Examiners' Report
Principal Examiner Feedback

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Pearson Edexcel International Advanced Subsidiary
In Economics (WEC12)
Unit 2: Macroeconomic performance and policy

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Introduction

This unit, Macroeconomic performance and policy (WEC12), has now been operating in its current version for two years, and it is clear students are becoming more familiar with the layout and types of question. There were just under 600 entries for this series, and it is to be hoped that circumstances will allow for greater numbers for the next series in October 2021.

In Section A, the multiple-choice section, the opening question asked students to identify which of a series of graphs illustrated **potential** economic growth. The majority correctly identified the graph with right-shifted LRAS, although a significant number picked the answer which showed **real** economic growth by means of a right-shifted aggregate demand curve.

Q2 asked students to link changes in producer price index to other changes in the economy, the correct one being its impact on consumer prices. Since PPI (producer price index) was consistently falling in the data provided, it should have been clear the most likely effect was a fall in consumer prices.

Q3 tested students' knowledge of the likely causes of deterioration in a country's trade balance. The correct answer, an increase in the exchange rate of the country's currency, was identified by over two thirds of students.

In Q4, the graph provided showed a fairly consistent downward trend in the household savings ratio in Portugal and asked which of a range of indicators was most likely to have risen as a result. Almost three quarters of students correctly identified consumption rising as the correct response.

Q5 tested students' knowledge of elasticity and inelasticity of supply curves. In this instance, it was hoped they would correctly identify the full employment level of output as being a position at which the curve is perfectly inelastic. Students often find it difficult to distinguish between perfect and relative inelasticity, and as a result the incorrect responses were selected almost as often as the correct one.

Q6 then gave figures for the three types of injection and three types of withdrawal from the circular flow of income. It asked students to confirm which of the possible responses could be concluded on the basis of the figures. Since exports were $450bn compared to imports of $550bn, the economy did not have a trade surplus. Since government spending was $500bn whilst taxation amounted to $400bn there was not a government budget surplus. Then, since total injections were $1100bn while withdrawals were $1150bn there was a net withdrawal from the economy and not an injection. This question had the highest mean score in Section A, indicating that students dealt well with the figures and came to the correct conclusion.

Section B, the short answer section, saw students able to access application marks on most questions, but find the knowledge and analysis marks more difficult to obtain.

Most students were able to attain at least two marks for Q7 for correctly stating the periods for which the Ukrainian economy experienced negative economic growth and positive economic growth. Explaining the difference between positive and negative rates was more challenging, with many students explaining, with various degrees of accuracy, the concept of economic growth, but not the measurement of a rate of such growth.

Q8 asked students to draw an AD/AS diagram, as many of our papers have done, and to show the impact of a change in the economy. In this case we asked for an AD/LRAS diagram, which almost all students did correctly, accessing the first mark for the initial equilibrium. The majority also indicated the correct shift caused by reduced productivity. The most common cause for dropped marks was in the labelling of the axes or the labelling of the equilibria before and after the change.

We generally ask a "calculation-based" question in this section too, and Q9 on this paper called for the working out of an index value from a given set of figures on personal disposable income in Chinese renminbi (RMB). The nature of this question, asking for students to work backward in time from a given base year, meant that fewer candidates accessed these marks than on other papers.

Q10 asked students about the role of a central bank, with the stem referring to the US economy. Students, in general, were able to name a role performed by a central bank, and most could give a description of how manipulation of interest rates could be used to stimulate or dampen economic growth, for example. The last mark on application should have required a simple reference to the information in the stem, but was the least likely mark to be recorded by students.

Q11 required students to study graphs of original and final estimates of the output gap in France from 1994, as recorded by the IMF (International Monetary Fund). Often students took this to be the original projected GDP (Gross Domestic Product) and final, actual GDP of the country, thereby missing the point of the question. We wanted to know about the difficulty of measuring an output gap, such as the difficulty in obtaining accurate data, or in assessing potential GDP, for instance. Instead students made accurate observations about the graphs, scoring the application mark, but did less well in explaining a reason for the difficulty in accurate measurement.

Section C, the data response section is based on information provided in the Source Booklet. The Extracts focused on the economy of the Philippines.

Q12(a) asked for a definition of 'Purchasing Power Parity (PPP)'. Most students understood this was connected to the ability to purchase goods with a particular currency, but struggled to give a clearer definition.

On Q12(b), most students were able to provide a good interpretation of the figures provided, and thus accessed the application marks. Many then defined per capita, rather than GDP (Gross Domestic Product) and GNI (Gross National Income). There was a general understanding that there was a difference between the two, but students found it difficult to explain.

Q12(c) showed that students had an understanding that there is more to a standard of living than a simple income figure. Quite a few defined "living standards" quite well for the first knowledge mark. However, several also attempted another definition of GNI per capita, which might have been rewarded in Q12(b) but not here. Most gave one reason for the limitation of using GNI per capita PPP.

In response to Q12(d), many students offered a generic analysis of the factors that will cause the Philippine economy to grow, rather than answering the question asked. In particular, their evaluation referred to possible demand-pull inflation and environmental damage consequent on economic activity. Students did not appreciate that these points, while valid, did not evaluate the reasons why the economy was forecast to grow, concentrating instead on the consequences of the growth. Overall, this meant that they struggled to achieve analysis marks or evaluation marks.

Q12(e) by contrast was more "straight-forward" and students scored better in general. The question called for a discussion on supply-side policies and how these might aid economic growth in the Philippines. There was quite a lot of useful material in the source booklet, and most students made good use of it, quoting things like the deregulation of the rice market and the encouragement for foreign investment. Many also gave good evaluative points as to the limitations of supply-side policies alone in generating economic growth.

Section D, the essay section, offered students the opportunity to choose between two questions. These proved to be fairly equally popular, with 55% opting for Q13 and 45% for Q14. Results were very similar too, with the mean score less than 0.2 different between the questions.

Q13 asked students to consider whether achievement of macroeconomic objectives was likely to result in greater national happiness. This allowed them to demonstrate knowledge of the objectives, and the consequences of achieving them, as well as how to measure happiness and the likely impact of higher levels of employment, higher average incomes, lower absolute poverty and so on.

Q14 reported on the fall in global oil prices in 2020, and asked students to evaluate whether such falls would always benefit a country's macroeconomy. Thus, students referred to lower consumer prices, transport prices, cost of production and so on, and many of them included evaluation to the effect that consequences would be different for oil exporting countries.

In both questions, students' knowledge and analysis was sound, although their ability to provide application beyond what was in the question stems was limited.

There was no evidence of rushing questions or leaving questions unanswered due to lack of time. Most students are advised by their centres to start with the essay questions, and there were very few "bullet-point" answers or shortened answers, indicating the time available was sufficient for the content of the paper.

Students' performance on individual questions is considered in the next section of the report.

Question Level Feedback

The feedback on each question shows how well each was answered and also how to improve further.

Section B

Question 7:

There was a common misconception in this question that was what required was a definition of economic growth. A lot of students referred to increases in output (for positive growth) or reductions in output (for negative growth). However, what was actually required was a definition of the rate of economic growth, a discussion on how we measure the change from year to year. The bar chart in the stem showed percentage changes in Ukraine from 2013 onward, and students needed to describe the rate of change in percentage terms.

There were two marks awarded for application, and most students were clear about the years in which the Ukrainian economy had done well and those in which it had performed poorly. Most students scored at least two marks, with those providing better definitions scoring more.

Question 8:

There was clear understanding that a fall in productivity in Brazil would result in some negative consequence for the Brazilian economy. Almost all students managed to draw the initial equilibrium position for AD and LRAS, and then indicate a retrenchment of some sort.

Some students drew a left-shifted AD curve, for which there was no real justification. This might happen in the event of higher prices reducing consumption, and eventually investment, but this would be a second-round effect. The much more immediate effect was on LRAS, which shifted inward, thereby reducing real output and increasing average prices. Those who shifted the AD curve generally ended up with lower average prices, losing marks in the process.

Some students continue to give text-based information for this question. The marks are exclusively for drawing the graph. One knowledge mark is for an understanding of what an initial position on an AD/AS diagram might look like, and the three application marks are for making the correct modification from this starting point dependent on the change described to the economic situation. Additional text will not be rewarded.

Question 9:

In Q9, we were looking for students to show understanding of how an index value is calculated. As a result, we were rewarding understanding of a base year, and correct application of the monetary value for 2018, the stated base year.

Many students set out to give us a measure of change by subtracting the 2014 figure from the 2018 figure and then dividing by one or other to give a measurement to the extent of that change. Unfortunately, this approach did not result in an index number in their answer.

Some students started from 2014 and attempted to show a growth to 2018, as this is the more usual way round for economists to consider index values – inflation almost always goes up, after all. So, asking them to start at 2018 and "work back in time" to 2014 was not something many were used to doing.

A lot of students correctly set up a division calculation, in which the 2018 figure of 39,251 appeared in the denominator but did not then standardise their answer to be in an index form. Students need to understand that index numbers start from a base of 100 and go up or down according to that scale. Relative numbers, by contrast, start from a base of 1, and go up or down according to that different scale. So, a result of 0.749 is much more likely for a relative number, while a result of 74.9 is much more likely for an index number. Students should learn to scale up or scale down dependent on which type of number is asked for.

Question 10:

Students were asked for an explanation of one role of a central bank. This question was well answered, with most students offering either control over the base interest rate or acting as a lender of last resort to commercial banks. The explanations of how manipulating base interest rate would affect consumption and investment were generally good, although explanations of the other roles were less clear.

The stem reported that the American President had welcomed the lack of inflation in the country but had criticised the central bank for limiting economic growth. Students are taught that low and stable inflation is generally positive for an economy, but not many seemed to identify the contradiction in the president's position. In order to stimulate economic growth, the central bank might reduce the base rate, but doing so is likely to lead to inflation, as it is difficult to achieve such growth without inflation.

A careful reading of the stem to questions of this sort would aid students in future papers. Often there is a point being made which needs to be identified, which will aid their analysis. Also, students on this paper struggled to earn the application mark, which required them to restate the criticism of the bank's achievements.

Question 11:

This question discriminated well between our A grade students and those gaining an E grade. The graphical information was less simple to understand and needed some consideration before students could address the question. It showed initial estimates of the output gap in France each year from 1994, along with a final estimate of the gap in each of those years. In almost all years the later estimate indicated a higher value for actual GDP against potential GDP than had been estimated initially.

Students should be aware of the likely mark distribution in a question like this. First, there will be a knowledge mark for a definition of whatever term is used in the question – in this case "output gap". Second, there will be one application mark for making some observation about the data illustrated by the graph. In this case giving the respective figures on the two graphs in any one year, or working out the difference between initial and final estimates in any one year, or simply pointing to the fact that the final values normally exceeded the initial values would have earned that mark.

Additionally, the knowledge mark could have been gained for identifying one possible difficulty with measuring the output gap, such as the impossibility of directly measuring the potential output level. Most able students also picked up analysis marks for developing their "difficulty" by pointing to inaccuracy in labour force data, due to under-employment and migration of workers; inaccuracy in measuring productivity in areas of the economy that don't manufacture discrete units of widgets; misreporting and delays in reporting from producers; and the problem of measuring actual GDP accurately given the extent of the "grey" economy.

Section C

Question 12(a):

Students are often berated for simply repeating the words in the term they are asked to define in this two-mark question. This was not significantly in evidence on this occasion. Unfortunately, many weaker students simply ignored the word "Parity" in "Purchasing Power Parity" and instead told us in many different ways about the ability of consumers to buy quantities of goods. Leaving out the "Parity" meant they lost the sense of the term as a whole, of course. More competent students though did recognise the connection to international comparison of living standards, and the use of PPP as a method of making that comparison.

Question 12(b):

This question asked students to explain the difference between GDP per capita and GNI per capita. There were, accordingly, two knowledge marks for defining the two terms thereby indicating the difference.

While most students were able to attain 1 knowledge mark for defining an economy's output over a period divided by its population, better students were also able to give an accurate distinction for GNI by referring to income earned by a country's citizens whilst abroad, and to discounting income earned by foreign nationals within the economy.

There were two application marks which could be gained by considering the figures in the supplementary material and drawing conclusions about changes in the difference between the two measures over time. A good number of students pointed to the fact that GNI per capita was consistently higher than GDP per capita, for a single mark, and a few better able students were able to explain what this indicated. GNI per capita being higher than GDP per capita shows a positive amount of primary income, which is common in developing economies where large numbers of the population emigrate to other countries to find work and then make remittances back to other family members.

This sort of "extra" analysis sets the better student apart. Thinking what the numbers mean in terms of people, or jobs, or flows of money often allows students to gain more marks in this type of question.

Question 12(c):

In six-mark questions, there are two marks for knowledge, two for analysis and two for application. The question again referred students to Figure 1, so application could be picked up by suitable manipulation of the correct figures there.

One knowledge mark can usually be earned for defining a term in the question. Since "GNI per capita" had already been asked in Q12(b), it should have been obvious that no marks would be gained for explaining that term again here. Instead, students needed to define "living standards".

Alternatively, both knowledge marks were available for identifying two limitations of using GNI per capita to compare living standards. So, the best answers identified each limitation and then analysed why it was a limitation. For instance, GNI per capita only measures income, which is a narrow measure of living standards (first mark) because it doesn't include standard of education, provision of healthcare, quality of the environment etc which also impact living standards (second mark).

Question 12(d):

This is the first question on the paper which offers marks for evaluation. It is thus the first-time students should consider the answer they give to a task or scenario set and then analyse why reality might not match their answer.

Here, students were asked to consider reasons why the Philippine economy had been forecast to grow. Many identified causes of growth in the extract provided, and then went on to explain **how** these would cause growth, rather than **why**. Many picked on higher employment rates and real wages as a reason, but did not explain why this would work by increasing consumer confidence, and thus consumption and thus aggregate demand. Others picked on government using supply-side policies and stated that this would boost economic growth without saying this was because of the fact that it increases long run aggregate supply.

Students should think through the consequences of a particular government action, or a particular characteristic of the economy (such as high employment) and then explain the process by which this factor has the effect it does.

In evaluation better students pointed to the fact that supply side policies tend to take time to have an effect, that promises of public sector investment might not materialise or picked up on the passage in the extract that referred to specific issues in 2019 that might limit growth.

Others, however, offered as evaluation the fact that economic growth tends to be accompanied by higher rates of inflation and greater degradation of the environment. Whilst both are true, this does not serve to evaluate whether growth will continue as predicted, or whether the higher rate of employment or the supply side policies will actually have the effect claimed in the analysis. As a result, such comments did not earn the evaluation marks, as they were not evaluating the right thing.

Question 12(e):

This is the highest tariff question in this section. It asked students to discuss how supply-side policies might help the Philippines to achieve economic growth.

So, a student reading over the paper before starting to write would have spotted that this question was about the "**how**", whereas Q12(d) had been about the "**why**" of economic growth.

There was a wealth of information in the extract about the supply side policies being considered, from deregulation of markets, to encouraging foreign investment, promoting competition, and carrying out infrastructure projects.

Stronger students took the opportunity to display their knowledge of the impact of such policies, providing detailed AD/AS diagrams showing increased aggregate supply, and explaining clearly the connections between the policies and their outcomes.

Weaker responses tended to be very descriptive and copied out a list of the policies given in the extract, with little development or reference to any macroeconomic impact.

Most students attempted to evaluate their responses, with varying degrees of success. It is common to find generic points being made, which fail to earn as many marks as students hope for. Merely saying that supply side polices have a "time lag" will earn a level 1 evaluation mark. Explaining, in context, how that time lag works – infrastructure investment reduces transportation costs for firms, but not until the infrastructure is complete and often long after government funds have been spent – will earn more marks. Stating there is an "opportunity cost" is making a generic evaluative comment. Explaining that government could have used the funds in another way that would have yielded more growth either more quickly, through demand side policies, or to a greater degree over time, through improved educational standards, would gain a higher mark.

Students who received higher marks for evaluation tended to use information in the extract (eg the opening up of the Philippine economy to foreign investment) as the starting point for their evaluation, going on to use their economic knowledge to explain the risks involved in this approach, rather than beginning with a generic evaluative point.

Section D

Question 13:

This question asked students to evaluate the view that achieving a government's macroeconomic objectives is likely to result in an increase in national happiness.

Arguing that this is the case required a student to:

- identify the essence of "national happiness" and how it is contributed to by higher average incomes, lower income inequality, increased employment opportunities, better healthcare provision and so on
- identify a macroeconomic objective
- analyse how achieving this objective may contribute to national happiness.

Better students understood what was required of them and were able to do this, for example by explaining how achieving low unemployment, a common objective, leads to higher incomes, and the ability to satisfy consumer wants and needs, thereby improving happiness. Others explained how achieving low and stable inflation helped to reduce uncertainty and boost confidence in the economy, and afforded some protection to those with lower or fixed incomes, thereby contributing to national happiness.

Failure to achieve macroeconomic objectives was also related to reduction in national happiness, by way of evaluation. For example, failure to adequately protect the environment led to increasing ill health and lower happiness. Inability to control inflation led to consumers being unable to afford necessities, reducing happiness.

The stem told of Thailand where increased GDP per capita was accompanied by a rise in national happiness, and of India were increased GDP per capita was not accompanied by a similar rise. Better students made use of this information, threading it through their discussion of achievement of objectives, often accounting for the different outcome in the two countries by reference to environmental issues and income inequality being more prevalent in India, in their view.

Not many students gave examples of other countries achieving objectives with or without increased happiness.

In evaluation, the better responses picked up on the idea that national happiness was "likely" to respond to improved economic circumstances. Some referred to the Easterlin paradox, whereby increased income and increased happiness do not have a direct relationship across all income levels. Some referred to conflicts in objectives, for example stating that greater economic growth tended to be accompanied by greater income inequality, so that the "average" national happiness did not necessarily increase.

Question 14:

This question asked students to evaluate the view that falling global oil prices will always benefit a country's macroeconomy.

This required students to:

- identify impacts on a country's current account, aggregate demand, and thereby employment, incomes and even government budget balance
- identify impacts on particular sectors, such as reduced costs of production for firms, and the impact this has on inflation, real GDP and incomes.

These impacts depended largely on whether particular countries were net exporters of oil or net importers of oil.

Better students described first the impact on net importers of oil, suggesting the lower price would reduce the value of imports, thereby improving their current account balance, with the knock-on positive effects. They explained that lower costs of production lead to lower consumer prices, ceteris paribus, and allow scope for greater investment by firms, higher employment, greater consumption, higher GDP and so on.

Less capable students related how lower prices for petrol would reduce costs of travel for consumers, allowing them to spend more money on other things. Often this leads to a discussion on increased consumption, which can be false where the total expenditure by households shifts emphasis but does not actually increase.

By way of evaluation, better students explained how lower prices for oil would disimprove the current account of net exporting countries, and the best of them explained how this impacted employment and investment in the oil industry in those countries. Some referred to the lower costs of production in other sectors in these countries, but this was rare.

There were quite a few confused answers suggesting a lot more oil would be bought and sold when prices were lower, with individual consumers stockpiling petrol for instance. The impact on current account was therefore also not always well understood, as some felt the value of exports from oil producing countries would increase.

Other evaluative points included the idea that greater consumption of cheaper oil might lead to harm to the environment, so that it was not "always" a benefit. More generic comments focussed on the extent of the drop in price, the length of time for which the reduction might endure.

Paper Summary

Based on their performance on this paper, students are offered the following advice:

Section A:

Multiple Choice Questions

- Students need to develop the ability to discount options which cannot possibly be correct. Many questions ask them to assess whether two factors will rise or fall in response to a particular stimulus. Sometimes the two factors react in the same way, sometimes they react in opposite ways. Knowledge of the behaviour of even one of the factors will help students to eliminate two of the possible responses.

- Students need to spend time developing their quantitative skills. The demands are not as high as in mathematical or science subjects, but students do need to be able to read a graph and make sense of what it displays, calculate differences in numbers in relative and absolute terms, and identify trends within data.

Section B:

Short Answer Questions

- Except in graph questions, there are knowledge marks available for defining economic terms that appear in the wording of the question. There are also application marks available for quoting information from the stem to the question.

- When asked to a draw a diagram all marks can be achieved through the diagram and no written explanation is required. Many students supported their response with a written explanation but earned no marks for this. Some wrote almost a full page and then "squeezed in" a tiny diagram in the space left.

- In questions where a mainly text response is needed, for example Q10 and Q11 on this paper, students need to focus on identifying one point and developing it. Giving a list of points without development amounts to targeting the single knowledge mark available. They will not gain more marks by identifying more roles of the central bank, for example, but may gain marks for explaining the one role they choose to identify.

Section C:

Data Response

- On Q12(a), students are reminded that they cannot use the precise words in an economic term when defining it. Their attention is also drawn to the fact that there are no application marks in 'define' questions, so there is nothing to be gained by quoting figures from the supplementary materials.

- On Q12(b), students are reminded of the need for precision in their definitions of GDP and GNI. Too many students gave us often very good explanations of what per capita meant, but this did not explain the difference between two terms which both used per capita.

- On Q12(c), students are reminded that defining terms we have already asked about in an earlier question will not earn any marks. Be careful which term you choose to define. Also, most marks can be gained by identifying a cause, limitation or effect and then explaining how it works. If we ask for two reasons, limitations, or effects, then give two, not one and not three.

- In Q12(d) and Q12(e), look out for the wording of the question. Are we asking for why something has happened or might happen, or are we asking how a result could be achieved, or how a particular policy works? Are we asking for cause or effect? Are we asking about the rationale for a policy, or about the policy itself?

Section D:

Essay

- The nature of essay questions means that they draw on a student's knowledge accumulated throughout their course, and on their ability to apply that knowledge directly to the question.
- The highest marks are awarded to those who make good use of application. There will be particular circumstances that apply in your country or a neighbouring one that mean it has done well (or not well) economically. Learn about these circumstances and the influence they have and be able to relate this to an essay question in context.