

Mark Scheme (Results)

January 2016

Pearson Edexcel International Advanced Level in Economics (WEC02) Paper 01 Macroeconomic Performance and Policy

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General Marking Guidance

- All candidates must receive the same treatment.
 Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Supported multiple choice

NB: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

NB: Candidates may achieve up to 3 marks for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Indicative Content	Mark
1	 Answer D Explanation Unemployment where person actively seeking work but unable to find suitable employment(1) Budget deficit where government expenditure greater than tax receipts(1) Reducing budget deficit either involves cutting spending(1) Reduced spending may reduce public/private sector jobs raising unemployment(1) Increased income tax reduces incentive to work this raises unemployment (1) Accurate diagram showing inward shift in AD up to 2 marks OR explanation that reduced government spending, falling AD will reduce real output and employment Rejection marks: A incorrect because reducing net immigration may reduce supply of labour and reduce level of unemployment (1) B incorrect as lower income tax increases incentive to work and may reduce unemployment/increases aggregate demand(1) C incorrect as depreciation may increase demand for exports, raise AD and thus increase real output and employment (1) 	
		(4)

Question Number	Indicative Content	Mark
2	Answer: A Explanation Example of asset purchases EG government bonds from commercial banks (1) Definition of Monetary Policy (1) Raises commercial bank reserves (1) Defining/linking to quantitative easing (QE) (1) Definition of deflation as a sustained decrease in the average price level (1) Likely to make more funds available for lending by the commercial banks(1) Likely to result in lower interest rates from commercial banks(1) Increased borrowing and spending may increase AD (1) and raise average price level (1) OR For correct diagram award up to 2 marks showing increase in AD and impact on price level Rejection marks: B example of fiscal policy (1) C increase in interest rates likely to reduce AD, average price level and real output (1) D increase in regulation is a direct policy not monetary policy (1)	(4)

Question Number	Indicative Content	Mark
3	Answer: C Explanation Identification of increased competition as a supply-side policy/examples of policies to increase competition deregulation and privatisation (1) Explanation of why a supply side policy might cause shift in LRAS e.g. easier market entry (1) Increased competition likely to increase efficiency producing rise in real output (1) Increased efficiency likely to shift LRAS right/outwards shown on diagram(1) Explanation that lead to outward shift in LRAS (1) lower average price level and rise in real output (1) OR Correctly annotated diagram or own diagram (outward shift in LRAS with increased real output and lower average price level labels) (2) Rejection marks: A Increased efficiency likely to reduce average price level not increase it (1) B Increased efficiency likely to reduce average price level not increase it (1) OR increase real output (1) D Increased efficiency likely to increase real output not decrease it (1)	(4)

Question Number	Indicative Content	Mark
4	Answer: B Explanation • Appreciation is a rise in value in relation to other currencies(1) OR Exchange rate is one currency expressed in terms of another (1) • Exports less price competitive and imports cheaper (1) • Therefore decrease in net exports (x-m) reducing AD (1) • Imports cheaper may decrease costs (inputs) for firms increasing SRAS (1) • Combined effect of these changes is to lower the average price level and increase real output (1) Rejection marks: • A is incorrect as AD likely to shift left due to falling net exports (1) • C is incorrect as SRAS likely to shift right due to falling costs for firms (1) • D is incorrect as SRAS likely to shift right due to falling costs for firms (do not reward if already awarded) OR for AD likely to shift left due to falling net exports (1)	
		(4)

Question Number	Indicative Content	Mark
5	Answer: A Explanation Identification of government spending as an injection and taxation as a withdrawal (1) Definition of net injection: When government spending exceeds revenue(1) OR when injections exceed withdrawals from circular flow (1) Definition of budget deficit: Where government spending exceeds tax revenues then there is a budget deficit (1) Reference to Italy's 44 billion euro budget deficit (1) Comment that deficit could be analysed as a % of GDP (1) Deficit usually financed through government borrowing (1) Deficit can only be reduced through lower spending and/or higher taxes to reduce net injection (1) Rejection marks: B this does not necessarily follow as will depend upon borrowing, spending and tax receipts(1) C the value of the multiplier does not depend upon the injection/depend upon value if withdrawal/leakages (it is determined independently of the injection) (1) Reward reference to MPS, MPC, MPM D not a withdrawal as this would be the case if revenues exceeded expenditure (1)	(4)

Question Number	Indicative Content	Mark
6	Answer: B Explanation Definition of balance of trade in goods (I.E.value of goods exported-value of goods imported) (1) OR value of visible exports-value of visible imports DO NOT ACCEPT X-M as Question is about trade in goods Negative trade balance is a trade deficit in goods (1) Each year the chart shows a deficit/negative balance(1) Reward any calculations on the data EG % increase or decrease in the balance for a year or series of years (1) Reward any specific data references to the size of the balance – must include unit of measurement (US\$ billion (1) Likely to reduce AD and real output (1) Likely to depreciate currency (1) Rejection marks: A incorrect because the chart does not show tax revenue or government expenditure it shows balance of trade in goods(1) C is incorrect as the chart does not show investment (1) D is incorrect because the balance of payments will always be in equilibrium/includes other items such as capital account/allow reference to other components of balance of payments (1)	(4)

Question Number	Indicative Content	Mark
7	Answer: C Explanation Definition of commodity EG raw material used in manufacturing(1) OR Goods traded on international commodity exchange/traded at a global price (1) Definition of average price level OR real output (1) Increased costs of production (1) Example: oil, copper, iron, primary agricultural product (1) Explanation that lead to inward shift in SRAS (1) higher average price level and fall in real output (1) OR Accurate diagram showing left shift of SRAS (must be SRAS not LRAS) correctly labelled (up to 2 marks) Rejection marks: A is incorrect as increase in labour productivity likely to shift SRAS right/increasing real output/fall in price level (1) B is incorrect as decrease in indirect tax likely to shift SRAS right/increasing real output/fall in price (1) D is incorrect as an increase in investment shifts AD right raising average price level and real output (1)	(4)

Question Number	Indicative Content	Mark
8	Answer: C Explanation Definition of inflation: sustained increase in the average price level (1) Inflation defined: a slowing of the rate of increase in average prices (1) Inflation in 2011-2013 means average prices were rising in each year (1) Data reference to specific inflation figure or figures for the years 2011-2013 (1) Average prices were rising throughout the entire period 2000-2013 (1) Prices were always rising even though the rate of increase varies (1) Lower rates of inflation does not mean deflation (falling prices) just a slower rate of inflation(1) 2011-2012/2008-2009/2012-2013 disinflation occurred (1) Rejection marks: A incorrect because average prices were rising throughout the entire period 2000-2013 (1) B incorrect because although % increase in CPI remained the same (or fell slightly) average prices still increased(1) D incorrect because although inflation fell average prices still increased but at a slower rate(1)	(4)

Question	Indicative content	Mark
Number 9a	Indicative content	
	Knowledge and application:	
	 definition of economic growth: annual increase in real GDP (1) Increase in total value of output produced within the boundaries of a country(1) Increase in productive potential (1) Growth outward shift in PPF/PPC (1) Negative growth inward shift in PPF/PPC (1) PPF diagram showing outward/inward shift (1) Measurement may be real or nominal (1) Real growth takes into account inflation (1) Nominal growth is monetary value and does not take into account inflation (1) Includes output from foreign owned factors(1) Excludes overseas output of domestic owned factors (1) Explanation should include reference to the data/case study E.G. UK growth at 1.7% highest rate of growth (1) Spain experiencing negative economic growth - 1.2% (1) Negative economic growth may indicate recession (1) France and Germany experiencing very low levels of growth(1) NB Examples do not have to relate to Western European countries to be rewarded 	
		(4)

Question			Mark
Number 9b			10
	e, Applica	tion and Analysis – Indicative content	
	h o co	K has higher economic growth thus likely to ave higher inflation as higher growth in real utput K has lowest savings ratio compared to other ountries mplies that higher economic growth may be ue to consumer expenditure forcing up AD and average prices K has largest current account deficit as % of DP which may imply inflation is imported urrent account deficit may mean weaker urrency therefore more expensive imported uputs ccurate diagram showing increase in AD or ecrease in SRAS causing increase in average rice level	
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-2	Shows some awareness of reasons or data ref	
2	3-4	Understanding of reasons or some awareness of reasons and data references	
3	5-6		

Evaluation – Indicative content		
	Here we are looking for development and evidence of judgement as to the most significant factors	
	 Lower investment may mean lower productivity reduces AS and, real output and causing rising average prices Lower investment may offset rising consumption but will depend relative value of GDP components Lower saving may mean less funds for investment Inflation still relatively low at 1.7% (less than Bank of England target 2.0%) Short-term higher inflation a trade-off for higher economic growth Long-term higher inflation might reduce competitiveness and worsen current account deficit which mat reduce long term growth 	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation
2	3-4	For evaluative comments supported by relevant reasoning

Question		Mark
Number	Indicative Content	
90	Indicative Content	
9c	 Knowledge and application: An injection is an inflow into the circular flow of income (1). Injections include investment, government expenditure and exports. (1) (1 mark for any one of these) A withdrawal is an outflow from the circular flow of income (1). Withdrawals include savings, taxes and imports. (1) (1 mark for any one of these) The above 4 points could be illustrated by a circular flow diagram. (up to 4 marks) Savings defined as postponed consumption or investment (1) Investment defined as spending on capital goods (1) Withdrawals have contractionary effective/injections have expansionary effect (1) Then maximum 2 marks for data references (1 + 1): Specific data references from Figure 2 for savings (up to 2 marks) Specific data references from Figure 2 for investment (up to 2 marks) UK has lowest investment (13.9% of GDP) (1) UK has lowest savings (12.8% of GDP) (1) France has highest investment (19.5% of GDP) (1) 	
	Germany has highest savings (23.1% of GDP) (1) NB Examples do not have to relate to Western European countries to be rewarded	(6)

Question			Mark
Number			14
	Knowled	lge, Application and Analysis – Indicative	
9d	Content		
	•	Saving decision by people to postpone their consumption The savings ratio is the % of disposable incompather than spent - high savings ratio lowers consumption and aggregate demand Factors influencing savings include: real interest rate on savings deposits expectations of future income and job securit consumer confidence availability of credit taxation of saving the need to save to repay debts to save to build up a deposit for a mortgage, school and university fees saving for retirement. Extract 2 refers to fall in real incomes in the lemeaning lower disposable income and less sa Data reference from Figure 2 such as 12.8% UK 23.1% in Germany	y pay JK vings
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of possible effects or identification of one or more points. Definition/understanding or data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or graerrors are likely to be present and the writing generally unclear.	mmar
2	4-6	Identification and some explanation of factors along with some development of analysis or sidentification of possible effects and data refer Material is presented with some relevance but likely to be passages which lack proper organise. Punctuation and/or grammar errors are likely present which affect the clarity and coherence	ome ences. there are sation. to be
3	7-8	Clear understanding and analysis of the econo impact and data references Material is presented in a relevant and logical Some punctuation and/or grammar errors may found, but the writing is clear and coherent over the coherent of the coherent of the coherence	way. y be

Evaluation – Indicative content				
	eviden	e are looking for development and ce of judgement as to the most cant factors		
	d S S S fi S C H ir A C P	hort-term versus long-term causes of ifferences hort-term saving may mean higher future pending by consumers and investment by rms tructural differences in economies of the ountries EG Germany and UK ligher saving may mean more funds for nvestment eference to paradox of thrift – too high level f saving may reduce demand and cause fall in eal output and average prices although saving as % of GDP may be relatively bw, if GDP is high the value of saving may be elatively high ossible causes of spending rather than saving EG income and age)		
Level	Marks	Descriptor		
0	0	No evaluative comments.		
1	1-2	For identifying evaluative comments without explanation.		
2	3-4	For evaluative comments supported by some reasoning and relevant examples.		
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.		

Question			Mark				
Number			(14)				
		ation and Analysis – Indicative content					
9(e)		Current account: A measure of the flow of					
		unds from trade in goods and services, plus					
		other net income flows (net investment income					
		and net transfers) Current account surplus means deficit for other					
		countries					
		f the current account is in surplus for a					
		sustained period then:					
		Germany can have a deficit on capital account					
		by building up reserves or purchasing assets in					
		ther eurozone countries or					
	ir	nternationally(Extract 1)					
	• T	he German surplus usually leads to an					
		ppreciation of the euro, which makes imports					
		heaper, reducing inflation, but exports more					
		expensive, which may have a negative impact					
		on other eurozone countries (1)					
		German real exchange rate is strongly					
		Indervalued compared to the rest of the Eurozone - making its goods artificially cheap,					
		crowding out those of other eurozone countries					
		rom both eurozone and world markets					
		There may be increased protectionism from					
		other countries/trade disputes within and					
		outside of the European Union					
	Costs o	r benefits can be used for KAA and the					
	• •	es for Evaluation					
Level	Marks	Descriptor					
0	0	A completely inaccurate response.					
1	1-3	Shows some awareness of possible effects or					
		identification of one or more points.					
		Definition/understanding or data references. Material presented is often irrelevant and lacks	c				
		organisation. Frequent punctuation and/or gra					
		errors are likely to be present and the writing					
		generally unclear.	.0				
2	4-6	Identification and some explanation of factors	identified				
		along with some development of analysis or s					
		identification of possible effects and data refer					
		Material is presented with some relevance but					
		likely to be passages which lack proper organi					
		Punctuation and/or grammar errors are likely					
	7.0	present which affect the clarity and coherence					
3	7-8	Clear understanding and analysis of the econo	IIIIC				
		impact <u>and</u> data references Material is presented in a relevant and logical	way				
		Some punctuation and/or grammar errors may	•				
		found, but the writing is clear and coherent ov	•				
	l	I round, but the writing is clear and concretit ov	Ci aii.				

Evaluation	Evaluation – Indicative content			
	• C a a ir fi h c c e c t a e c a e	Current account surplus can be an indication of successful economy with high productivity although German surplus is negatively impacting other eurozone countries the HDI gure would suggest living standards are very igh in France and Spain German surplus is having an impact on other urozone countries such as Spain and France igure 1 ow inflation would also suggest stable conomy however the danger of deflation is estabilising ligh levels of savings suggest growth could be export driven thus reliant upon demand for exports – thus vulnerable to low growth in larget markets ligh reliance upon exports can create imbalanced growth in the long-term impact upon rest of the eurozone can be egative and may cause rising inequality etween members olitical pressures within eurozone and otential break-up of currency zone		
Level	Marks	Descriptor		
0	0	No evaluative comments.		
1	1-2	For identifying evaluative comments without explanation.		
2	3-4	For evaluative comments supported by some reasoning and relevant examples.		
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.		

Question		Mark
Number	Indicative Content	
10a	 Knowledge and application: Real wages: nominal wages minus the inflation rate (1) Calculation 2012: -3.6% (wages) - 1.9% (inflation) (2) 	
	 Therefore, change in real wages is -5.5% (1) If answer of between -5.38% and -5.5% (including or not including working) then award 3 marks 	(4)

Question Number	Mark 10

Vnowlodge	Applica	tion and Analysis Indicative content
10b	• F (• II • T • V a • H • tl • T C • A T	for some years, real wages rising 2007 0.3%), 2010 (4.3%), 2011 (1.3%) In 2013 real wages rose by 2.2% Itherefore, consumption is likely to increase Ithis will cause aggregate demand to increase Ithis would and rise in real output and the Ithis may be illustrated Ithis would cause a leftwards shift of the SRAS Inve It is in the price level and a fall in real output. Ithis may be illustrated with AD/AS diagram
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of reasons or data references
2	3-4	Understanding of reasons or some awareness of reasons and data references
3	5-6	Clear understanding of reasons and linking to data

Evaluation	Evaluation – Indicative content				
	• S • M • M t t • I a f	Reference to gradients of AD and/or AS curves significance of size of multiplier Magnitude of wage increase (nominal and real) will determine the impact/effect May be relatively temporary rise in wages thus he impact short-term and wages may fall in he long-term n total over the period 2007-2013 real wages are falling-for some years, real wages are alling EG 2008 (-3.5%), 2009 (-4.2%), 2012 -5.5%)			
Level	Marks	Descriptor			
0	0	No evaluative comments.			
1	1-2	For identifying evaluative comments without explan	nation.		
2	3-4	For evaluative comments supported by relevant rea	asoning.		

Two costs identified (1 + 1) and for each explanation award up to 2 marks (2 + 2 marks) Costs may include: • greater uncertainty (1) and fall in business confidence (1) leading to lower investment (1) • redistribution of income (1) borrowers benefit and savers suffer (1) if the inflation rate is greater than the rate of interest (1) (Extract 2 impact on savers) • loss of competitiveness (1) of the country's exports (1) if its inflation rate is higher than that of its major competitors (1) (Extract 1 falling exports and Extract 2 impact on competitiveness) • real burden of debt (1) both public and private (1) would fall (1) (Extract 2 possible rising interest rates) • inflation may increase firms costs (1) causing profits to fall/profit margins to fall (1) if they cannot increase revenue (1) (Extract 2 weakening of currency and rising costs for firms) • real incomes could fall (1) if wage rises do not keep pace with inflation (1) thus falling living standards (1) • Inflationary spiral (1) rising prices (1) lead to rising wage demands (1)	Question Number	Indicative Content	Mark
		Two costs identified (1 + 1) and for each explanation award up to 2 marks (2 + 2 marks) Costs may include: • greater uncertainty (1) and fall in business confidence (1) leading to lower investment (1) • redistribution of income (1) borrowers benefit and savers suffer (1) if the inflation rate is greater than the rate of interest (1) (Extract 2 impact on savers) • loss of competitiveness (1) of the country's exports (1) if its inflation rate is higher than that of its major competitors (1) (Extract 1 falling exports and Extract 2 impact on competitiveness) • real burden of debt (1) both public and private (1) would fall (1) (Extract 2 possible rising interest rates) • inflation may increase firms costs (1) causing profits to fall/profit margins to fall (1) if they cannot increase revenue (1) (Extract 2 weakening of currency and rising costs for firms) • real incomes could fall (1) if wage rises do not keep pace with inflation (1) thus falling living standards (1) • Inflationary spiral (1) rising prices (1) lead to	(6)

Question Number			Mark (14)
Knowledge	e. Applica	ition and Analysis – Indicative content	
10(d)	Factors In ir c E ir () P E I Ir c N Ir c A	might include: Interest rates are increased to reduce AD by increasing costs of borrowing and interest rates are used by central banks as a component of monetary policy expected rate of economic growth and inflation: suggestion that this is relatively high Extract 2) so case for increasing interest rates in MI suggest growth rate likely to increase extract 2 suggest that inflation has risen from 1.75% to 2.07% July-August extract 2 unemployment falling that dollar depreciating/decreasing in value increasing inflationary pressures dominal wages increased 3% in 2013 May be an AD/AS diagram showing likely impact of rising interest rates on average price evel and real output – decrease in AD with lower C + I arguments for may be used as KAA and gainst as Evaluation or vice versa	
Lavial	Manda	Danwinton.	
Level	Marks	Descriptor	
1	1-3	A completely inaccurate response. Shows some awareness of the arguments for increase in interest rates or identification of or points. Definition/understanding or data refer Material presented is often irrelevant and lack organisation. Frequent punctuation and/or graerrors are likely to be present and the writing generally unclear.	ne or more ences. s immar
2	4-6	Identification and some explanation of argume identified along with some development of and some identification of possible arguments and references. Material is presented with some relevance but likely to be passages which lack proper organi Punctuation and/or grammar errors are likely present which affect the clarity and coherence	alysis <u>or</u> data there are sation. to be
3	7-8	Clear understanding and analysis of the econd arguments and data references Material is presented in a relevant and logical Some punctuation and/or grammar errors manding found, but the writing is clear and coherent or	way. y be

Evaluation – Indicative content						
	Evaluation might include:					
		rifficulty of making accurate forecasts				
		all in inflation might be short-term (real				
		wages increased in 2013)				
		extract 2 suggest inflation is rising in 2014				
	Difficulty of determining impact on the					
		xchange rate of a change in interest rates				
		xternal factors might change suddenly e.g. oil rices				
	• L	ow or negative growth in wages suggest				
	fa	alling incomes/living standards				
	• L	ow or negative growth in wages suggests that				
	C	ost-push pressures are declining thus inflation				
	m	nay fall				
	Inflation rate appears to be on a downward					
		trend - reference to data in figure 1				
		Magnitude of interest rate change important				
		(impact depends upon size of multiplier)				
		Short run or long run impact of interest rate				
		rise EG lower investment reducing LRAS				
	Impact upon export competitiveness of					
	currency appreciation – Extract 1					
	Exports already declined (Extract 1) Time land to be be a second of the second o					
	Time lag between rate changes and					
	macroeconomic effects					
		Impact of interest rate changes may depend				
Level	Marks	pon elasticity of AS curve				
	0	Descriptor No evaluative comments.				
0	1-2	For identifying evaluative comments without				
	1-2	explanation.				
2	3-4	For evaluative comments supported by some reasoning	na			
_		and relevant examples.	.9			
3	5-6	For evaluative comments supported by relevant				
		reasoning and relevant examples.				
	l	reasoning and relevant examplest				

Question Number			Mark (14)
Knowledge, 10(e)	•	decline in net exports will reduce AD resulting in falling average prices and real output downward multiplier effect upon AD increased unemployment falling nominal wages (and real wages depending upon inflation rate) falling living standards higher government spending on welfare depreciation of currency and thus higher import prices sustained fall may have negative long term impact upon investment potential deflation (as inflation is already relatively low) continued falls in nominal and real wages reducing domestic demand growing inequality diagram showing fall in AD as result of lower exports, lower average price level and real output AND/OR fall in AS due to higher import costs as result of depreciation Positive effect can be used as KAA and negative	
Level	Mark	effects as Evaluation or vice versa Descriptor	
0	s 0	A completely inaccurate response.	
1	1-3	Shows some awareness of possible effects or identification of one or more points. Definition/understanding <u>or</u> data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammerrors are likely to be present and the writing is generally unclear.	
2	4-6	Identification and some explanation of factors identified along with some development of analysis <u>or</u> some identification of possible effects and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.	
3	7-8	Clear understanding and analysis of the economic impact and data references Material is presented in a relevant and logical way Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overal	

Evaluation – Indicative content Potential benefits include: depreciation of currency - meaning most successful export industries benefit from increased price competitiveness impact will depend upon the size of the multiplier depreciation may lead to increased domestic demand for cheaper domestically produced goods and services Low inflation reduces uncertainty for firms which may increase investment rebalancing of the economy towards domestic consumption less reliant upon uncertain export markets increased efficiency in domestic firms as they have to compete to maintain or increase global market share decrease in exports may be offset by decrease in imports effect may be greater in some sectors EG smartphone and petrochemicals Marks Level Descriptor 0 No evaluative comments. 1 1-2 For identifying evaluative comments without explanation. 2 3-4 For evaluative comments supported by some reasoning and relevant examples. 3 For evaluative comments supported by relevant 5-6 reasoning and relevant examples.

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