If a firm produces goods i.e. cigarettes and alcohol which are ~~te~~ inelastic due to their addictive nature then they can maintain their profit level and not have to reduce output. Furthermore, oligopolist firms ~~##~~ can profit ~~satisfice~~ their shareholders by reducing dividends, although the principal agent problem could arise as there is a divorce of ownership from means of control therefore managers have a moral hazard as they could engage in risky behaviour in a time of economic uncertainty. Furthermore, government could subsidise industries that are struggling, lowering costs of production therefore maintaining consumer surplus.

One macroeconomic effect of high levels of inflation is a decrease in growth. High levels of inflation result in a reduction

if in both consumption and investment as consumer and business confidence falls. This leads to a fall in AD

$(C + I + G + (X - M))$ which due to



the multiplier effect causes AD to shift ~~then~~ to AD₂, coupled with a fall in SRAS as cost of production has increased

therefore firms reduce output. ~~THIS~~ In the LR this causes a shift in LRAS to LRAS'; as the economy reduces its productive potential operating on a negative output gap of ABC as firms fail to invest in ~~inappropriate~~ RND therefore the PPF will shift inwards. Furthermore ~~that~~ government may adopt austerity measures to reduce demand pull inflation, increasing withdrawal from the circular flow of income therefore reducing growth and potentially inducing hysteresis.

However, due to ~~to~~ monetary policy initiatives

to reduce inflation such as increasing interest rates, not money flows will enter the economy, increasing confidence in the economy, potentially ~~the~~ causing appreciation of the currency which will reduce import inflation, although this is not a stable or long term solution. Furthermore, if speculative demand is high then consumer and business confidence may increase with good animal spirits, exacerbated if the house prices are rising, ~~or~~ with the wealth effect increasing consumption therefore growth will continue.

Overall, high inflation is extremely negative for business confidence, causing closure and a huge reduction in profits, although it is more harmful on a macroeconomic level, with an increase in transfer payments as unemployment increases which in the UK could cause a huge fiscal deficit and substantial national debt, prominently impacting future growth as evidenced by the UK's 0.1% growth in Q3 2024.



Para 1: MIC Level 4 KAA clear link to costs, use of cost/rev diagram and link to profits. Some parts of the development feel bolted together and not fully built/developed as a chain of reasoning.

Para 2: Level 2+ EV e.g. depends on PED of product (lots of points that are not linked).

Para 3: MAC Level 4 KAA clear link to AD/AS diagram & model. Developed chains of reasoning.

Para 4: Level 3 EV positives arising from high interest rates/currency appreciation.

Judgement with reasoning and long term issues identified in context Level 3.

KAA Level 4 15 marks and EV Level 3 8 marks = 23 marks

Level 3 Evaluation awarded as judgement is sufficient to justify Level 3 EV sustained throughout.



Look at answers like this to inform your own responses.

Often causes and effects are the wrong way round.

Write your answer here:

micro

- high prices for consumers
- lower living standards
- less disposable income
- firms pass on costs to consumers

one microeconomic effect of high levels of inflation in the UK is higher prices for consumers such as the increase of petrol from ≈ 100 p per litre ~~to~~ in 2016 to 190 p per litre in 2022 which rose in line with inflation ($\approx 0\%$ in 2012 to 9.4% in 2022) These high prices lead to lower living standards for individuals as their disposable income decreases and they may not be able to afford the goods that usually would ~~especi~~

especially with the cost of living issues. As well as this, despite inflation rising, low paying jobs such as supermarket workers do not raise their wages for workers enough to cover inflation which also puts those in relative poverty in the UK at a disadvantage as supermarkets like Tesco, Asda etc. raise wages above the minimum wage of £10.42 but not enough to cover increased costs of living.

However, inflation allows firms to have higher profits from the products they sell as their rising costs of production and commodity prices (also affected by inflation) are passed onto consumers. Those selling inelastic demand goods and services still benefit despite the lower disposable income of consumers and

A macroeconomic effect of high levels of inflation which is supposed to be maintained at $2\% \pm 1\%$ in the UK and is a key macroeconomic objective is that government spending will increase and ~~for~~ exports decrease.



Para 1: MIC KAA Level 2. Causes & effects muddled, lacks in concepts, mis-application of the data.

Para 2: Level 2 EV. Lacks context and development.

Para 3: MAC Level 1 KAA. Just simple identification/knowledge.

KAA Level 2 5 marks and EV Level 1+ 3 marks = 8 marks

Level 1 EV as not sustained throughout.



When evaluating, you cannot use **effects** as an evaluation of **cause**. Answer the question!

Question 1(e)

Many candidates had a stock or pre-formulated answer. Micro - AR/MR shift right was often well explained, and another common discussion was investment in R and D for example leading to dynamic efficiency. The most effective macro answer tended to have had a fall in tariff or trade creation diagram, and often there were AD shifts right. Very many examiners commented that this was an area with more successful responses

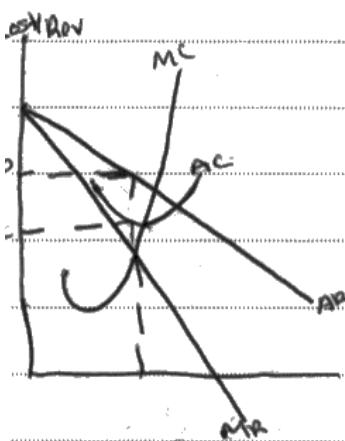
Make sure there are plenty of secure steps or links in your chain of reasoning.

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) ☒

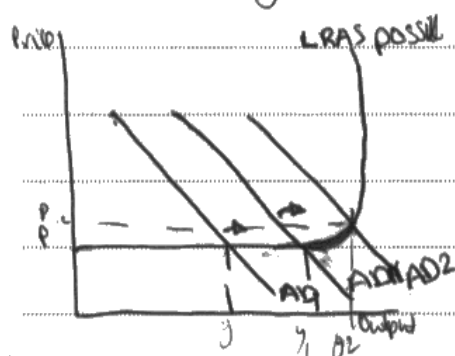
Write your answer here:

~~One macroeconomic effect of high levels of~~
~~regulation~~
~~One microeconomic~~ One microeconomic effect
 of a regional trade agreement between the
 UK and the EU is that firms can generate
 bigger profits. By having a trade agreement it
 means that there are no tariffs or quotas
 which means that they can
 trade at a lower cost. Therefore
 they are able to import
 goods and export goods
 for cheaper. Leading to an
 increase in demand for
 UK firms from foreigners.
 In addition, However, this trade agreement
 may not be as beneficial as it seems. For



example, there are no tariffs or quotas on goods that meet the rules of origin. For businesses to benefit they must prove the origin of their good as it must be wholly obtained in the UK and EU or has been transformed in one or both markets. This means that 'rules' of origin are time consuming and for some businesses not beneficial. Many firms choose to not claim zero tariff due to the high administrative costs to firms. Therefore, even though it appeared that it could be good for firms as it could decrease costs it is not worth it.

One macroeconomic effect of a regional trade agreement between the UK and the EU is that it can help to develop the country. As firms are more incentivised to trade due to the lower costs this can lead to higher demand. Leading to an



increase in inflation in the long run which can be considered good as it is demand pull inflation which indicates a good

economic performance. In addition, the balance of payments may improve as there could be an increase in exports which also means that firms can ~~pay~~ generate higher profits. ~~The~~ The firm may expand which would need more workers. Therefore there would be more employment opportunities which can help to decrease the unemployment rate.

However, there are also some negatives. The more demand increases the more it shifts to the right but there is a point where there is no more development occurring and it is just more inflationary pressure.

~~The~~ In conclusion, there would be some positive effects with some drawbacks. There may be more trade happening which helps the economy to grow but it is important that inflation levels are controlled.



Para 1: MIC Level 2+ KAA. Static diagram is not used, and short chains of reasoning.

Para 2: Level 3- EV. Developed & well applied to the extract.

Para 3: MAC Level 3 KAA. Developed chains of reasoning, some concerns over inflation section. No application. Explanation is not secure enough for Level 4.

Para 4: Level 2- EV. Very simple development of idea.

Para 5: judgement does not add anything new. Level 2 - EV

KAA Level 3- 9 marks and EV Level 2+ 6 marks = 15 marks

Level 3 evaluation is not sustained hence Level 2.

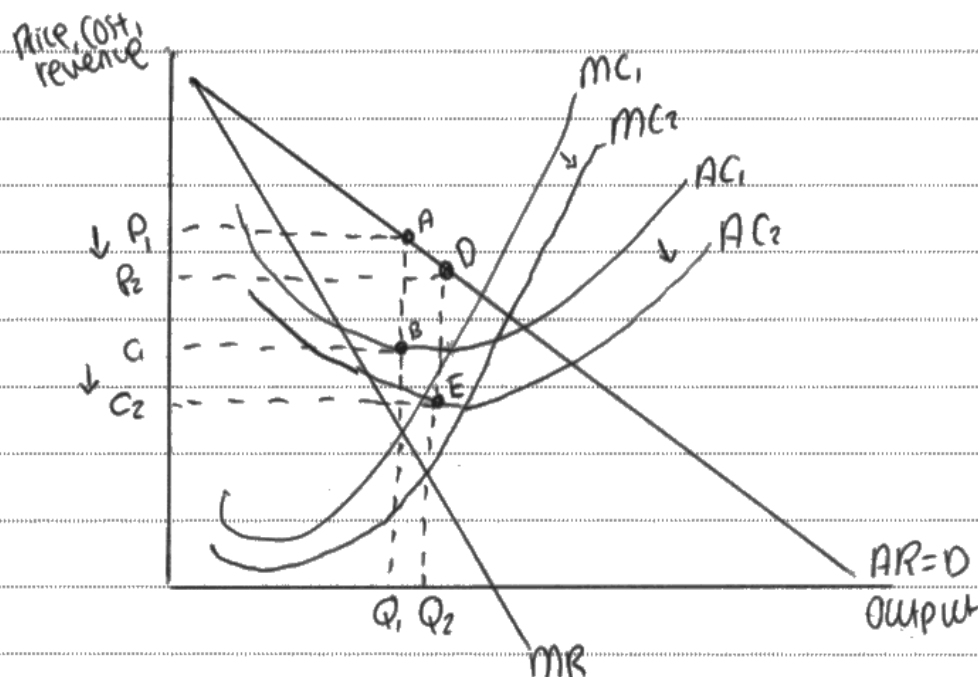


Application is key. Remember that for 9EC0 03 there will be plenty of application in the data provided in the separate booklet. The data is there as a 'friend' to support you!

Cost curves are a useful analysis tool, but make sure you are very careful to find the two $MC=MR$ outputs and link to the correct AC in each case, as here. The examiners will check your diagram very carefully.

Write your answer here:

One microeconomic effects of a regional trade agreement between the UK and the EU are increased profits for UK firms. Firms that use ~~import~~ or sell a lot of imported goods ~~import~~ from the EU now "avoid paying tariffs." This reduces their variable cost

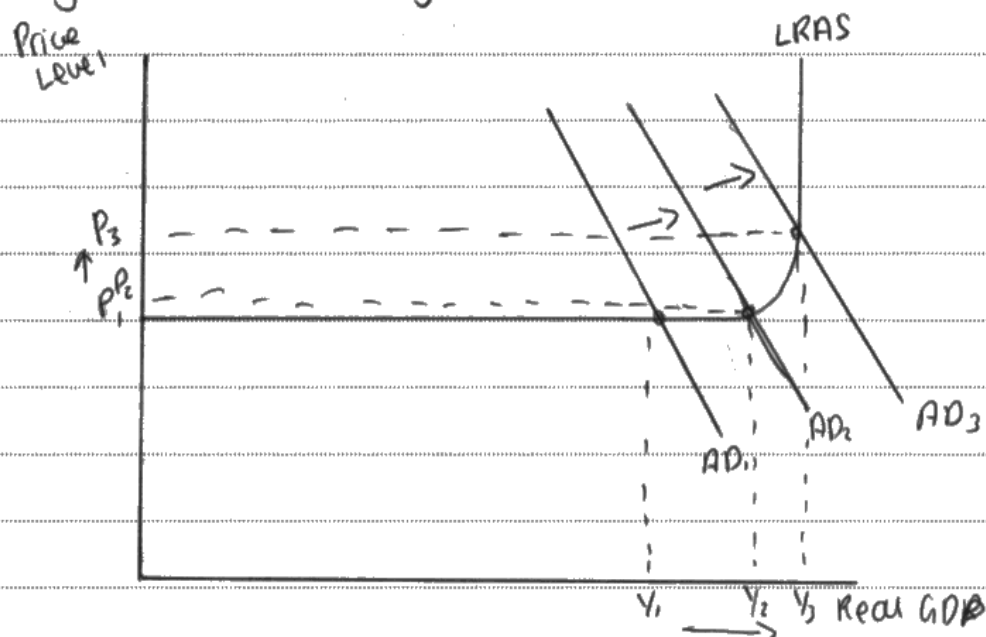


which shifts AC_1 down to AC_2 and MC_1 down to MC_2 which increases their supernormal profit from $P_1ABE_1C_1$ to $P_2DE_2C_2$. Firms like Mini who have car manufacturing in the UK can now get parts without a tariff from countries like Germany in the EU. This also reduces costs from C_1 to C_2 which implies that firms can now tap into economies of scale like purchasing economies of scale where they can easily bulk buy goods for cheaper, which places the firm closer to their MES making them more productively efficient.

However, these lowered costs may not be lowered as much as expected due to "excessive administration costs to firms" where they have to see if a "product qualifies as originating ... in the UK and EU. If this is the case firms in the EU will still charge higher prices for goods needing to get imported into the UK so firms don't see that big of a profit increase. This may deter firms from importing into

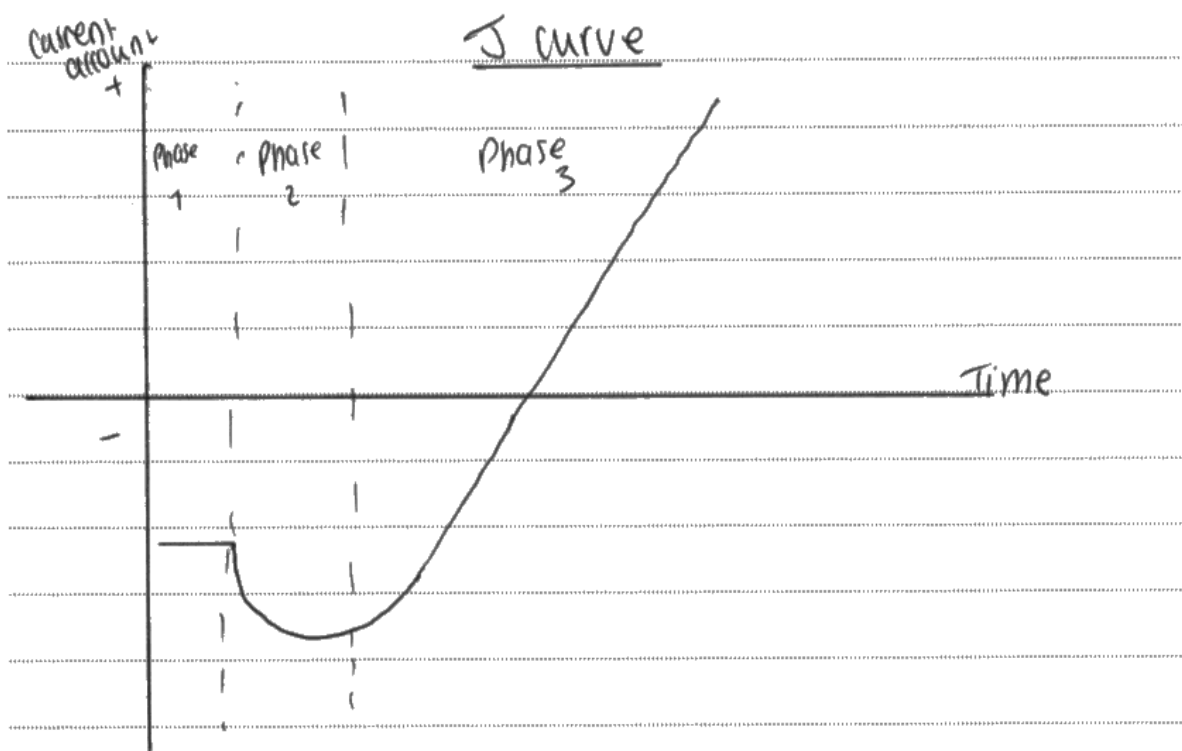
the UK and make them find alternatives within the EU where these administration costs don't apply.

One macroeconomic effect is economic growth ~~and an improvement in the current account~~ and an improvement in the current account as there is export led growth with "no ~~that~~ tariffs or quotas on goods moving between the EU and the UK", UK ~~firm~~ goods and services can be exported without the common external tariff normally placed on countries outside the EU. ~~Not only does~~ This leads to export led growth which increases X in aggregate demand which leads to economic growth. Shifting $AD_1 \rightarrow AD_2$.



As exports are also an injection into the circular flow of income the UK will see a positive multiplier effect which is shown in the shift from AD_2 to AD_3 . This leads to an ~~an~~ increase in real GDP from $Y_1 \rightarrow Y_3$. An increase in exports also improves the UK's current account deficit where imports exceed export. This trade agreement improves that.

However, this improvement only occurs when the Marshall Lerner condition applies which states that the average sum of both imports and exports are price elastic (over 1). This only occurs in the long run as firms will still be tied to trade contracts which can be shown in the J curve diagram where there is an initial worsening in the current account in phase 2 as the condition hasn't been satisfied.



In conclusion, the macroeconomic effects of this regional trade agreement has a bigger effect as the export led growth ~~is~~ due to lowered tariffs is what benefits firms and the demand for their goods. Even though they faced lowered costs the demand for UK goods is what will improve profitability in the future.



Para 1: MIC Level 4 KAA. Distinction between SR and LR is not clear at the end of the paragraph.

Para 2: Level 3 EV. Good explanation and use of extract.

Para 3: MAC Level 4+ KAA. Well explained, diagram and further development.

Para 4: confused with ER movements Level 2- EV. Only benefit in LR as sense of tied into contracts is worthy of credit.

Para 5: Just repetition of previous points (not a judgement).

KAA Level 4 16 marks and L2+ EV 6 marks = 22 marks

Level 3 evaluation is not sustained throughout.



Make sure the evaluation is sustained.

Question 2(a)

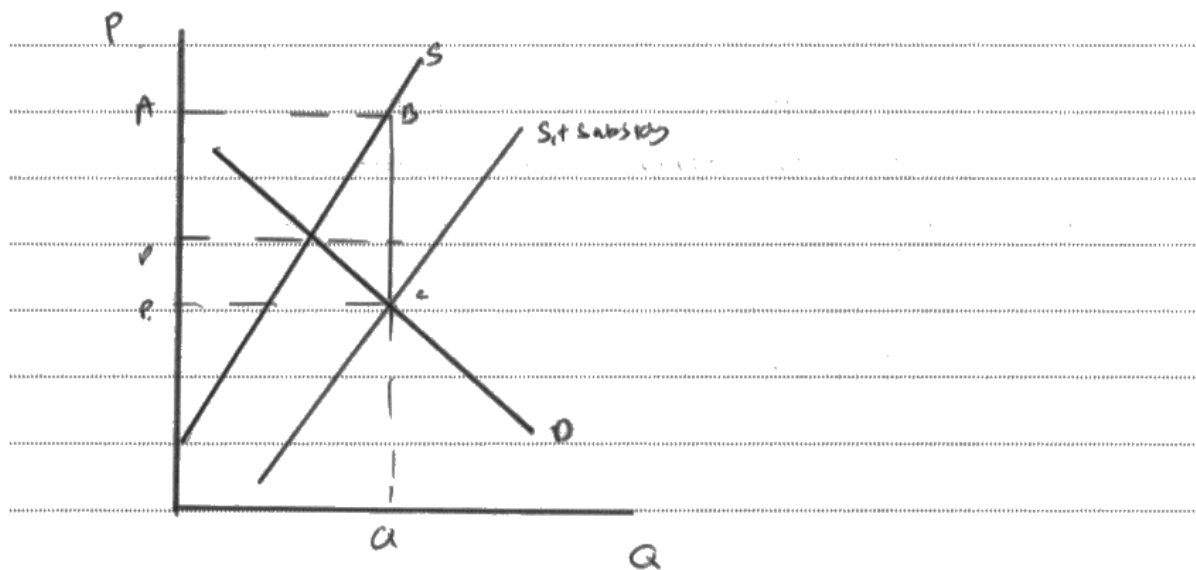
Candidates were confident in drawing a diagram showing a rightward shift in supply. However, some were unable to indicate the price the producer receives, and as a result, not many were able to show the **cost** of the subsidy in terms of what the government pays.

- Many examiners observed that some candidates who were able to draw a more complex subsidy diagram, correctly showing the total area of government cost, were sometimes receiving 4 marks when they only quoted once from the data than others who got 5 but who only drew the simpler supply curve shifts right diagram but then had quoted the 2 billion cost in the drop in poverty figure and then knew that a subsidy was a grant paid by the government.
- It was surprising to see so many candidates draw the subsidy diagram incorrectly. An effective method for application to a diagram is to show the monetary cost of subsidy but surprisingly few could do this, by showing the value of the subsidy per unit, multiplied by the new number of units sold.
- Use of data gained a relatively easy 2 marks although for some it was hard to find the second application mark.
- Most candidates identified opportunity cost and understood what a subsidy is. The effect of the subsidy was generally well answered and annotated on the diagram, although some had difficulty identifying the total subsidy area.

This diagram clearly shows the **cost** of the subsidy.

- 2 (a) Using a demand and supply diagram, explain the cost of a subsidy on the market for cooking oil to the Indian government (Extract E, line 6).

(5)



The cost of the subsidy for the Indian government is the Area A, B, C, P, which is equivalent to \$2.3 million.



K/An diagram 2 - right shift (1) lower price (1) cost area to gov (1) - maximum of 2 diagram marks achieved.

1 Ap for \$2.3 million (1)

K/An change of the gov area written analysis (1)

3 K and An

1Ap



Short answers can be very effective. This one just cut short the application (1/2 AP).

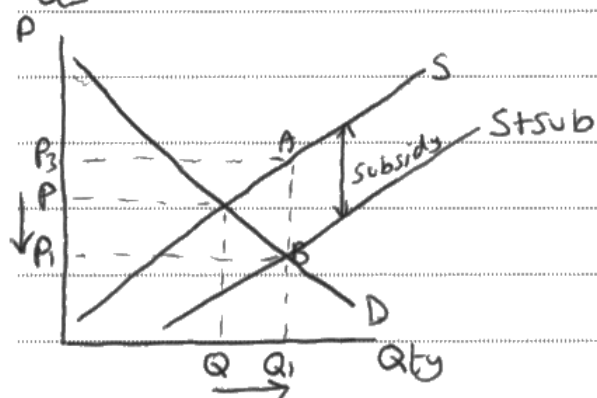
A good diagram such as this is very pleasing to see, as a marker.

- 2 (a) Using a demand and supply diagram, explain the cost of a subsidy on the market for cooking oil to the Indian government (Extract E, line 6).

(5)

A subsidy is a ~~government~~ grant given to firms to reduce ^{their} costs of production, and increase supply of a good or service.

It can be illustrated on a diagram as:



The diagram shows a shift in supply from S to S_{sub} . The cost of the subsidy is represented by the

area P_3, A, B, P_1 . This area would represent the \$2.3 million provision of subsidised cooking oil, which lead to a 14.6% improvement in the access to cooking oil, which is shown by the increase in quantity demanded from Q_1 .



K/An definition of subsidy (1)

K/An diagram 2 - right shift (1) cost to gov area (1) lower price (1) subsidy per unit (1) - maximum of 2 diagram marks achieved

2 Ap marks - "\$2.3 million" (1) 14.6% improvement (1)

Note - if these numbers had been shown on the diagram they could still be awarded.

K/An 3

Ap 2



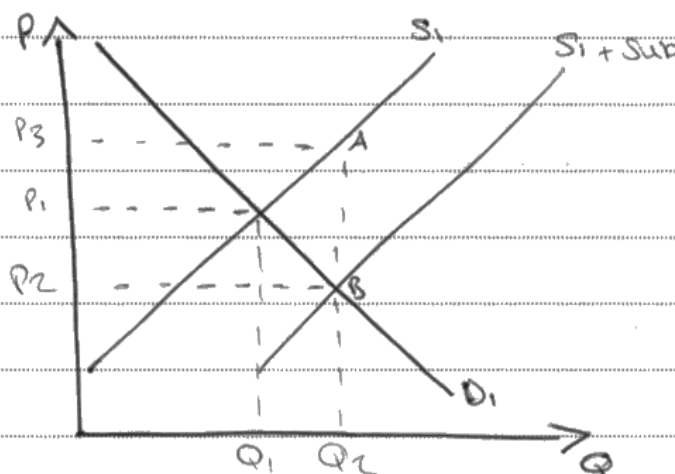
Use the diagram to illustrate your point.

Make the diagram answer the question about the **cost** and not a different question - many just showed what a subsidy **is**.

- 2 (a)** Using a demand and supply diagram, explain the cost of a subsidy on the market for cooking oil to the Indian government (Extract E, line 6).

(5)

A subsidy is a government grant to a firm or multiple firms as seen. It provided a \$2.3 million subsidy on the market for cooking oil. 14.6 percentage points improvement in access to cooking oil.



The cost of the subsidy to the Indian government will be P_3, P_2, A, B or the quantity Q_2 .



K/An clear definition of subsidy (1)

K/An diagram 2 - right shift (1) lower price (1) cost area to gov (1) - maximum of 2 diagram marks achieved

“\$2.3 million” (1)

14.6% improvement (1)

K/An 3

Ap 2



Short answers such as this easily earn the 5 available marks.

Question 2(b)

Solid knowledge of HDI was shown, but some candidates were not awarded application marks because the relevant application/data were not used and many just used the data provided on poverty. Poor use and interpretation of data was in evidence in many responses, for example in thinking that an increase in the HDI was a concern for the Indian economy and showing a confusion between HDI and Gini index numbers.

Sometimes knowledge points and analysis points overlapped but those who fully understood the composition of the index could make helpful observations about life expectancy and number of years of schooling (expected or reflective) and put them in contrast with GNI per capita as an income measure.

Some candidates failed to evaluate - rather they were repeating knowledge points or offering a third observation on HDU.

Some candidates were not aware that they should develop an evaluation point.

Try to make two clearly distinct points.

- (b) Examine **two** advantages of using the Human Development Index (HDI) to measure the level of economic development in India.

(8)

HDI is a more accurate way of measuring growth as it looks at more than one factor including life expectancy and years of schooling. Measuring life expectancy can help analyse how good the healthcare system is in India and whether it needs to be improved. It also analyses years of schooling which will help to see how many skilled workers are there and whether the education system needs to be invested in to so the workforce can be improved and produce more. However, HDI doesn't take some factors into account like inequality. There may still be high levels of inequality in India which HDI cannot show us and this could lead to a lack of action to reduce inequality.



K - more accurate

Ap - life expectancy **An** - how good the healthcare system is/gov policy

K - BOD composite as uses the phrase 'also analyses'

An - whether education needs to improve

Ev - still high inequality

2K, 1Ap, 2AN, 2Ev



Short answers can be very effective.

Question 2(c)

In general, candidates demonstrated a good understanding of the buffer stock system. However, not many were confident in drawing a buffer stock diagram, even though this was not in itself needed to achieve full marks.

A lot of candidates clearly didn't know how a buffer stock system worked and tried to extrapolate it from the extract. Clearly a well-used diagram can save a very long explanation of the problems of buffer stocks, one of the main ones in practice is the setting of intervention prices too high to favour the sellers. This can be shown extremely effectively on a diagram showing the buying and selling revenue for farmers or government and one of the main reasons why buffer stock systems run out of cash.

Many used storage costs and opportunity cost identified as problems.

Some candidates wrote a lot about the operation of the buffer stock scheme which was irrelevant. Many of them only discussed one problem of the scheme despite the question asking for a discussion of the problems in plural. Evidently some candidates did not manage their time properly and could not finish the question, and rush this and subsequent questions.

Some candidates concentrated more on how the buffer stock works and not the disadvantages. Although a diagram is always useful, and can be very effective, for example to show that intervention prices are subject to influences that benefit the sellers. This can effectively be shown with revenue areas shown on buffer stock diagrams with vertical lines showing the short run supply curves, and the quantity that the government, in this case, either buys or sells in order to maintain the price range.

Candidates seemed to be able to access data and evaluation marks (despite not fully understanding what a buffer stock is) by reading and using the extract. Many didn't seem to understand it was set up to stabilise prices and incomes for the benefit of farmers, not the government. Many also took the approach that if they were receiving a minimum price for excess produce, they were being ripped off by the government. Agricultural and commodity markets need to be given a little more emphasis in the syllabus, as they are quite complex in practice.

The question is about the problems, but you can use the benefits as your evaluation, as here.

(c) With reference to Extract F, discuss the problems that might be involved with the buffer stock system in India.

(12)

A buffer stock system is a method of controlling price volatility in commodity markets, through the government buying excess supply during a glut, and selling this supply during a poor harvest.

One problem is that farmers know they have a guaranteed buyer for whatever they produce, so will produce as much crop as possible "without any consideration of sustainability". Overproducing will lead to excess supply, meaning there is market failure, and there may be wastage as food products are perishable, so too many scarce resources will be allocated to crop production, meaning there is allocative inefficiency.

However, an excess supply means that in times of a poor harvest ~~or crisis~~ or crisis, such as the global health crisis 2020-22, the Indian government could maintain food supplies and avoid shortages, alleviating hunger (one of the MDGs), which will promote workers' productivity.

Another problem is that the government has to pay to buy and store these products. For example, when distributing ~~800~~ free food to 800 million people, this will come at a significant cost to the taxpayer. This implies an

Opportunity cost, as this funding could have instead been used for infrastructure projects such as building new hospitals, to promote healthcare improvements and increase development.

However, a buffer stock scheme removes the effects of price volatility on commodity farmers. Farmers know that they are guaranteed an income, so can more accurately predict revenue, costs & profits, meaning they are more likely to make investments in capital equipment. This will increase their productive efficiency, which will in turn increase the productive capacity of the economy, leading to potential economic growth.



Para 1: Level 3. Well explained.

Para 2: Level 2 EV. Benefit given/food supplies.

Para 3: Level 3. Well explained cost argument/opp cost.

Para 4: Level 2 EV. Removed price volatility.

KAA Level 3 8 marks and Level 2 EV 4 marks = 12 marks



A diagram is not needed for full marks, but it is often a useful tool to reach this. In this case

the candidate manages perfectly well without one.

As the question refers to 'Problems' - candidates must identify more than one point but we do not expect as much depth for each problem.

(c) With reference to Extract F, discuss the problems that might be involved with the buffer stock system in India.

(12)

One problem of the buffer stock system is it is expensive. India's government store '11 million tonnes of wheat' and 'stored in secure warehouses across the country'. The costs to store this will be significant in the Indian government public expenditure. This will create an opportunity cost because they can't spend that money elsewhere i.e. education which could lead to more people being skilled in the future and they could create more machinery to help improve agriculture farming. However, India were 'once troubled by famine'. Due to excess stock they will never have this problem again.

Another problem, the Indian buffer stock system may not store enough stock. 'The government distributed free food to nearly 800 million people, buffer stocks ran down but not out'. With the

population in India increasing to '1.4 billion' they may not have enough excess stock to feed the growing population. Therefore it's expensive and won't benefit everyone in India. However, 'Farmers are encouraged to produce more' this means farmers will keep selling ~~or~~ excess supply to the government for profit. This means that farmers will keep harvesting more stock to earn more money. Therefore, there will be enough ~~st~~ excess stock in the buffer storage to feed everyone. This is because Indian farmers are producing more.



Para 1: Level 3 KAA.

Para 1 (end): Level 1 EV. Simple evaluation point identified (not developed).

Para 2: L1 KAA. Confused with a benefit of a buffer stock (not a problem). They do identify 'not enough stock'.

Para 2 (end): Level 2 EV. Large production will work to ensure they can feed everyone.

KAA Level 2 5 marks and Level 2 EV 3 marks = 8 marks



Underline the key words in the question. If the question is about problems, then focus on the problems.

Question 2(d)

It was good to see that the vast majority of candidates didn't confuse macro arguments with micro arguments, and that they demonstrated good understanding of the question. Many candidates demonstrated solid analysis in their arguments, but some responses failed to access marks in Level 4 due to skipping chains of analysis and/or limited economic theory shown.

Some candidates focused on the impacts of a decrease in poverty rather than reasons for the fall.

Many examiners observed that there was too much generic answering of the two essays - sometimes using subsidy and buffer stock arguments from previous answers.

Some responses discussed the effects of lowered poverty instead of giving reasons why poverty fell. Although the analysis was well developed, the focus was wrong.

Some candidates mixed up reasons and effects from the two essay questions and therefore lost marks.

It was very encouraging to see many very effective, dynamic diagrams for both macro and micro analysis.

It is very difficult to evaluate **reasons**. The pitfall is trying to evaluate the **effects** instead. This is capped at Level 2, and this in itself is generous marking!

EITHER

- (d) Evaluate the microeconomic and macroeconomic reasons for the fall in poverty in India. NMW $\rightarrow$ PRL Macro

(25)

OR

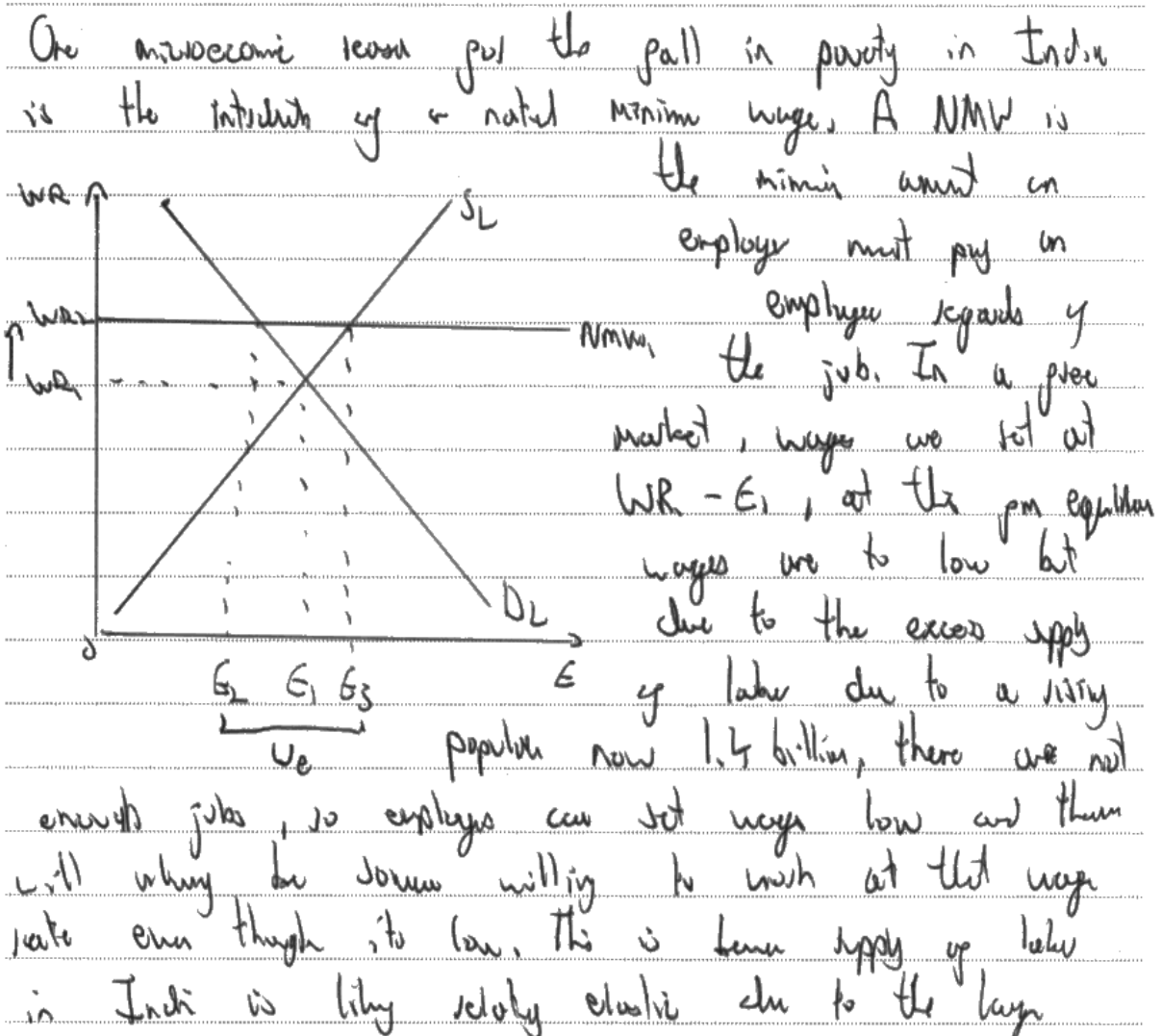
- (e) Evaluate the microeconomic and macroeconomic effects of rapid increases in population in India.

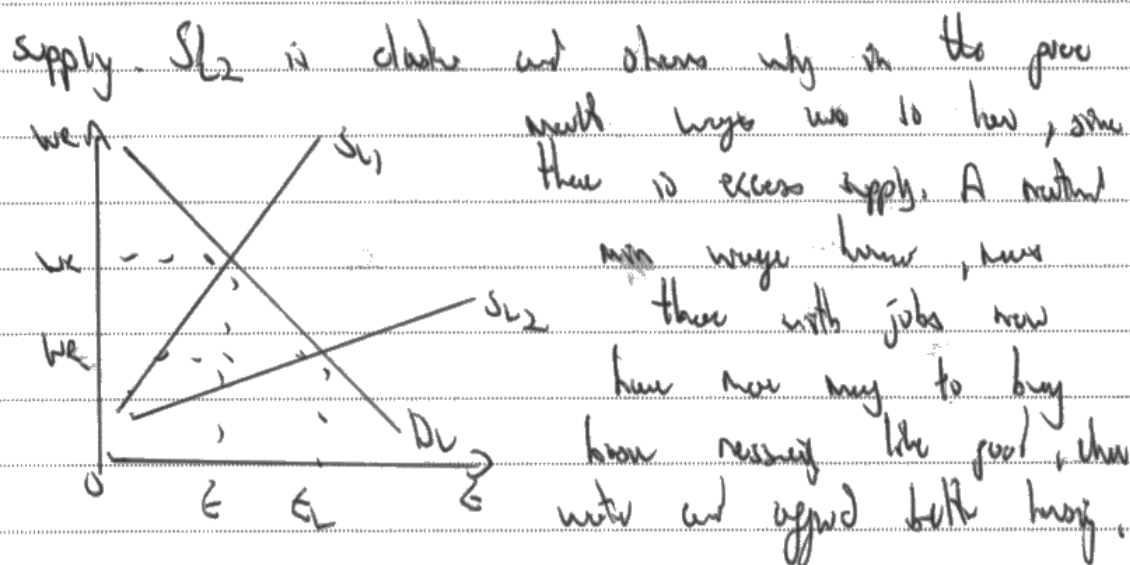
(25)

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 ☒.

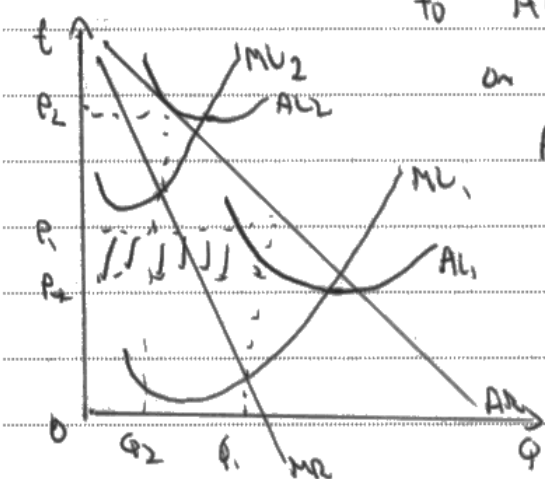
Chosen question number: **Question 2(d)** ☒ **Question 2(e)** ☒

Write your answer here:





However, this NMW may create backlog on the part of unemployed income. This income plus cost of products, AL_1, MU_1 to AL_2, MU_2 since labor is dependent on how many goods are produced.

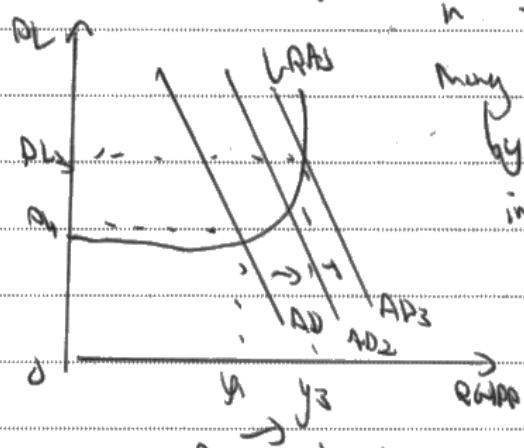


As a result, firms may see some normal profit eroded from Q_1 to just normal profit at Q_2 . As a result, they cannot afford to employ the same number of employees so much more

some reduction. On the NMW diagram, the gain in unemployed is seen at Q_2 , and now plant shows a price level on the part as there people need unemployed benefit.

A macroeconomic reason for the fall in poverty is due to high interest rates. These high rates attract lot

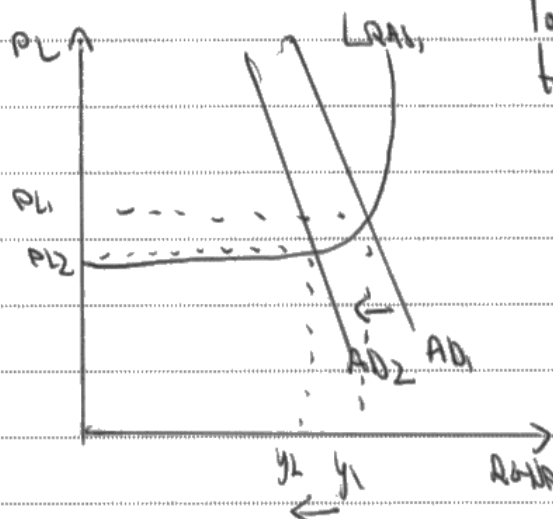
money flows and MNC who can borrow from saving bank in Indian banks. Not many net FDI inflows show that the currency value is appreciating and, separate economic growth since there is an injection into the economy, causing a positive multiple effect boosting AD. Since the money will increase in the economy, more money in banks will can be borrowed by part per injection investment. AD increases since there is a capital flow.



AD and increasing money supply will rise in the $PL \rightarrow 3$ and rise in level output $Y_1 \rightarrow Y_3$. As AD shifts from 1 to 3, this reduces unemployment in the economy since firms along LRAS, closer to full employment of resources, including labor so hiring standards rise as less people unemployed, can afford both housing and sanitation, increasing life expectancy and reducing poverty in absolute poverty, \$1.90 or less a day. Since the MPC is high in developing nations and the value of multiplier is high, so any shift in AD has more significant impact on growth, making high TR, which usually slow down growth have a positive effect.

However any increase in government expenditure is likely to be offset by losses in C + I. High TR makes cost of borrowing more expensive, so the middle class firms in India

low will seek credit, assuming commercial banks pass on high $\uparrow R$. As a result, AD shifts inward as loans don't grow, and individuals have to increase consumption as the interest rate.



Although this is unlikely since the MPC is high, consumption will remain steady despite the $\uparrow R$ as individuals spend most

of income on necessities and housing. Conclusion 2
 A better govt policy would be to invest into education and apprenticeship opportunities for India's youth to reduce poverty which they are facing. Providing a lot of NMW jobs that teach valuable skills would benefit the population and continue to reduce poverty by identifying it in the youth, an investment in the future of India. Since India is developing it sees wage rise, a 5.14% rise in GDP per hour a 1.5 year period is significant but like most developing nations a GDP $\uparrow$ but living standards do not rise HWT only increased 0.2 over the same period.



Para 1: MAC Level 3 KAA. NMW introduced/well developed/diagram/linked at the end to purchasing necessities.

Para 2: EV is criticism of NMW not an evaluation of the reason for the fall in poverty. This is

capped at Level 2 EV where EV is not of the reason.

Para 3: MAC Level 4 KAA. NMC/FDI/hot money flows/AD - chains of reasoning & diagram.
Para 4: Developed EV but not of the reason. Cap Level 2 EV.

Para 5: Judgement attempted (does not add to EV level).

KAA Level 4- 13 marks and Level 2 EV (Cap) 6 = 19 marks



Underline the key word, reasons. In your evaluation you should argue whether this is a significant reason, or the reason is likely to change. Do not evaluate the effects.

For Level 4 we are looking for substantial chains of reasoning.

Write your answer here:

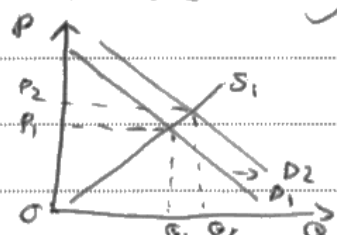
01

<u>micro</u>	<u>macro</u>
- ICD'S Primary Product dependency	- ICD'S - Harrod domar Model
- Produce more	- increased on Lewis stages
- more jobs	- FDI
	- mnc's
absolute vs relative poverty	
- greater gov spending	

There are 2 types of poverty - relative and absolute. Figure 3 shows that the relative absolute poverty in India has massively decreased but has no mention of any relative poverty.

One micro economic reason for a fall in the level of ~~relative~~ absolute poverty could be an increased government spending on people's living standards. ~~relative~~ absolute poverty is where people don't have access to or simply can't afford the basic necessities such as food, water and shelter primarily.

Extract E states that the government has a dedicated focus to improve sanitation, nutrition and electricity for example. This would lead to a reduction in absolute poverty as people are now provided with access to water. The increased government spending would mean people now may be able to apply to jobs as they have a higher health and will be more productive to work. This could lead them to be able to access higher paying jobs in the future and increase the overall demand of the economy. This is because they have a disposable income and therefore more people are willing and able to demand goods and services.



This leads to an increase in price from P_1 to P_2 and an increase in quantity from Q_1 to Q_2 .

This allows people to access jobs which decreases the level of unemployment and the level of those economically inactive potentially. This would lead to a greater fairness and a accessibility to jobs. Figure 2 shows that GDP per capita has increased from \$ 820 in 2006 to 2,2838.1 in 2021 which is a substantial increase. This allows people to access more industrialised jobs and the economy can develop.

However, to impact relative poverty the government would have to impact supply through subsidising wages. This would have very high costs to do and would lead to a government budget deficit and a national debt increase. Furthermore there will be time lags for the sanitation infrastructure to be built which means that the rate of poverty decline would only fall in the long run.

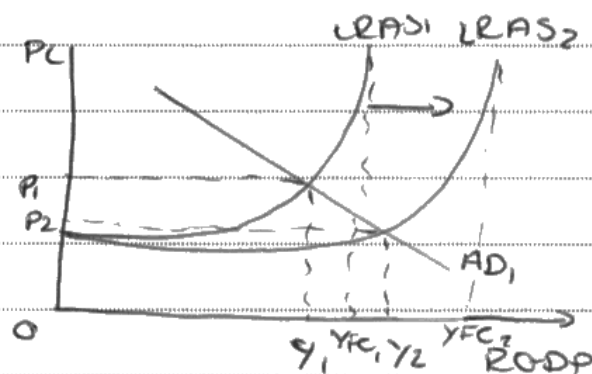
Furthermore, as India is a developing country it may not be able to access loans significant enough to finance a fall in relative ~~poor~~ and absolute poverty. This is because it's a weak return investment and will have a lower guarantee of investors getting their money back. This is due to a lack of government infrastructure to help pay off their debts by collecting tax revenue.

A macroeconomic reason for a fall in poverty could be due to that it's a developing country and will attract MNC's. This in turn will lead to a reduced primary product dependency as MNC's invest through infrastructure to build warehouses and factories. This will mean the economy is more stable and will begin to industrialise more. This would move India up the Lewis growth model. MNC's also help attract more FDI. This is due to the low costs of labour in India which pushes down the overall costs of production. Meaning MNC's can make a higher profit. Also due to developing countries weak infrastructure many tend to have lower corporation tax rates. ^{this would attract} ~~and therefore~~ more MNC's as they can produce more profitably there. This would create more jobs for everyone and would probably require a lower level of skills. This has a large selection of the population MNC's can use and train to their standards. This will increase the skills employees in India have available and further increase the quality of human capital. This would also increase economic development as living standards increase due to MNC's building roads, ports and even airports to transport the goods and services produced in India.

This is shown through the HDI index value increasing from 0.611 in 2006 to 0.639 in 2021.

This would further push the economy along the Lewis growth model stages.

One major problem in developing countries is the lack of savings. By MNC's hiring more people, more can save. This in turn will increase the economy's potential through the Harrod-Domar model. This states that savings are a necessity for economic growth. As more save and begin to invest the economy will be in a multiplier effect of the MNC's initial investments. This will further push out the LRAS curve for the Indian economy.

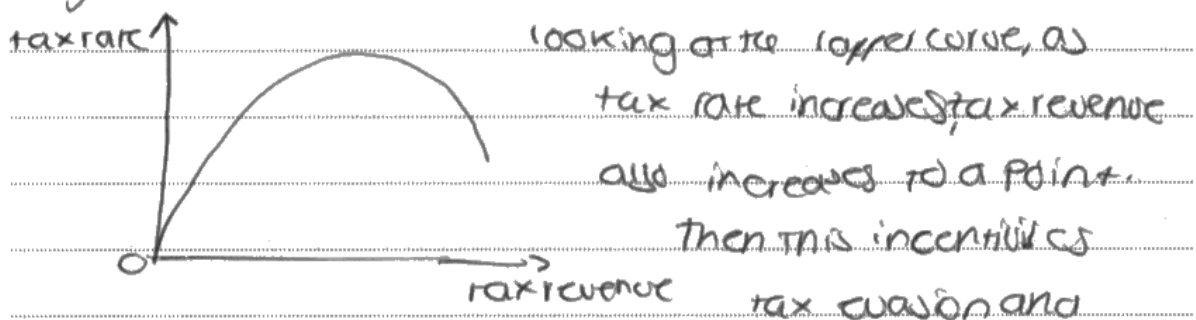


As LRAS1 shifts to LRAS2, price level decreases from P_1 to P_2 . This causes deflationary effects in the economy.

and might lead to higher

living standards as more people can afford the goods and services produced. Also RDP shifts from Y_1 to Y_2 and Full employment shifts from Y_{FE1} to Y_{FE2} , indicating a higher productive potential of the economy.

However this depends on how developed India already is to how many mnc's it would attract. Furthermore the macro ^{economic} reason could be effect more people in relative than absolute poverty. since those in absolute poverty are worse off they should be directly impacted more to help India solve its poverty problem. This is also assuming that mnc's won't leave after labour costs increase too much leaving the economy in a worse position than before. Also as the economy grows, the government infrastructure will increase allowing them to charge higher taxes to mnc's.



avoidance many mnc's make deals with the government when they move to developing countries. So the government is impacted by the tax rate. This means the government has less to spend on the economy and solving poverty.



Para 1: Level 4. Government spending - CORs are substantial and diagram adds to the argument. Level 3 EV

Para 2: Mac. Increased MNC investment and FDI, with application to lower corporation taxes and human capital, with data. **Para 3:** Lack of savings continues the argument (not eval) and

gives LRAS shift right, so award Level 4. Eval is eval of MNCs and their side effects, not on how significant this is as a factor reducing poverty, so cap Level 2 EV.

Level 4 - 15 marks Eval mid Level 3 - 7 marks Total: 22 marks



Diagrams often add to the argument.

Question 2(e)

Candidates were confident in shifting cost and revenue curves which led to some high scoring. Most of the candidates performed well in this question, the only issue was some analysis lacked details and development. Some very good answers included a labour supply analysis or some other relevant analysis.

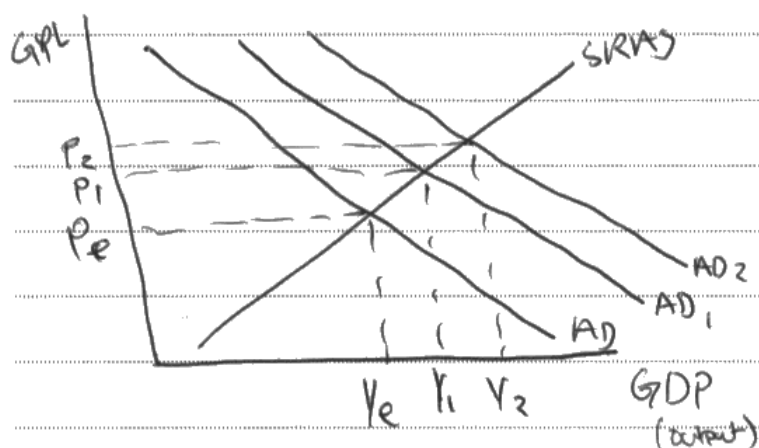
Many candidates focused on supply side changes in the labour market, without considering the changes in demand. This was also the case when it came to AS/AD analysis and impact on macroeconomy. Some commentators observed that they would have liked a little more data in the question on the macroeconomy to inform their analysis!

Examiners use positive marking when choosing KAA between Level 3 and Level 4, so this gets Level 4.

Write your answer here:

Population growth was stated to be 'the greatest obstacle' towards economical development.

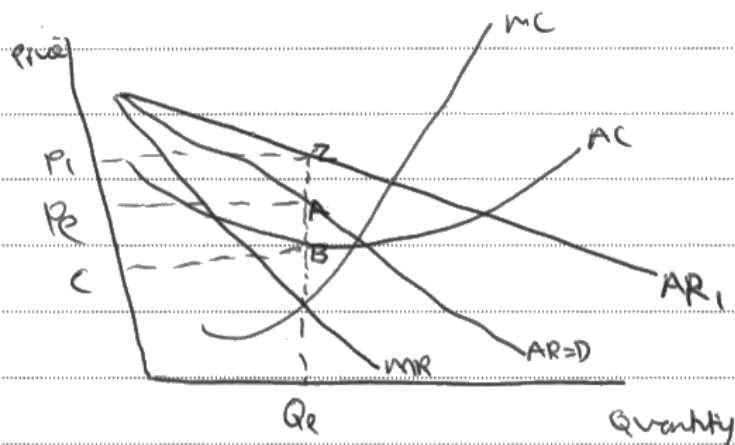
One macroeconomic effect of a population increase is an increase in ^{growth and living standards} AD. AD is made up of $C + I + G + (X - M)$. Aggregate demand is total demand for a country's goods and services. An increase in population will lead to growth is an increase in GDP/output. Increase in population suggests a country has more people to consume. Consumption is 60% of AD. Therefore increased consumption more people in a country to purchase more domestic goods. Consume will lead to a large increase in AD. India became the most populated country in "May 2023" with population of "1.4 billion".



This is an AD increase to AD_1 suggesting growth has occurred as output increases from Y_e to Y_1 . In addition to this aggregate demand has a further increase due to the multiplier effect which suggests the final increase in consumption is greater than the initial injection into circular flow of income. It works because one person's spending is another person's income. Therefore ^{since there are} more people to spend more money the multiplier occurs. This causes an additional shift in AD to AD_2 meaning further growth occurs from Y_1 to Y_2 . This is an increase in growth improves people living standards as ~~however the increase in growth may they have~~ higher incomes.

However the improvement in growth may not be as apparent due to a large proportion of India's population being in absolute poverty. ^(16.4%) Therefore ^{multiplier and effect of the multiplier} are living under "US\$ 2.15" a day. Suggesting they are unable to consume and therefore consumption led growth increases will be less apparent and so will improvements in living standards.

One micro economic effect of an increase in population is greater profits for firms. Greater population means there is a higher potential of people to buy firms products. This improves the demand for a firms goods.



Average revenue increase from AR to AR_1 . Marginal revenue is the revenue gained to produce one more unit, stays the same. A firm's Profit maximisation occurs at $MC = MR$. As Demand increases to AR_1 a firm's profit increases from Pe, A, B, C to P_1, Z, B, C . This huge increase in profit can be used to invest further in capital machinery, or employ more workers to ~~exp~~ grow business. It can also be used as part of research and development to improve product quality.

* ^{in India} since most people are in a working of "15-64 years)" ^{due} ~~some~~ ^{have} ~~try to~~ to the growing young population.

However due to India having a ~~GDP~~ ^{GDP} value of ~~6.33~~ ^{6.33} and ~~access~~ ^{access} to ~~education~~ ^{education} large segment of population in absolute poverty still with 16.4% in 2021 a lot

However due to this may incentivise a lot of people to open business due to the attractive supernatural profit, increasing competition therefore firms may not be able to dominate market share and have the ability to make this amount of profit. Higher populations means higher potential of people to own a firm therefore not benefit to the benefiting firms.

To conclude increase in population can be beneficial to firms and India's growth.



Para 1: MAC KAA Level 4. Consumption/AD/application/diagram/chains of reasoning. This is enough for Level 4.

Para 2: Level 2+ EV. Needs further development/reason why for Level 3.

Para 3: MIC Level 3 KAA. Higher demand, revenues, profit. Diagram is incorrect.

Para 4: Level 2 EV. Greater competition (quite generic).

Para 5: Not a judgement - just a repeat.

Level 4- KAA 13 marks and Level 2+ EV 6 = 19 marks



Do not use the evaluation opportunity as a repetition of your previous points. You need to answer the question, with carefully weighed up judgement.

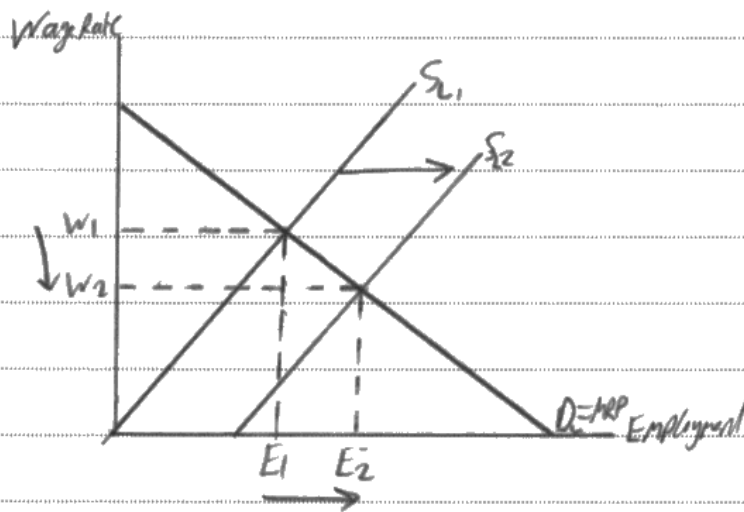
The response has outstanding KAA - probably more than you could expect.

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) ☒

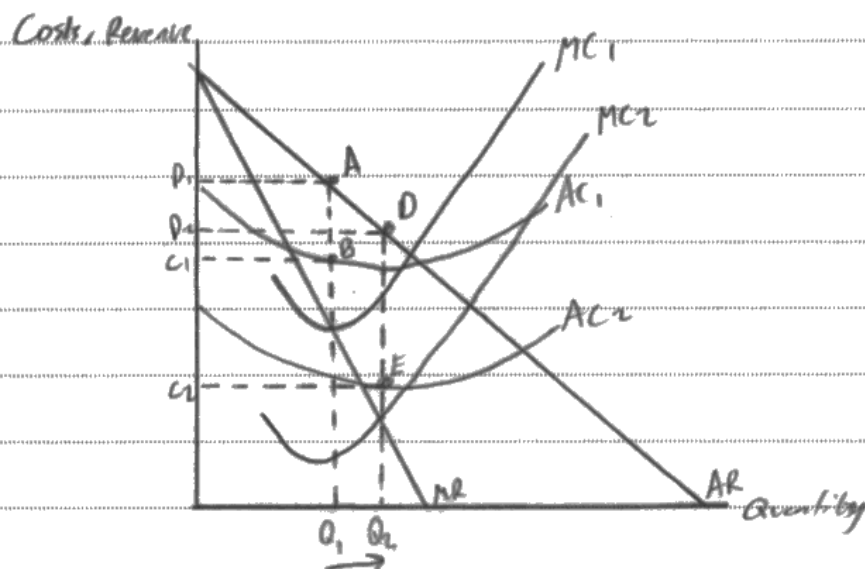
Write your answer here:

One micro economic effect of rapid increases in population in India is an increase in the profitability of Indian firms. This is due to an increase in the labour supply which has the impacts illustrated in the below labour market diagram.



An increase in the labour supply from S_1 to S_2 increases employment from E_1 to E_2 and more importantly, decreases the wage rate from W_1 to W_2 . As wages can be considered as either a fixed or a variable cost depending on the nature of the employment contract, but since many workers in India are employed on more

flexible contracts, this essay will consider wages as a variable cost. As a result of a decrease in the wage rate, variable costs for Indian firms would decrease, decreasing AC and MC as shown below.



Decreased variable costs increases Supernormal profit for Indian firms from area P_1GAB to P_2C_2DE , all resulting from a rapid increase in population. This is likely to increase dynamic efficiency within the Indian economy as firms have increased Supernormal profits to reinvest into areas such as research and development, contributing to the "Modern, urban economy" India requires according to Extract G. Additionally, the decrease in price from P_1 to P_2 and increase in quantity from Q_1 to Q_2 facilitates an improvement in consumer welfare as allocative efficiency increases.

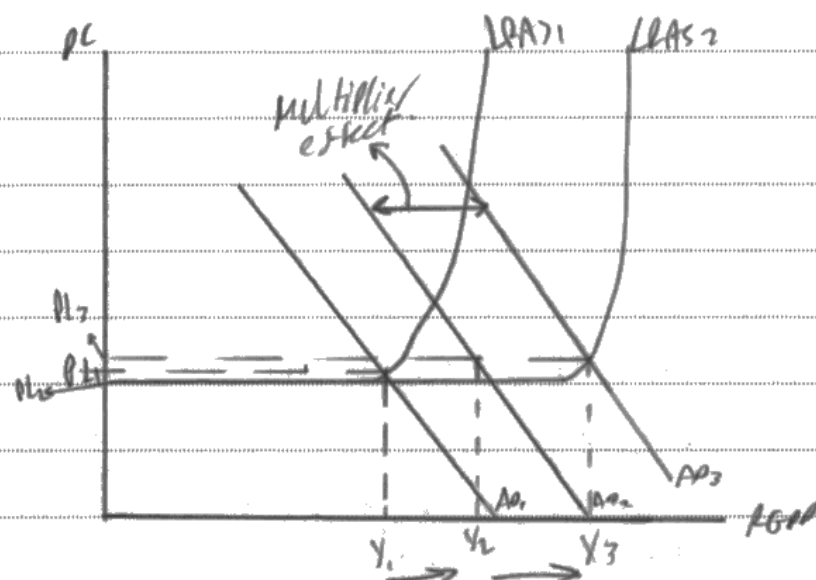
there are factors which mean the

However, rapid increases in population within India may not lead to this desired increase in profitability for Indian firms. For example, if this rapid increase in population puts too much strain on Indian public services such as education and healthcare then despite the "Demographic Dividend" Export

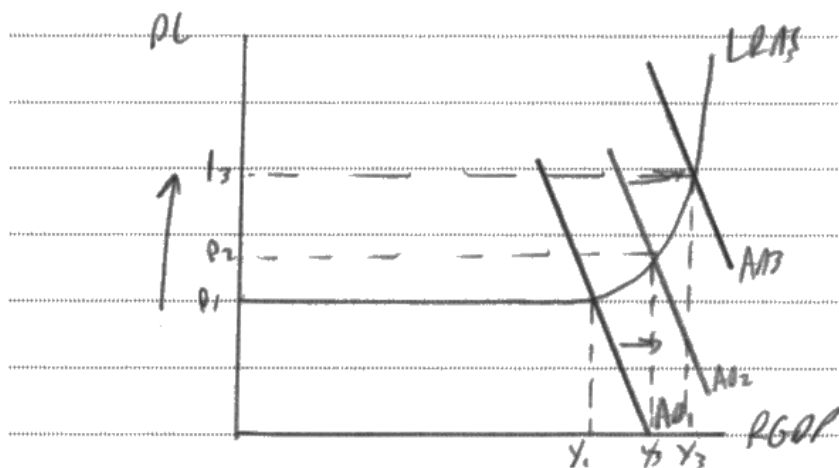
refers to, there may be significant increase in the labour supply. This is a particularly significant issue for Indian firms require skilled labour as an increase in the supply of low skilled labour will not ~~imply~~ decrease their production costs. If this rapid population growth is accompanied by sufficient investment into public services by the Indian government then it is likely many firms, both ones with high and low skilled labour requirements, will experience an increase in profitability. The major ~~presence~~ ^{of} ~~the~~ ^{the} informal economy, limits the tax revenue for the Indian government which constrains this spending.

One macroeconomic effect of rapid increases ⁱⁿ ~~of~~ population in India is economic growth through both demand and supply side factors. On the demand side, it is clear that rapid increases in population will significantly impact AD via consumption. India's 1.4 billion population requires significant resources to sustain itself and a rapid increase in this population is likely to stimulate consumption ~~effect~~ ~~to the bottom~~ ~~that~~ ~~kindly~~. On the supply side, as a rapid increase in the Indian economy's population will invariably increase the quantity of labour, but also the quality of labour potentially. This would increase the productive capacity of the Indian economy leading to an increase in LRAS. With a rapid increase in the population, the government is likely to increase spending on infrastructure to support this population which would further increase LRAS. In addition to this, government spending is an injection into the circular flow of income which means that it is likely to generate a multiplier effect. As the GDP per capita of India is relatively low

(52,238.1 in 2021) (The Marginal propensity to consume is likely to be high which means the value of the multiplier will also be high, further exacerbating the multiplier process. The combination of these supply and demand side factors would have the below impact shown on this diagram.



However, a rapid increase in population is likely to cause a deterioration of living standards via ~~cost~~ demand pull inflation. Although increased consumption ~~will lead to~~ is likely to lead to economic growth, it is also likely to cause inflationary pressures for the Indian economy. ~~The~~ The previously discussed impact of the multiplier effect is relevant here as it amplifies the inflationary pressures associated with demand pull inflation as shown on the below diagram.



This would lead to an increase in the general price level of the economy from P_1 to P_3 resulting in an increase in the costs of living. This has the potential to reverse recent progress made in India in reducing absolute poverty (55.1% $\rightarrow$ 16.4% from 2006 to 2021). Therefore, rapid population growth may reduce living standards in India as a result of demand pull inflation.

In conclusion, after evaluating both the micro and macro economic effects of rapid population growth in India, it is clear there is large potential for growth. However, the extent to which rapid population growth will lead to positive economic outcomes largely depends on the intervention and investment made by the government. In the long term, it is reasonable to conclude that the discussed macroeconomic effects of rapid population growth in India are more significant than those on the micro side due to their larger scale.



Para 1: MIC Level 4+ KAA. Developed arguments using labour markets & cost/revenue diagram.

Para 2: - Level 3+ EV.

Para 3: MAC Level 4+ KAA. Developed argument using AD and LRAS, with accurate diagrams and context.

Para 4: Level 3 EV. Discussion about risk of inflation/use of diagram/shape of LRAS argument.

Para 5: Judgement - effectively looks at the extent to which they will benefit Level 3 EV.

Level 4+ KAA 16 marks and Level 3+ EV 9 marks = 25 marks

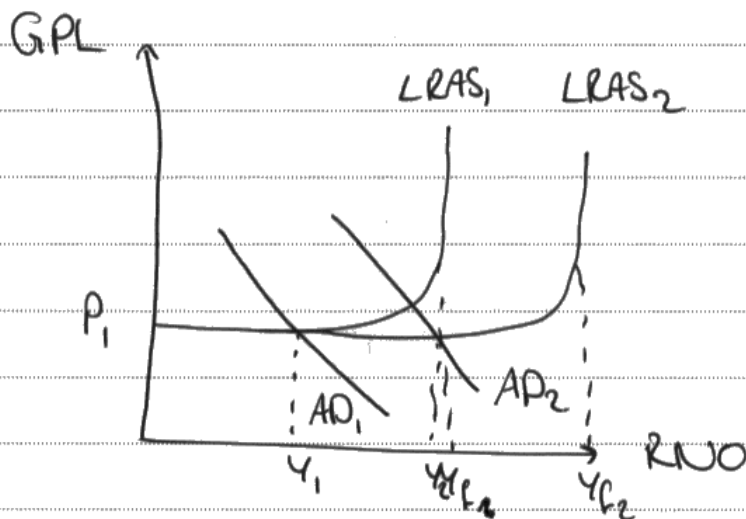


Look at answers such as this that score full marks as a way to develop your own skills.

Outstanding example of KAA - rare to see as much depth as Para 1

Write your answer here:

One macroeconomic effect of population growth in India is economic growth, both in the long-run and short run.



As the population grows, the economy sees an increase in aggregate demand as consumption increases ~~to not~~ as a result of the increased needs and wants of people. More people earn a wage in the

economy and spend it on goods and services, particularly significant when considering that the poorest people in developing countries have the highest MPC, meaning that money remains within the circular flow and does not leak out through savings. Strong population growth also leads to improved investor confidence so the Indian economy is likely to see injections of investment, producing a positive multiplier effect as one person's spending is another person's income. Investment into labour-intensive sectors leads to job creation and further job creation up and down the supply chain, meaning an increase in disposable incomes. Considering that all the money spent in an economy should equal all the money earned, the \$1,400 increase in GDP per capita in the 15 year period 2006 to 2021 shows that wages have risen faster than the population has grown, indicative of economic growth. As the factors of production have increased, LRAS has shifted out as the economy's max. productive potential has increased and this is beneficial to help keep demand-pull inflation low through plenty

spare capacity, meaning short-run growth can occur without a difficult conflict between macroeconomic objectives.

However, the extent of the economic growth depends on the jobs created, the actual increase in disposable incomes and the quality of human capital. A great increase in the size of the labour force can mean that scarcity decreases and the high level of unemployment could lead to negative wage pressures, thereby limiting the extent of economic growth through a consumption- and investment-based multiplier. For high wages to be earned, the quality of human capital needs to be exceptional, suggesting that the Indian government should consider huge investment into the national education system. However, because disposable incomes are low, not much tax revenue can be generated from income tax. The other alternative is to increase corporation tax but this would mean that profit-maximising MNCs that have inundated India to exploit cheap labour since its opening up to globalisation would simply move to other nations such as neighbouring China, also home to a huge labour supply. The footloose nature

of MNCs that dominate the private sector results in a Catch-22 type situation for the Indian government. The question arises as how to fund education to guarantee skilled labour and high wages. Taxes cannot be raised and borrowing on the gov't's part would just result in crowding out.

One microeconomic effect of rapid population increase is greater profit for firms. A large labour supply means firms can produce on a huge scale and take advantage of economies of scale to lower their long-run average costs as production expands. In a multi-step, repetitive production process, specialisation can occur through the division of labour to improve productive efficiency and drive down production costs as far as possible. In a situation where the goods produced are price-elastic, passing on lower costs through lower prices means revenue increases as the quantity demanded of the produced good increases more than the proportional decrease in price. Firms in India can also take advantage of a strong export market and further increase their profitability by

taking advantage of the international competitiveness.

There is also scope here for price discrimination when selling to foreign, separate markets, meaning prices can be adjusted to in accordance to the PEDs of different markets, further increasing SUs.

The combined decreases in MC and increase in AR would mean Indian firms can start to accumulate reserves essential for further growth, organic or inorganic.

However, India is home to many offshore MNCs that pose a threat to domestic infant industries. To take advantage of the population growth and large labour supply, firms would have to counteract the possible monopsonist power of MNCs. MNCs with huge profits and existing reserves may attract labour with higher wages and better job security as a large MNC is far less likely to liquidate. This means that local firms and domestic producers who do not repatriate their profits to foreign headquarters cannot take advantage of this increase in the labour supply in what is likely quite an uncompetitive labour market.

In conclusion, the greatest profiteers from fast

population growth are the offshored MNCs. However, it could be argued that the macroeconomic point is more significant as it is economic growth that leads to the 0.2 increase in the HDI metric that India has seen, it is economic growth that enables the Indian population to escape absolute poverty.



Para 1: MAC KAA L4+ higher consumption/AD/diagram/investment/growth arguments - well developed with lots of application

Para 2: L3+ EV wage pressures/education arguments

Para 3: MIC KAA L4- profit/sales/economies of scale - but context of India is not totally clear

Para 4: L3+EV threat of large MNCs to local firms
Para 5: Judgement - link to poverty/macro more significant

Level 4 KAA 15 and Level 3+EV 9 = 24 marks



Make sure you use the context as clearly as you can.

Paper Summary

Common issues across Question 1(d) and Question 1(e):

- Candidates drew diagrams but failed to integrate those in their analysis, so the diagrams added very little if they only showed the candidate's knowledge but nothing more.
- Even if candidates integrated diagrams into analysis, they drew diagrams that were static rather than ones that showed shifts and changes to highlight the effects of high inflation and/or RTA.
- Generally weak conclusions were given in place of judgements. Simply summarising or repeating KAA points will not earn evaluation marks

Based on the responses to 9EC0 03, candidates are offered the following advice:

- Practise key diagrams such as cost and revenue, externalities and subsidies. Carefully label these and clearly show the direction of any changes on the diagram. Shading should be clear. Clear diagrams enable knowledge, application and analysis marks, and can be referred to in evaluation to explore the importance an argument.
- For application, try to picture yourself as an economist advising a particular firm or sector on the impact of a change or policy. Context is crucial because what may work in one industry may not apply to another.
- Your responses will score highly if they show clear evidence of development. Examiners are looking for a 'chain of reasoning'. Make one point per paragraph, apply it to the context of the question, and then explain it carefully, step-by-step. Aim for quality over quantity. Your task is to choose a strong argument then carefully explain to the examiner in terms of how and why it is important. When you evaluate the argument, you can then question why the argument may not apply in this situation. Evaluation is about the scale or significance of the point you make.
- When the question asks for 'factors' or 'concerns' note that it is asking for more than one factor or concern. Causes are often trickier to evaluate than effects, so be careful to stick to the actual question asked.
- Clear 'signposting' throughout your response makes it easy to follow. For example, 'the first effect is ... this leads to....'
- Be sure to answer the specific question set. A good tip is to link your point back to the question at the end of each paragraph you write.
- Make sure you use subject specific terms and concepts. These are all in the specification, and examiners write questions based on the specification. It tells you what you need to know. You won't be asked about concepts or diagrams that aren't on the specification.
- Equally, writing about theories or using diagrams that aren't on the specification doesn't necessarily add to the quality of your answer. The mark scheme that is used by the examiners is based on the specification. Try to stick to what is on the specification. You should be aiming to make the marking of your paper as straightforward as possible.
- Furthermore, make sure your writing is clear. If examiners cannot easily read what you have written, they may lose the thread of your argument. In some cases, they cannot read it at all.

- Crucially, practise writing against the clock. This makes it easier to write your responses neatly, and in time.
- As part of your revision, spend time interpreting graphs. Look at the axes and think about what data the graph is showing you. If data is in percentages, this means changes between the data points would be in percentage points - something which is frequently described incorrectly by candidates in exam papers.
- There are no marks for evaluation on the 5-mark questions (1a and 2a). Improve efficiency in time management by not including an evaluation in your answers to these questions.
- When drawing diagrams, remember to ensure that they are clear and have correct labels on both axes and lines. In particular, remember that on a macro AD/AS diagram, the vertical axis is NOT 'price' as it is not the price of a specific good - it is the average price level across the whole economy.
- Ensure you carefully study and understand the figures and extracts provided in the separate booklet. These form the context for the questions, and answers should be related to this context and not be entirely theoretical. Think of the extracts as a support to you - it is there to help you answer the questions and carries many marks for you.
- Overall, remember that Paper 3 is your chance to use the skills and tools you have learned from the first two papers and bring out your understanding that perhaps you could not use on the first two papers. Remember that only the 25-mark essays are micro and macro.

Grade boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:
<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

