

Mark Scheme (Results)

October 2016

Pearson Edexcel International
Advanced Subsidiary
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 (rejection marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 1 | <p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Trend rate of growth is the long run average rate for a country over a period of time (1) • Supply-side policies intended to increase trend rate of economic growth/LRAS (1) • Increased spending on education and training increase labour productivity (1) • Increased productivity increases LRAS and lowers average price level (1) • Spending on education and training example supply-side policy (1) • Investment in human capital (1) • Increased productivity shifts LRAS right (1) <p>Increased real output and fall in average price level (1)</p> <ul style="list-style-type: none"> • For correct diagram award up to 2 marks showing increase in LRAS and impact on real output and price level <p>Rejection marks</p> <ul style="list-style-type: none"> • A is incorrect as increase in national minimum wage likely to decrease SRAS due to higher costs lowering growth OR increase AD due to higher disposable income increasing inflation (1) • C is incorrect as this may decrease SRAS reducing growth and increasing inflation (1) • D is incorrect as increased welfare benefits decrease incentive to work and reduce productivity lowering trend rate of growth OR increased benefit spending may increase AD thus increase inflation (1) | (4) |

| Question Number | Answer | Mark |
|-----------------|---|------------|
| 2 | <p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of balance of payments on the current account: record of all money flows to and from a country arising from exports and imports of goods and services, transfers of income and other net transfers (1) • Current account calculated: - £110 196 (net good exports) + £78 096 (net services exports) - £40 296 (net investment income + net transfers) = - £72 396 million/deficit (2) • Negative BofP on the current account means deficit (1) • Must be balanced by surplus on capital/financial account (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • A is incorrect deficit on trade in goods/ -£110 196 million(1) • C incorrect as surplus in trade in services /+ £78 096 million (1) • D is incorrect as deficit on the current account/ - £72 396 million (1) | (4) |

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 3 | <p>Answer C (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Depreciation is a fall in value in relation to other currencies (1) • Exchange rate is one currency expressed in terms of another (1) • Exports more competitive and imports more expensive thus increase in net exports (x-m) increasing AD (1) • Imports dearer may increase costs for firms decreasing SRAS (1) • Combined effect of these changes shown in diagram is to raise the average price level <u>and</u> increase real output (1) <p>Rejection marks:</p> <ul style="list-style-type: none"> • A is incorrect as AD likely to shift right due to rising net exports OR SRAS likely to shift left due to increased costs for firms (1) • B is incorrect as SRAS likely to shift left due to rising costs for firms (1) • D is incorrect as AD likely to shift right due to rising net exports (1) • NB do not double award if same reason given for rejectors A and D | (4) |

| Question Number | Answer | Mark |
|-----------------|---|------------|
| 4 | <p>Answer D (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of Inflation sustained rise in the average price level (1) • Definition of deflation sustained fall in the average price level (1) • Definition of disinflation decrease in the rate at which average price level is rising (1) <p>Maximum 2 marks for definitions</p> <ul style="list-style-type: none"> • Average price level increased in all years except 2010 and 2013 (1) • Increases in average prices greater than decrease in average price level 2008-2014 (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • A is incorrect as average prices were still rising but more slowly in 2009 (1) • B is incorrect as there was disinflation in 2011-2013 average prices were still rising (1) • C is incorrect as the data shows annual % change in CPI and not economic growth/GDP growth (1) | (4) |

| Question Number | Answer | Mark | | | | | | | | | | | | | | | | | | | | |
|-----------------|--|----------------------|--------------------------|----------------------|---------------------|--------|-------|-----|--------|--------|-------|-----|--------|-------|-------|-------|-------|-------|--------|-------|-------|------------|
| 5 | <p>Answer C (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition or formula of per capita GDP as GDP/population (1) <table border="1" data-bbox="435 683 1182 974"> <thead> <tr> <th data-bbox="435 683 608 824">Country</th> <th data-bbox="608 683 783 824">Total GDP (US\$ billion)</th> <th data-bbox="783 683 986 824">Population (million)</th> <th data-bbox="986 683 1182 824">GDP per capita (\$)</th> </tr> </thead> <tbody> <tr> <td data-bbox="435 824 608 862">Brazil</td> <td data-bbox="608 824 783 862">2 346</td> <td data-bbox="783 824 986 862">203</td> <td data-bbox="986 824 1182 862">11 557</td> </tr> <tr> <td data-bbox="435 862 608 900">Russia</td> <td data-bbox="608 862 783 900">1 861</td> <td data-bbox="783 862 986 900">144</td> <td data-bbox="986 862 1182 900">12 924</td> </tr> <tr> <td data-bbox="435 900 608 938">India</td> <td data-bbox="608 900 783 938">2 067</td> <td data-bbox="783 900 986 938">1 239</td> <td data-bbox="986 900 1182 938">1 668</td> </tr> <tr> <td data-bbox="435 938 608 974">China</td> <td data-bbox="608 938 783 974">10 360</td> <td data-bbox="783 938 986 974">1 368</td> <td data-bbox="986 938 1182 974">7 573</td> </tr> </tbody> </table> <p data-bbox="435 1014 1166 1153">3 marks for calculation(s) which support the correct key Award marks if slight variations due to rounding-up E.G. Brazil \$11,556 per head</p> <p>Rejection marks:</p> <ul style="list-style-type: none"> • A incorrect because 12 924 is Russia (1) • B incorrect because India is lowest/Russia is highest (1) • D incorrect because Russia is highest (1) | Country | Total GDP (US\$ billion) | Population (million) | GDP per capita (\$) | Brazil | 2 346 | 203 | 11 557 | Russia | 1 861 | 144 | 12 924 | India | 2 067 | 1 239 | 1 668 | China | 10 360 | 1 368 | 7 573 | (4) |
| Country | Total GDP (US\$ billion) | Population (million) | GDP per capita (\$) | | | | | | | | | | | | | | | | | | | |
| Brazil | 2 346 | 203 | 11 557 | | | | | | | | | | | | | | | | | | | |
| Russia | 1 861 | 144 | 12 924 | | | | | | | | | | | | | | | | | | | |
| India | 2 067 | 1 239 | 1 668 | | | | | | | | | | | | | | | | | | | |
| China | 10 360 | 1 368 | 7 573 | | | | | | | | | | | | | | | | | | | |

| Question Number | Answer | Mark |
|-----------------|---|------------|
| 6 | <p>Answer A (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • AD components $C+I+G+(X-M)$ (1) OR definition of AD (1) • Increase in imports is an increase in leakages/withdrawals (1) • Net exports will fall (1) • Therefore AD falls (1) • LRAS is independent of price level/shows potential output (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • B is incorrect as increase in investment (1) likely to increase AD and shift curve outward/right (1) • C is incorrect as increase in government spending (G) likely to increase AD and shift curve outward/right (1) • D is incorrect as advance in production technology likely to increase potential output and shift LRAS outward/right (1) | (4) |

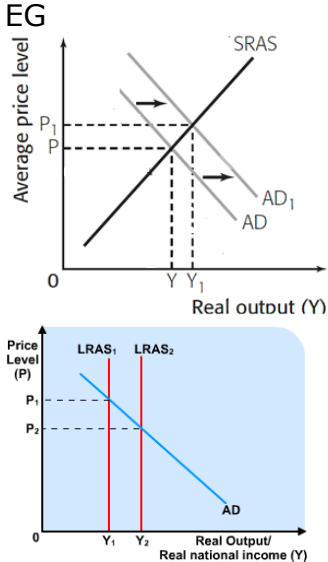
| Question Number | Answer | Mark |
|-----------------|---|------------|
| 7 | <p>Answer C (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of a recession: 2 or more consecutive quarters of negative economic growth (1) OR 2 falls in real GDP for 2 consecutive quarters (1) • Definition of negative output gap: when actual growth is less than trend growth rate (1) OR difference between actual real GDP and potential real GDP (1) • Correct/accurate diagram showing negative output gap (1) • Recession indicates fall in real income (1) • Decrease in AD component(s) (1) • Decrease in SRAS (1) • Analysis of impact of negative output gap/slump on consumption (1) • Fall in real income or GDP will mean consumption will fall as households are worse off (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • A is incorrect because investment /real output is unlikely to be rising in a recession due to falling profits/confidence (1) • B is incorrect because profits would be falling in a recession due to lower sales OR positive output gap implies growth above trend and this is not likely in a recession (1) • D is incorrect because unemployment would be rising in a recession OR profits falling due to lower sales (1) | (4) |

| Question Number | Answer | Mark |
|-----------------|---|------------|
| 8 | <p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of circular flow of income OR definition of injections OR definition of withdrawals (1) • If injections exceed withdrawals then a net injection (1) • If withdrawals exceed injections then a net withdrawal (1) • Spending by visiting tourists is an invisible export (1) • Exports are an injection into the circular flow (1) • Diagram of the circular flow depicting injections (exports) exceeding withdrawals (imports) (1) • Net export/injection of \$72 billion(1) • Tourists spend money in USA goods/service EG. hotels, transport, retail (1) • Tourists to USA spend money in USA, adding to circular flow/injection (1) • Tourist spending becomes income for USA firms (1) • USA tourists spending overseas is an import/ leakage/withdrawal (1) • Higher spending by visitors to US than US tourists overseas if net injection (1) <p>For correctly labelled diagram showing outward shift in AD award up to 2 marks</p> <p>Rejection marks</p> <ul style="list-style-type: none"> • A incorrect as visiting tourists spend more than USA tourists overseas thus injection not a leakage/withdrawal (1) • C incorrect as appreciation more likely due to increased demand for \$US (1) • D incorrect as injection increase real output due to rising AD(1) | (4) |

Section B: Data response

| Question Number | Answer | Mark |
|---------------------|---|--|
| <p>9 (a)</p> | <p>Knowledge and application (up to 4 marks):</p> <ul style="list-style-type: none"> • Identifying possible causes/reasons: • Falling AD: • rising interest rates, reducing borrowing, consumption and investment (Extract 1) (1+2) • rising inflation decreases real incomes and thus consumption, investment and net exports (Extract 1) (1+2) • falling commodity prices and net exports (Extract 2) (1+2) • falling tax revenues may lead to lower government spending (Extract 2) (1+2) • rising current account deficit indicates falling net exports (Figure 2) (1+2) • Falling SRAS: • energy shortage leading to higher costs/lower productivity for firms (Extract 1) (1+2) • long term impact of falling government and business investment (Extract 2) (1+2) <p>Award up to 2 marks for an accurate diagram showing left shift in AD, decrease in average price level and real output OR falling SRAS or LRAS, increase in average price level and fall in real output</p> | <p style="text-align: right;">(6)</p> |

| Question Number | Answer | Mark |
|-----------------|--|------------|
| 9 (b) | <p>Knowledge and application (up to 4 marks):</p> <ul style="list-style-type: none"> • Definition of CPI: a weighted measure of the average price level of goods and services in an economy/country (1) • CPI is a measure of inflation/the rate at which average price level increases (1) • Price survey (1) • Expenditure and Food Surveys (1) • Basket of goods and services (1) • Contents of the basket revised annually (in UK) (1) • Weighted average (1) • Weights are attached to reflect relative importance/ further explanation of calculation (1) • Use of an index (1) • Base year (1) • Data is published monthly/quarterly/annually (1) • Exclusion of most housing costs (1) • Reference(s) to data/application to context: EG • Inflation > 10% in all years 2006-2014 except 2011 and 2012 (1) • Annual CPI 19% (accept 18%) in 2009 (1) • Basket of goods in Ghana may be different to basket of good in other countries (1) • Weighting of goods may be different in Ghana to other countries (1) <p>NB Examples do not have to relate to Ghana to be rewarded</p> | (4) |

| Question Number | | Mark |
|--|--|--|
| 9 (c) | | (14) |
| Knowledge, application and analysis – indicative content | | |
| | <ul style="list-style-type: none"> • Business Investment is increase in capital stock • Business investment component of AD • Increase in AD may increase real output and price level • Business investment may increase efficiency/productivity (rightward shift in LRAS) • Increased productivity may increase potential output • Government spending component of AD • Infrastructure spending (EG road, rail, telecoms) may increase efficiency/productivity • Increased employment • Multiplier effect may further increase real output • Ghana may add more value to commodities if processed domestically <p>Candidates may produce diagram(s) showing outward shift in AD, outward shift in LRAS or outward shift of PPC</p> <p>EG</p>  | |
| Level | Marks | Descriptor |
| 0 | 0 | A completely inaccurate response. |
| 1 | 1-3 | <p>Shows some awareness of possible causes or identification of one or more impacts. Understanding of impact or data references</p> <p>Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.</p> |

| | | |
|---|-----|---|
| 2 | 4-6 | <p>Identification and some explanation of impacts identified along with some development of analysis or some identification of possible effects and data references.</p> <p>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.</p> |
| 3 | 7-8 | <p>Clear understanding and analysis of the impacts and data references.</p> <p>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 overall.</p> |

| Evaluation – indicative content | | |
|---------------------------------|-------|--|
| | | <ul style="list-style-type: none"> • Impact will depend upon size of multiplier • Magnitude of investment and government spending • Time period – short-term then impact will be less whereas long-term impact may be greater • If government spending financed through borrowing then may create/increase budget deficit • Growth may be inflationary (inflation already relatively high) • Business investment may increase use of machinery and reduce employment • Infrastructure projects may rely upon imported expertise as Ghana labour force may lack skills • Employment in infrastructure projects may be short-term (EG construction) reducing impact in the long-term |
| 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 Number | | Mark |
|--|---|--|
| 9 (d) | | (10) |
| Knowledge, application and analysis – indicative content | | |
| | <ul style="list-style-type: none"> • Balance of payments on current account in deficit for all years 2006-2014/negative as % of GDP (Figure 2) • Worsened between 2010-2014 from 4% to 12% of GDP • Suggests value of imports exceed exports • Suggests net outflow of income/profits • Suggests net outflow of transfers • Falling export prices • Falling commodity prices • Currency depreciation (Extract 2) increasing costs of (essential) imports worsening deficit • Relate to GDP growth – falling GDP growth since 2011 while current account deficit increase as % of GDP • High and rising inflation reduces international competitiveness • Rapid increase in population might have led to the import of more food • Energy shortages could have restricted domestic industry and led to less exports or more imports • Commodity prices unstable and therefore changes in current account linked to this instability • Higher interest rates, reducing capital investment, productivity and international competitiveness • Accurate diagram showing decrease in AD (falling net exports) annotated and explained • Accurate diagram showing decrease in SRAS annotated and explained • Accurate PPF/PPC showing inward shift annotated and explained • Accurate diagram shows both left AD and left SRAS annotated and explained | |
| 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 – indicative content | | |
|---------------------------------|--|---|
| | <ul style="list-style-type: none"> • Impact will depend upon time period – current account was lower in 2006, 2007 and 2010 so may improve again • Commodity prices may increase again, improving current account balance • Currency may appreciate, reducing cost of (essential) imports • Investment may increase productivity/efficiency, increase competitiveness and cause deficit to fall as growth increases • Political stability may increase business confidence, investment and increase competitiveness | |
| 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 Number | | | Mark |
|--|---|---|-------------|
| 9(e) | | | (14) |
| Knowledge, application and analysis – indicative content | | | |
| | <ul style="list-style-type: none"> Negative impacts of Inflation include: <ul style="list-style-type: none"> people with fixed incomes (those who do not have wage bargaining power) means pay rises do not keep up with the inflation rate – falling real incomes and rising income inequality – Extract 1 negative impact upon those with low incomes/low skills who may see real wages fall lower standard of living for those on low or fixed incomes reduces real value of savings (harms savers) redistributes wealth to those with wealth/assets, e.g. property/land, that rise in value particularly rapidly during periods of inflation industrial disputes/conflict is often caused when pay negotiation takes place leading to lower productivity and economic growth Higher costs for firms reduces international price competitiveness, reducing exports and employment <p>Costs or benefits can be used for KAA and the opposites for Evaluation</p> | | |
| Level | Marks | Descriptor | |
| 0 | 0 | A completely inaccurate response. | |
| 1 | 1-3 | Shows some awareness of possible costs or identification of one or more impacts. Understanding of costs or data references Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear. | |
| 2 | 4-6 | Identification and some explanation of costs identified along with some development of analysis or some identification of possible costs 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 costs 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 overall. |
|--|--|--|

| Evaluation – indicative content | | |
|---------------------------------|-------|--|
| | | <ul style="list-style-type: none"> • Positive impact of inflation include: • inflation favours borrowers rather than savers – increased borrowing and fall in real value of debt • wealth effect of increasing asset prices (EG property/land) may boost spending and growth • high inflation can boost economic growth, reducing unemployment and increasing incomes for those who were previously unemployed • high inflation and expectations of high inflation can increase current spending, consumption and investment boosting growth and employment |
| 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 Number | Answer | Mark |
|-----------------|--|------------|
| 10 (a) | <p>Knowledge and application (up to 4 marks)</p> <ul style="list-style-type: none"> • Unemployment (ILO definition) up to 2 marks: • given as % of workforce (1) • actively looking for a job and out of work in last four weeks (1) • ready to work in two weeks (1) • questionnaire/interview (1) • survey by phone call/paper (1) • internationally recognised (1) • age 16-65 (accept 18-65)(1) • sample, and related problems (1) • unemployment increased from 6% in 2008 to 14% 2011/2012 (1) • unemployment increased with deflation in 2009-2010 (1) • unemployment fell from 14% 2012 to 12% in 2014 (1) <p>NB Examples do not have to relate to Ireland to be rewarded</p> | (4) |

| Question Number | Answer | Mark |
|----------------------|---|-------------------|
| <p>10 (b)</p> | <p>Knowledge and application (up to 6 marks)</p> <ul style="list-style-type: none"> • Definition of investment: the addition of capital stock to the economy (1) • Investment rose by 19.2% in third quarter of 2015 (Extract 1), increase in investment means increase in AD leading to higher growth /increase in price level (1+2) • Rising investment, increasing AD led to strong growth/growth ahead of forecast in 2015 (Extract 1) (2+1) • Rising investment increases growth and employment/reduces unemployment (Extract 2) (1+2) • FDI 172% of GDP in 2013 (Extract 1) increase in investment means increase in AD leading to higher growth /increase in price level (1+2) • Rising investment increases tax receipts and enable higher Government spending (Extract 1) (1+2) • Consumption low in Ireland (Extract 1) therefore investment important for economic growth (1+2) • Government spending fell (Extract 1) therefore investment important for increasing AD and growth (1+2) • Increasing investment (Extract 1) leads to LRAS shifting outwards , increase in real output and fall in price level (1+2) <p>NB Award up to 3 marks for: an accurate diagram showing right shift in AD, increase in average price level and real output and employment an accurate diagram showing right shift in LRAS, decrease in average price level and increase real output and employment</p> <p>Examples do not have to come from Extract 1</p> | <p>(6)</p> |

| Question Number | | Mark |
|--|--|---|
| 10 (c) | | (14) |
| Knowledge, application and analysis – indicative content | | |
| | <ul style="list-style-type: none"> • size of population determinant of labour force • labour one of 4 factors of production • quantity and quality of factors of production determine potential output • quantity and quality of factors of production determine LRAS • decrease in quantity of labour causes inward shift in LRAS • April 14-April 15 69 300 inward migration and 80 900 outward migration (Extract 2) • Net outward migration of 11 600 (Extract 2) • 30 400 of the 80 900 (37.5%) aged between 15-25 (Extract 2) • 223 600 net outward flow if 15-25 year olds since 2008 (Extract 2) • Impact on economic growth / LRAS shifting inwards • Loss of skills and innovation among workforce as the young and more skilled often migrate • Employment falling and impact on government tax receipts and spending • Demographic “time bomb” – increasingly ageing population • Increased immobility of labour with ageing/reduced labour force • Worsening of balance of payments • Impact on overall price level <p>Costs or benefits can be used for KAA and the opposites for Evaluation</p> | |
| Level | Marks | Descriptor |
| 0 | 0 | A completely inaccurate response. |
| 1 | 1-3 | Shows some awareness of possible costs or identification of one or more impacts. Understanding of costs or data references |

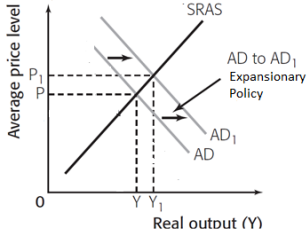
| | | |
|---|-----|---|
| | | Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear. |
| 2 | 4-6 | Identification and some explanation of costs identified along with some development of analysis or some identification of possible costs 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 costs 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 overall. |

| Evaluation – indicative content | | |
|---------------------------------|-------|--|
| | | <ul style="list-style-type: none"> • Time period – sustained net outward migration may have larger impact than short-term outward migration • Reference to the magnitude of net outward migration EG as % of working labour force • Impact will depend upon the education and skills of migrants – if net inward flow of highly skilled/educated workers then impact upon LRAS will be less – if net outward flow of highly skilled/educated workers then impact upon LRAS will be greater • Increasing levels of employment (Extract 2) may suggests that migrants employed • Employment growth biggest in construction and financial sector • Reference to difficulty of measurement or measurement accuracy |
| 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 Number | | Mark |
|--|--|-------------|
| 10 (d) | | (10) |
| Knowledge, application and analysis – indicative content | | |
| | <ul style="list-style-type: none"> • Low unemployment and low, stable rates of inflation are government macroeconomic objectives • Low inflation or deflation leads to deferred consumer spending by consumers (Extract 1) and falling AD, lower real output and unemployment • Low inflation or deflation leads to deferred investment spending by firms and falling AD, lower real output and unemployment • Low consumer spending and investment by firms reduces AD • Sustained low investment may reduce LRAS/productive capacity • Low inflation benefits lenders and harms borrowers, reducing spending and employment • Redistributes wealth from those with assets to those who are earning high incomes or who have high cash balances • Figure 2 shows unemployment rising with disinflation, deflation and low rates of inflations • Trade-off between inflation and employment or unemployment (Figure 2) • Accurate diagram representing short-run Phillips Curve annotated and explained in context <div data-bbox="493 1292 1016 1597" style="text-align: center;"> <p>The graph shows a downward-sloping, convex curve representing the Phillips Curve. The vertical axis is labeled 'Rate of Inflation' and ranges from 0% to 10% in 2% increments. The horizontal axis is labeled 'Rate of Unemployment' and ranges from 1% to 5% in 1% increments. The curve starts at approximately (1%, 10%) and curves downwards to cross the horizontal axis at 5% unemployment.</p> </div> <ul style="list-style-type: none"> • Accurate diagram showing fall in AD annotated and explained in relation to employment/unemployment • Accurate diagram showing fall in LRAS and explained in relation to employment/unemployment • Accurate PPF/PPC showing inward shift annotated and explained and explained in relation to employment/unemployment | |

| 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 – indicative content | | |
|---------------------------------|--|--|
| | <ul style="list-style-type: none"> • Here we are looking for development and evidence of judgement as to the most significant positive effects • low inflation may well improve the balance of payments on current account as may lead to increased international competitiveness, higher net exports and employment • Low inflation impact on current account will depend upon the PED for exports and imports – if PED elastic may boost exports and employment more than if PED inelastic • Impact will depend upon relative rate of inflation compared to trading partners – if they experience low inflation/deflation impact on employment may be less • Impact will depend upon length of time low inflation/deflation remains • Low inflation may attract foreign direct investment as costs may be low or falling, increasing employment • Sustained low interest rates may increase borrowing, decrease saving, increase consumption and investment and increase employment | |
| 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 Number | | | Mark |
|--|--|---|-------------|
| 10 (e) | | | (14) |
| Knowledge, application and analysis – indicative content | | | |
| | <ul style="list-style-type: none"> • Demand side policies used to shift the AD curve • they can expand the economy (expansionary policies) • they can shrink the economy (contractionary policies) • consumer spending important/significant component of AD • increased consumer spending increase AD, average price level and real output • Increase in real output linked to increasing employment (lower unemployment) • Fiscal policy to increase consumer spending, the Government could reduce direct taxes, AD would shift to the right as disposable incomes rise • Impact may depend upon the types of tax cuts: direct tax; income tax rate cuts and corporation tax cuts; indirect tax cuts • Monetary policy to increase consumer spending the Government could reduce interest rates and increase the money supply, AD would shift to the right as borrowing for consumption becomes cheaper and disposable incomes increases as debt repayments fall | | |
| |  | | |
| Level | Marks | Descriptor | |
| 0 | 0 | A completely inaccurate response. | |
| 1 | 1-3 | Shows some awareness of possible costs or identification of one or more impacts. Understanding of costs or data references Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear. | |
| 2 | 4-6 | Identification and some explanation of costs identified along with some development of analysis or some identification of possible costs 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 costs 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 overall. |

| Evaluation – indicative content | | |
|---------------------------------|-------|---|
| | | <ul style="list-style-type: none"> • Long term increase in real output more likely to derive from increasing investment • Irish government does not set interest rates – it is set by ECB thus interest rates and money supply determined independently of Irish Government • Increase in consumer spending will depend upon MPC and how much of the additional income is spent on domestically produced goods and services (amount of injection into circular flow) • Impact upon growth and output will depend upon elasticity of AS • Impact may also depend upon level of consumer confidence – if confidence low then policies may have limited effect on consumer spending • Impact upon economic growth will depend upon MPM (amount of leakages/withdrawals from circular flow) • Inflation currently very low (0%) thus increasing consumer spending may have a small effect upon inflation |
| 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. |

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