INTERNATIONAL ADVANCED LEVEL

ECONOMICS

Exemplars with examiner commentaries Unit 2 (WEC12)

Pearson Edexcel International Advanced Subsidiary in Economics (XEC11)
Pearson Edexcel International Advanced Level in Economics (YEC11)

Contents

Introduction

1.1 About this booklet

This booklet has been produced to support teachers delivering the Pearson Edexcel International A Level in Economics specification. The Paper 2 exemplar materials will enable teachers to guide their students in the application of knowledge and skills required to successfully complete this course. The booklet looks at questions 7, 9, 10, 11, 12(b), 12(c), 12(d), 12(e) and 14 from the June 2019 examination series, showing real candidate responses to questions and how examiners have applied the mark schemes to demonstrate how student responses should be marked.

1.2 How to use this booklet

Each item covered in this booklet contains:

- Question
- Mark scheme
- Exemplar responses for the selected question
- Exemplification of the marker grading decision based on the mark scheme, accompanied by examiner commentary including the rationale for the decision and guidance on how the answer can be improved to earn more marks.

The exemplification highlights the achievement of the assessment objectives at the high and mid- level of candidate responses.

Centres should utilise the commentaries on the exemplification of marker decisions to support their internal assessment of students and embed examination skills into the delivery of the specification.

1.3 Further support

A range of materials is available from the Pearson qualifications website to support you in planning and delivering this specification.

Centres may find it beneficial to review this document in conjunction with the Examiner's Report and other assessment and support materials available on the Pearson Qualifications website.

1.4 Assessment objectives

This document references the assessment objectives, which are as follows:

		% in IAS	% in IA2	% in IAL
AO1	Demonstrate knowledge of terms, concepts, theories and models to show an understanding of the behaviour of economic agents	27.5	18.8	23.1
AO2	Apply knowledge and understanding to various economic contexts	30	22.5	26.3
AO3	Analyse issues and evidence, showing an understanding of their impact on economic agents	22.5	28.8	25.6
AO4	Evaluate economic arguments and use appropriate evidence to support informed judgements	20	30	25

NB: Percentages may not add up to 100 due to rounding.

Question 7

In January 2018 South Korea's Central Bank raised its base interest rate from 1.25% to 1.5%.
Explain one likely economic effect of this increase in the base interest rate.

Mark scheme

Question	Explain one likely economic effect of this increase in the base interest rate.	Mark
7	**Knowledge 1, Application 1, Analysis 2** **Knowledge** 1 mark for defining the base interest rate, e.g: • the rate that the central bank will charge to lend money to commercial banks **(1)** • the cost of borrowing for commercial banks **(1)** **Or** 1 mark for identification of one effect of the increase in the base interest rate e.g. • reduction in investment **(1)** • reduction in consumption **(1)** • increase in savings **(1)** **Analysis** Up to 2 marks for development of identified factor e.g. • Reduction in investment – which reduces AD **(1)** which could lead to a fall in real output **(1)** • Increase in savings – MPS likely to increase **(1)** which reduces the value of the multiplier **(1)** **Application** 1 mark for applying to the South Korea, e.g.: • South Korea has increased interest rates by 0.25% **(1)**. • There is a small change in the interest rates in South Korea **(1)**.	**(4)**

Exemplar response A

Base interest rate: This is the interest rate at which the central bank lends commercial banks. It is the cost of borrowing for commercial banks.

"South Korea's Central Bank raised its base interest rate from 1.25% to 1.5%" – this means that commercial banks' will cost of borrowing will increase. This will result to commercial banks increasing market interest rates and making it costly for consumers and firms to borrow. Cost of borrowing for firms increases hence investment falls. This so leads to a fall in employment leading to a negative multiplier effect and slowing down economic growth.

Examiner's comments:

This response was given 4 marks.

This candidate offered a clear definition of the base interest rate achieving one knowledge mark. Several students did not define the base interest rate, offering a definition of interest rates instead. It is really important to ensure candidates define the correct key term in the 4 mark questions.

An application mark was awarded for identifying the increase in interest rates from 1.25% to 1.5%.

This candidate achieved a further 2 marks for linked analysis in their answer. The first mark was given for identifying the increase in the interest rates set by the commercial banks which would make it more costly for consumers and firms to borrow. The second application mark was for identifying that this would reduce investment. This candidate continued to develop their response, though this was not necessary as full marks had already been achieved.

Many candidates did offer more than two stages of analysis, and they should avoid doing so. The time spent on this would be better used answering other questions.

Exemplar response B

> Base interest rate refers to the cost of borrowing and the reward for saving of the central bank of bank. As represented above the Base interest rate in South Korea was raised from 1.25% to 1.5% in January 2018
>
> One economic effect for of an increase in base interest rate could be that the cost of borrowing from the central bank could fall and investment will fall leading to a fall s in AD.

Question 9

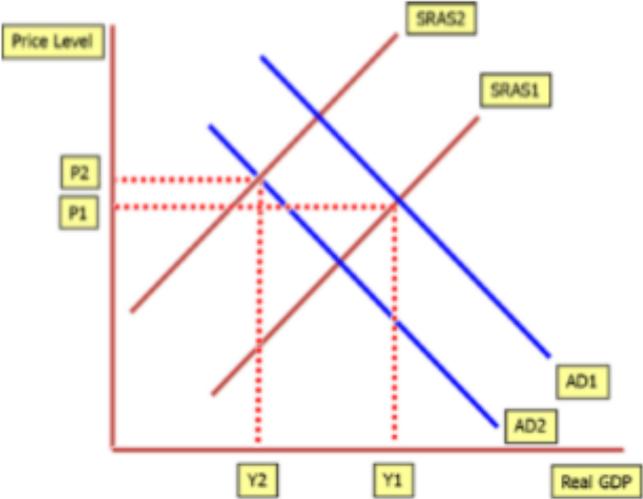Between January 2016 and January 2018 the price of oil rose from $30 per barrel to $65 per barrel. France is a net importer of oil.
Draw a short-run AS and AD diagram to show the effect of the increase in the price of oil on the price level and real output for France.

Mark scheme

Question	Draw a short-run AS and AD diagram to show the effect of the increase in the price of oil on the price level and real output for France.	Mark
9	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** 1 mark for drawing original AD and SRAS curves with correctly labelled axis **Application** 1 mark for shift in SRAS. 1 mark for shift in AD. 1 mark for new equilibrium with lower real GDP/output • **NB Price level may rise or fall depending on shift in AD and SRAS.**	(4)

Exemplar response A

france is a net importer of oil, and oil is a commodity, and production costs will increase and supply will reduce
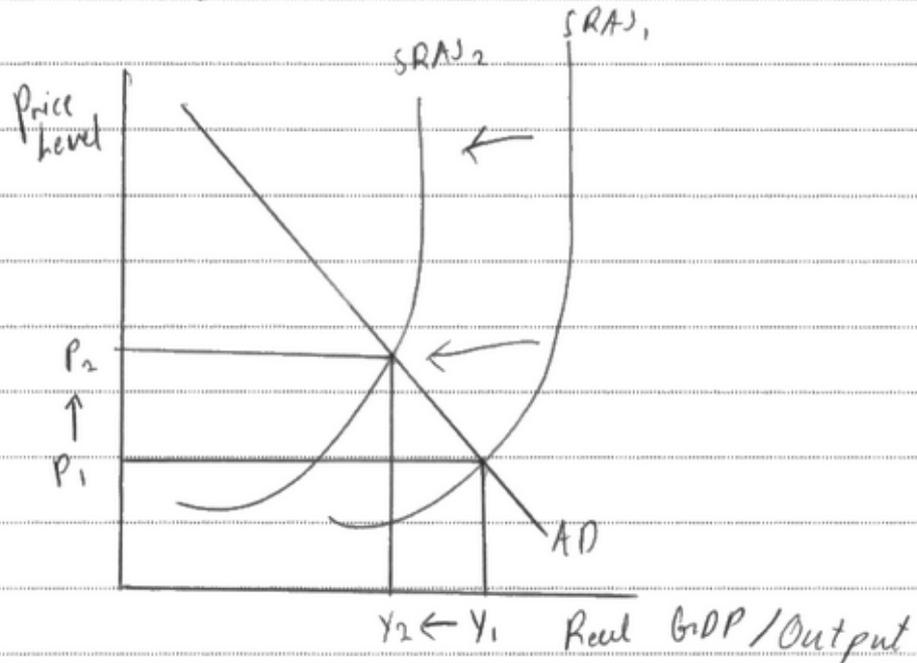

As seen in the diagram, the real output of france has decreased while the price level has increased.

Examiner's comments:

This response was given 3 marks.

This candidate accurately constructed a short-run AS and AD diagram for a knowledge mark and achieved 1 mark for the inward shift in the AS curve and 1 mark for the overall change in equilibrium. This candidate did not identify the inward shift in AD. This was a common mistake, and many candidates only achieved 3 out of the 4 available marks. This candidate also wrote an explanation for their diagram. For this style of question no marks are awarded for written responses as candidates are asked to draw a diagram.

Exemplar response B
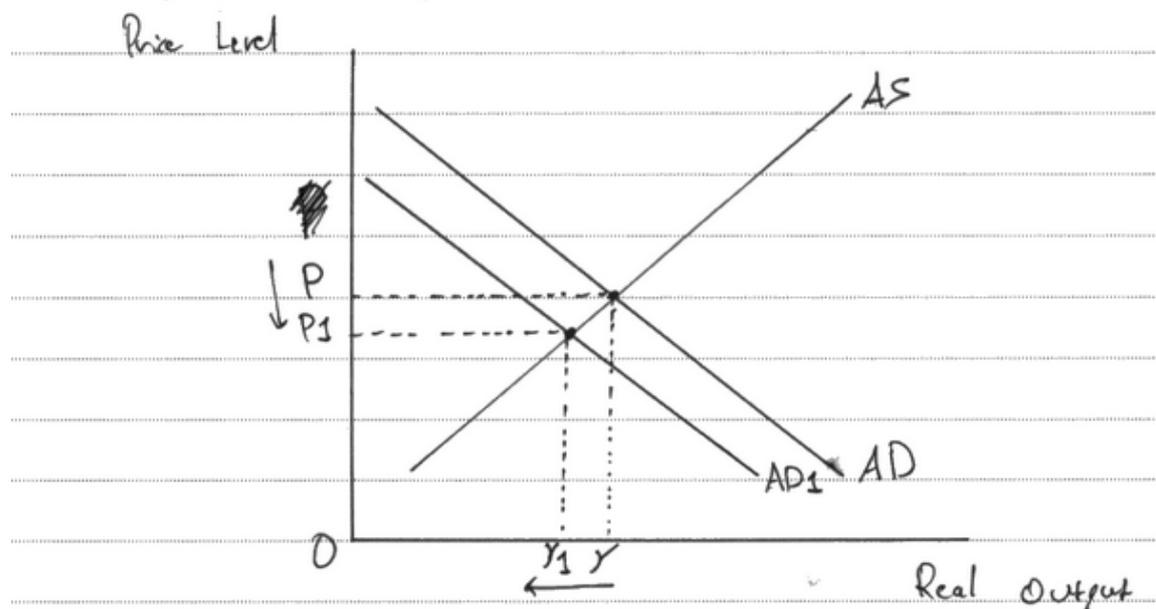
The price of oil more than doubled from 2016 to 2018 so the demand for it would most likely fall shifting the AD curve from AD to AD1. This would lead to a lower price level as seen from the movement from P to P1 and also to a lower real output from Y to Y1.

Examiner's comments:

This response was given 3 marks.

This candidate achieved 1 mark for accurately labeling the axis and providing a correct initial equilibrium.

They achieved 1 mark for an accurate shift in the AD   curve but did not shift the AS curve for the third mark. The equilibrium was also awarded showing a correct change in overall equilibrium.

It is important that candidates accurately label their diagrams, select the correct diagram in their answer and consider multiple shifts.

Question 10

With reference to the overall trend of the data, explain what is meant by 'the savings ratio'.

Mark scheme

Question	With reference to the overall trend of the data, explain what is meant by 'the savings ratio'.	Mark
10	**Knowledge 2 Application 2** **Knowledge** Up to 2 marks for defining what is meant by the savings ratio: • Savings represent that part of income which is not spent **(1)** • The savings ratio is the proportion or % of total disposable income **(1)** that is saved **(1)** • Total savings/Total disposable income **(1)** **Application** 1 mark for explicit reference to the data and 1 mark for identifying the direction of the overall trend e.g.: • In Jan 2017 the savings ratio was 8.3% **(1)** it then fell **(1)** • By July 2017 the savings ratio fell **(1)** to 6.0% **(1)** • The change in the savings ratio was a 1.7 percentage points **(1)** decrease **(1)** • Between Jan 2015 and July 2017 savings ratio reduced **(1)** from 8.5% to 6% **(1)**	
		(4)

Exemplar response A

The savings ratio in the UK has fluctuated since January 2015 to July 2017, with it's lowest rate being 4% in March 2017, and it's highest in September/October 2015. The savings ratio is the amount people save in response to an increase in income, what percent of 'extra', 'additional' income will be saved rather than consumed. The savings ratio in the UK is quite high but is beginning to decline.

Exemplar response B

The saving ratio is the portion at which the disposable income is saved by a household. A rise in an saving ratio usually means a decrease in consumption. The graph shows a trend where the saving ratio rises and eventually ends up at a rate that is lower than the original saving ratio, possibly indicating a decrease in where around Feb 2017 is the lowest saving ratio, so have mainly a trend of decrease in the saving ratio.

Examiner's comments:

This response was given 1 mark.

This candidate has not provided an accurate definition of the saving ratio, but was awarded 1 mark for knowledge of savings in the first sentence.

The candidate did not describe the overall trend in the saving ratio; had they commented on the downward trend they would have received 1 application mark. Their links to data were not clear or supported by reading off from the figure provided. Candidates must comment on the data by referring to specific values and trends.

Question 11

The Central Bank of Egypt has estimated that the marginal propensity to consume for Egypt's economy is 0.6. In October 2017, the Egyptian Government announced a LE11.9 billion investment into renewable energy. (LE = Egyptian currency).

Ceteris paribus, calculate the final increase in the national income resulting from the LE11.9 billion investment.

Mark scheme

Question	Ceteris paribus, calculate the final increase in the national income resulting from the LE11.9 billion investment.	Mark
11	**Knowledge 1, Application 3** **Quantitative Skill Assessed** **QS2:** calculate, use and understand percentages, percentage changes and percentage point changes **Knowledge** 1 mark for correct formula of multiplier **(1)** 1/(1-MPC) **OR** 1/MPW **Application** up to 3 marks for correct application MPW = 0.4 (1- 0.6) 1/0.4 = 2.5 **(1)** 2.5 x 11.9 **(1)** = LE29.75bn **(1)** **NB: If correct answer (LE29.75bn) is given, award full marks regardless of working.** **Award 3 marks if candidate misses either LE or billion.**	**(4)**

Exemplar response A

$$k = \frac{1}{1 - MPC}$$

$$= \frac{1}{1 - 0.6}$$

be $\quad 2.5 = $ multiplier

Finan increase in $\quad = \quad 2.5 \times 11.9$ billion
national income

$$29.75 \text{ billion LE}$$

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Examiner's comments:

This response was given 4 marks.

This candidate has clearly shown all their workings. They achieved full marks for a correct answer including both the units and currency.

It is good for candidates to explicitly show the way they have derived their answer in order to achieve some marks if the final calculation is incorrect.

</div>

Exemplar response B

National income; is the total income earned from the production
~~consumption~~ of a good or a service over a period of time,
by a country.

MPC; is the change in consumption that arises due to a
change income $\left(\frac{\Delta c}{\Delta y} \right)$.

$k = \dfrac{1}{1 - MPC} \qquad = \dfrac{1}{1 - (0.6)} \qquad = \dfrac{1}{0.4} \qquad \therefore k = \quad 2.5$

Question 12(b)

With reference to Figure 1, explain the term 'real GDP growth'.

Mark scheme

Question	With reference to Figure 1, explain the term 'real GDP growth'.	Mark
12 (b)	**Knowledge 2, Application 2** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for offering a definition of real GDP growth. The percentage annual increase **(1)** in the value of a country's output of goods and services over a period of time accounting for inflation **(1)**. **Application** Up to 2 marks for reference to Figure 1: • From Jan 2016-December 2017 Romania has seen economic growth **(1)** • The economic growth has been rapid from 4.3% in Jan 2016 **(1)** to 8.8% September 2017 **(1)**	**(4)**

Exemplar response A

The real GDP growth refers to the difference between potential growth and actual growth. As represented in figure 1, The real GDP growth is fluctuating between 2016-2017. The highest is recorded in Q3 2017 at 8.8%.

Examiner's comments:

This response was given 1 mark.

The candidate did not achieve any knowledge marks. The definition was too vague to be awarded, a clear definition of real GDP growth would have improved this answer.

The candidate did achieve an application mark for stating that the highest GDP was at 8.8% in 2017. The statement of GDP fluctuating needed to be supported with data, to achieve a second application mark.

Exemplar response B

Real GDP growth is reffered to the growt increase in the level of GDP that is adjusted for inflation. Nominal is not adjusted for inflation.

In Q1 2016, the GDP growth in Romania was lowest at 4.3% and highest in Q3 2017 at 8.8%.

Question 12(c)

With reference to Extract A, analyse one macroeconomic effect of the reduction in indirect tax.

Mark scheme

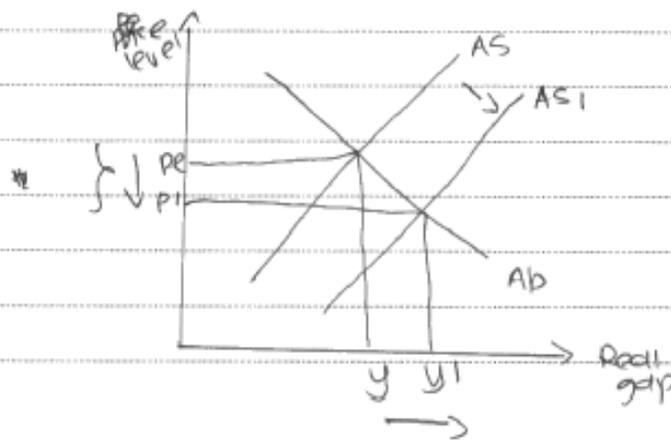| Question	With reference to Extract A, analyse one macroeconomic effect of the reduction in indirect tax.	Mark
12 (c)	**Knowledge 2, Application 2, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** **Award 1 for understanding of indirect tax, e.g:** • A tax levied by the government on goods and services that can be passed onto the consumer OR • An expenditure tax OR • Examples VAT, excise duty or another relevant example **(1)** **Award 1 for one relevant macroeconomic effect identified, e.g:** • Reducing tax leads to a fall in prices **(1)** • Falling prices increases demand for domestic goods **(1)** • SRAS shifts to the right due to reduced cost of production **(1)** • Correct shift of SRAS on diagram **(1)** **Analysis** Up to 2 marks for explaining the macroeconomic effect of lower VAT, e.g.: • Reducing tax leads to a fall in prices- incomes have a greater purchasing power **(1)** increased consumption **(1)** • Falling prices increases demand for domestic goods- so output of firms increases **(1)** resulting in a reduction in unemployment **(1)** • Higher consumption due to lower prices **(1)** shift along the AD **(1)** • Use of a diagram to analyse the impact on real output and price level (1) **Application** Up to 2 marks for reference to the data. • VAT has fallen **(1)** from 24% to 20% **(1)**	
		(6)

Exemplar response A

Indirect tax is a tax levied on goods and ~~in~~ services. If taxes are reduced ~~Indirect tax is a tax levied on~~ that causes disposal incomes to rise, therby causing an increase in consumption (65%) this leads to a rise in aggregate demand. leading to consumption led growth. taxes are a net leakage to the circular flow of income, therefore a reduction in taxes leads to an increase in income in the circular flow of income. The

Indirect tax is a ~~tax levied on goods and services the circular income flow~~ net leakage from Indirect tax is a tax levied on goods and services. therefore a reduction in indirect taxes, reduces the cost of production for firms. Therefore they will ~~increase~~ reduce prices, causing the general price levels to fall. The prevents cost push inflation enabling the government to achieve there macroeconomic objective

of price stability of price stability.

Taxes are are a net leakage and causes the income flow to rise, if tax read if taxes p ete fall. Therefore tah in the fall in vat by 24% to 20% helps enable price stability.

Exemplar response B

'Indirect tax' mean the money imposed on the consumption, and which make cost incuase. But in the passage, the government cut TAV from 24% to 20%, so the cost of the goods decrease, so the price decrease, and As will produce more to get more benefit, shown on And so so they'll need more to labour capital, which makes the unemployment decrease, and course more poroduction, which benefit the export as well. So shown on the graph, LRAS shifts rightwards, and it becomes full-employed and the real GDP growth, so the economic will growth as well, and solve the inflation.
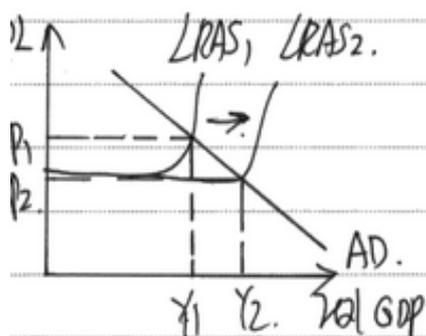
Examiner's comments:

This response was given 5 marks.

This candidate achieved one knowledge mark for a correct definition of indirect tax, as a tax on consumption. A second mark was not awarded for correcting identifying one effect of an indirect tax as it was unclear from the write up.

2 application marks were awarded for stating that VAT (though miscommunicated TAV) fell from 24% (1 mark) to 20% (1 mark).

2 marks were awarded for developed analysis of the impact of the fall in price on consumption and businesses using an AS-AD diagram to support their argument.

Question 12(d)

With reference to the information provided, examine the likely impact of increased investment on Romania's economy.

Mark scheme

Question	With reference to the information provided, examine the likely impact of increased investment on Romania's economy.	Mark
12(d)	**Indicative content** **Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge 2** • Definition of investment: increase in capital stock **(1)** • Investment is a component of AD **(1)** • Investment as an influence on LRAS **(1)** • AD shifted to the right OR LRAS shifted to the right on diagram **(1)** **Application 2** **Up to 2 marks for reference to the given sources, e.g.:** • Technology investment is expanding in the country **(1)** • Siemens and Ford have set up in the Romanian capital **(1)** • Output has increased leading to higher exports **(1)** • Investment in high internet speeds has attracted businesses to invest further **(1)** • Spending on education has led to a well-educated workforce, attracting further investment **(1)** **Analysis 2** •Increased production levels in the country, improving efficiency and output **(1)** Increased profits for technology firms **(1)** •Strong growth in exports, as products using high level technology is being produced for export, improving the balance of payment position **(1)** Higher levels of exports increase AD, increasing economic growth **(1)** •Falling unemployment as more investment leads to increasing demand for workers **(1)** this may also lead to higher wages as unemployment becomes very low, mention of employment shortages in Romania (links to Phillips curve) **(1)** •Higher levels of net migration as migrants return to Romania seeking better jobs as job prospects have improved. **(1)** Increase in productive capacity **(1)** Accurate AS/AD diagram showing new equilibrium, real output and price level **(1)** with supporting analysis **(1)** **Evaluation 2** Up to 2 marks for evaluative comments, either 2 evaluative points made or 1 developed e.g.: •Demand for exports will depend on the exchange rate **(1)** as technology is expensive a strong exchange rate may lead to a fall in demand for the product. **(1)** •Domestic firms may find it hard to compete with large firms such as Siemens **(1)** putting them out of business **(1)** •Increased growth has caused inflationary pressure in Romania **(1)** •Employment may not increase due to shortages of available labour **(1)** •Increase in AD from investment may be offset if other components of AD are falling **(1)** • Ford and Siemens may not agree to pay high taxes to the government **(1)**	**(8)**

Exemplar response A

Investment is an addition capital capacity to the economy.
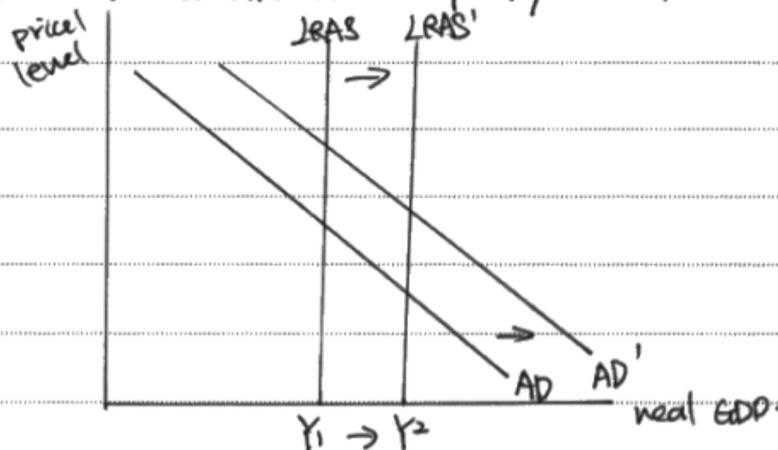
As Investment is a component of AD, so an increase in Investment is likely to increase Aggregate demand, shifts AD curve to AD'. Also, Investment could increase potential output, as it's an addition capital to the economy, so it shifts LRAS from to LRAS'. For example, in Romania, a high level of investment in new technology for manufacturing industries is likely to increase the ~~quality of~~ potential output by new technology.

~~A~~ When AD and LRAS both increased, real GDP is likely to increase as well, from Y_1 to Y_2. Which cause higher economic growth in ~~At~~ Romania since 2015, over 4% of real ~~N~~GDP growth rate.

~~However, this do~~ It may decrease unemployment rate as well, ~~as~~ When AD increase, firms would hire more employees to catch up the higher AD, so they offers more jobs, that decrease the unemployment rate. Like in ~~the~~

Romania, it's unemployment rate fell to 4.6% in 2017. However, it depends on the magnitude to of the investo If it's only a small amount, it may won't be that effectable. Also, an increase in AD may cause inflation pressure (demand-pull inflation), but it could be fixed by an increase in SRAS as well.

Exemplar response B

Increased investment on Romania's economy will help to create job opportunities in Romania. For example many large foreign firms and multi-national cooperations such as Siemens and Ford have set up factories in the Romanian capital. The job opportunities created help to reduce the unemployment rate of Romania.

Increased investment also help to ~~increased~~ increase production in the country and generate strong growth in exports. Growth in exports help to improve the trade deficit in Romania and may even result in trade surplus which increase the confidence in the investor. Investors are more willing to invest in Romania.

Foreign investment also bring technological advancement into Romania. Firms and cooperations set up factories there will provide training and education to the workers. It helps to increase productivity and efficiency of the workers. So that they can be skillful and more easy to find job even though they are unemployed in the future.

Moreover, investment brings injection into Romanian ~~cired~~ circular flow that helps to generate aggregate demand in Romania.

Examiner's comments:

This response was given 4 marks.

This response did not achieve the marks available for a definition of investment or for developing it.

The candidate was able to identify the impact of investment on job opportunities, technological advancements and growth in exports, each of these points had some development and reference to the context. Therefore, achieving marks for both application and analysis.

The candidate did not provide any evaluation; therefore, no marks could be awarded. It is important that candidates always offer definitions for knowledge marks and provide evaluation on 8-mark questions.

Question 12(e)

Discuss the likely effects of the increase in the rate of inflation on Romania's economy.

Mark scheme

Question	Discuss the likely effects of the increase in the rate of inflation on Romania's economy.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (8) – indicative content** • Understanding of rate of inflation- linked to CPI • An increase in inflation to 3.2% will mean higher prices for consumers and a fall in standards of living/ real income • Inflation has been caused by a 3.8% increase in food prices and a 4.1% increase in non-food items- may have effect on those on lower incomes significantly • Inflation may increase costs of production, which is cost-push inflation which may reduce investment • Inflation could reduce the real value of consumer debt/ government debt • It may encourage consumers to demand more imports as domestic firms increase their prices • It may cause a reduction in international competitiveness, exports may fall causing a current account deficit • Demand for workers may decrease if they are demanding higher wages; this may lead to an increase in unemployment • If consumption falls, tax revenue would fall which may lead to a reduction in the level of government spending

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

		Evaluation (6 marks) – indicative content
		• The current rate of economic growth may be generating a positive output gap so fall in growth may be beneficial in the long run
		• Inflation is only just over 3% therefore not significantly high, limiting the negative impacts on the economy
		• Since labour availability is low firms would be willing to accept higher wage costs
		• Investment in Romania may still be high as wages are relatively low and skills are high. This may offset other cost increase
		• The Government may be willing to finance an increase in its expenditure through borrowing; therefore government spending may remain high
		• Inflation preferable to deflation – refer to Figure 2
		• Interest rates are rising so rate of inflation may fall

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Exemplar response A

Rate of inflation, refers to the rate persistent increase in general prices over a period of time. The rate of inflation in july 2017 is at 348 around 3.8%. Inflation causes an deficit in the balance of payments. Exports are expensive, therby there Price competivness falls leading to a deficit. fall in demand for exports therby causing a deficit.

Secondly unemployment rises. Although the unemployment rate is low. If inflation rises, then the cost of production rises. thereby causing employers to ley off workers who will demand higher wages. This will increase unemployment which is 4.6% in 2017 to rise.

In addition the fixed income earners, will experience a fall in their purchacing power. this will reduce the number of goods and servces they can buy. therby causing a fall in living standards.

However it depends on the Ped for the exported ~~goods~~

However it depends on the Ped for the exported goods. If its inelastic) demand will fall less then proportioney. Thei by reducing the impact on the deficit in the Balance of payments.

secondly borrowers gain at the expense of lenders. They will have to return the same amount of money o however it will contain a lower value. This ~~will improve their~~ ~~living standards~~ this will therefore lead to a benefit to borrowers living standards.

In addition it depends on the ~~to~~ magnitude. 3.8%. is not a very high amount. Therefore the effect will be lowered.

In addition inflation is better than deflation which was experienced in Jan 2016 (-3.0). Inflation will ensure that buisness confidence is high since prices are high, therefore they will keep producing leading to growth.

Examiner's comments:

This response was given 10 marks.

This answer achieved a high level 2 (6 marks) for knowledge application and analysis and high level 2 for evaluation (4 marks).

This candidate showed a clear understanding of inflation in the first paragraph, providing a good definition linked to the case study. They explored the effect of inflation on the balance of payments. However, this was not directly linked to the Romanian economy. It also only addressed exports and could have been further developed by discussing the impact on imports for full analysis.

The second point has some application to the unemployment level in Romania, and provides some links in their chains of reasoning, however this point would need more development to move into level 3.

The next analysis point addressing standards of living is also valid but did not offer any application to the Romanian context.

Overall this answer displays elements of economic terms and theories with some evidence linked to the case study. Chains of reasoning are evident, however not fully developed. This answer could have been improved by referring to the case study more and providing multi-stage chains of reasoning.

The evaluation provided evidence of alternative approaches. The candidate provides a clear evaluation of the negative impact of inflation on the balance of payments, when discussing the PED of exported goods. This could have been improved by offering more than two stages of reasoning by fully explaining the effect of the PED on demand for exports.

Similarly, the evaluation point addressing the trade-off between borrowers and lenders could also have been improved with further development.

The final evaluation points offered some application, moving this response higher into level 2. It did not reach level 3 as the chains of reasoning were limited and the application was light.

Exemplar response B

The rate of inflation refers to to the percentage change of the sustained increase in price level of an economy.

The increase in disposable incomes and consumption reaching a ten-year peak in 2019 this will result in demand-pull inflation as factors of AD such as consumption has risen. This will lead to a wage price spiral as labourers will now demand for higher wages to meet expenditure. The firms will however be unable to increase wages as their cost of production will increase in times of inflation. Consequently firms may even make workers redundant or they may shut down.

Further, inflation will detrimental effect export-oriented firms such as the technology sector in South Romania as their cost of production significantly increase price of exports will increase thereby making them reducing their international competitiveness further a fall in exports the value of exports will lead to a decline in the balance of payments.

Indeed an increase in inflation (2.3% of food prices) will heavily impact fixed income earners the most as they will not be able to afford items from their fixed salary.

However, inflation may will be reduced due to government intervention as the central bank responded by increasing the base rate of interest from 17.5 to 2%. Therefore the effects will be minimised.

In addition an to increase in inflation will lead to a fall in unemployment in Romania as demonstrated by the Phillips curve.

They may also be positive here

Examiner's comments:

This response was awarded 9 marks.

This answer achieved a high level 2 (6 marks) for knowledge application and analysis and high low level 2 for evaluation (3 marks.)

The candidate starts with a clear definition of inflation. However, the following paragraph explains what caused the inflation in Romania, this was not addressing the question and did not achieve the student any additional marks. At the end of the first paragraph the candidate identifies that inflation may cause firms to make workers redundant or shut down,   this was worthy of level 2 analysis.
The next point identifies the impact of inflation on exporting firms referencing the technology sector in Romania. This point was stronger than the previous as it directly answered the question. However, the candidate did not identify which section of the balance of payments would move into a deficit, therefore was not fully developed and accurate. Identifying a deficit on the current account would have strengthened this answer.

The final analysis point was good and explained the effect of the increase in food prices on those with a fixed income. This point would have moved into level three if it included multi-stage chains of reasoning.

The evaluation was valid but was a number of statements rather than developed alternative approaches. If fully explained, these evaluation points would have moved into a high level.

Question 14

Evaluate the view that rising consumer expenditure will always benefit an economy.

Mark scheme

Question	Evaluate the view that rising consumer expenditure will always benefit an economy.
14	**Indicative content guidance**
	Answers must be credited by using the level descriptors (below) in line with the general marking guidance.
	The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.
	Knowledge, Application and Analysis (12 marks) – indicative content
	• An explanation of what is meant by consumer expenditure
	• Consumer expenditure a component of aggregate demand
	• Impact of rising consumption on AD (diagrammatic analysis)
	• Rising consumer expenditure may increase employment, reduce unemployment and reduce underemployment
	• Rising consumer expenditure may increase economic growth
	• Increased profits for firms
	• Incentive for increased investment
	• Increased tax revenues/ which may lead to increased public services
	• Improvements in standards of living
	• An increase in the MPC would lead to an increase in the value of the multiplier
	Students may take the alternative view and evaluation becomes KAA

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

		Evaluation (8 marks) – indicative content • Other components of aggregate demand may be falling • The significance of consumption as a component of AD- some countries may rely on exports • Negative impacts of fall in savings ratio e.g. increase in personal debt may cause demand-pull inflation • It depends on the level of household incomes • Magnitude – it depends on how significant the level of consumption is • Negative impacts of growth on the environment e.g. negative externalities, resource depletion • Negative impact on current account of balance of payments • My cause demand-pull inflation
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Exemplar response A

Consumption is spending of households on final goods and services. It is a direct component of AD.
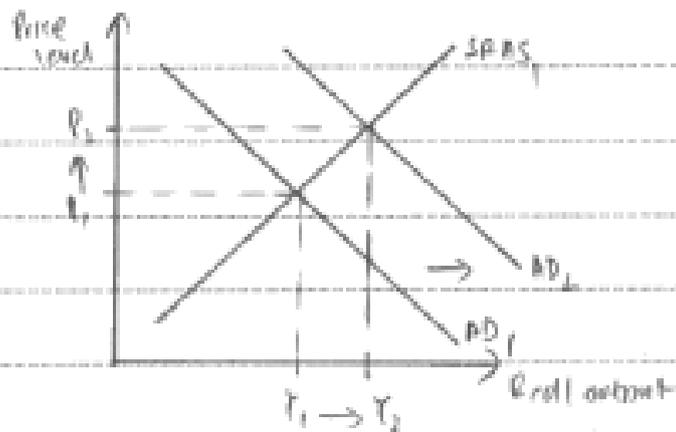
An increase in consumption will increase AD, causing price levels to rise from P_1 to P_2 and real output to rise from Y_1 to Y_2. There are several factors that would increase consumption, such as low interest rates, increased disposable income and increased consumer confidence. As aggregate demand in the economy rise, the India will experience economic growth as there will be an actual growth in real GDP. This will increase the employment in India as the derived demand for labour is high. As unemployment rate falls, incomes would rise. Therefore people's standard of living in India will rise. They will be made healthier and better life decision now as confidence will be higher. Therefore consumption will have a multiplier effect. Increased consump. Higher consumption could eventually lead to higher India's real output.

An increase in consumption will eventually cause higher investment. This is because as aggregate demand is now increasing, according to the accelerator theory, firms will invest in newer technology and newer machinery in order to increase their individual's output. As investment is also a direct component of AD, it will again have a multiplier effect on real output in India.

Due to higher consumption, the government's tax revenue will increase. More goods and services are now consumed, thus indirect tax revenue will increase. Furthermore, as firms are now making a higher profit due to increased sales and higher prices, corporate tax revenue will also increase. As unemployment also falls as a result of increased consumption, income tax revenue from individuals will also rise. Meanwhile government expenditure on welfare such as healthcare will be reduced as people now gain higher incomes, so they will be able to take better care of themselves. This will improve the government's budget balance.

However, it depends on what consumers are spending on. If the consumption of imports is high in the country due to a high marginal propensity to import, the import expenditure will increase. This may offset any export earnings in India's trade balance, worsening their trade balance.

Both Higher consumption will require higher production, which may have a negative effect on India's environment. As production increases, wastage will likely increase. Therefore water, air and land pollution will increase as a result of this. This may lead to a deterioration of

wildlife as more trees would need to be cut down in order to allow for more factories to be build. This will also increase health issues and the likelihood of diseases to spread due to global warming and pollution.

Furthermore it depends on where India's economy is performing.
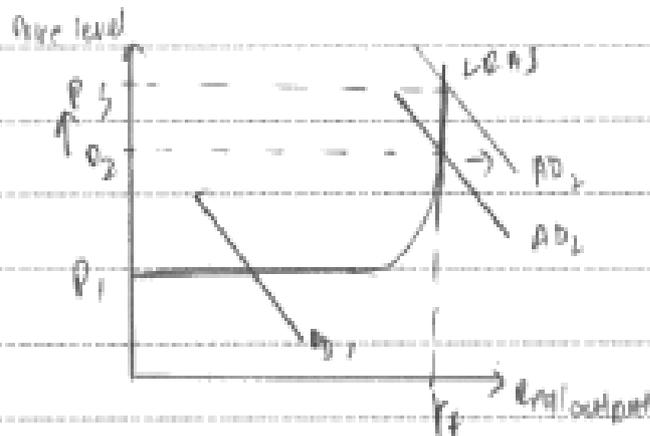
If India's economy is already at full capacity, then an increase in consumption will increase AD, which will only be purely inflationary. In this case it will not have any impact on India's real GDP as real GDP will not increase.

In conclusion, there benefits and disadvantages of an increase in consumption. For a country like India, where a large population is poor, a higher economic growth would be more important than protecting the environment.

Examiner's comments:

This response was given 16 marks.

This answer achieved a high level 3 (9 marks) for knowledge application and analysis and low level 3 for evaluation (7 marks).

This candidate demonstrated accurate knowledge throughout their essay. It starts with a strong definition of consumer spending followed with an accurate AS and AD diagram showing an increase in AD. The diagram is supported with an explanation of the diagram, the candidate develops this to explain how the increase in consumption causes economic growth, moving this answer into level 3.

The next point discussing consumer confidence and the multiplier effect is disjointed and the candidate needs to make the connections between cause and consequence more explicit.

The analysis point detailing the link between higher consumption and investment demonstrated clear and coherent chains of reasoning. The following paragraph was a list of linked points. The candidate could have improved this answer by focusing on one point and fully developing it. This answer did not move into level 4 as there were not enough developed chains of reasoning and it lacked the depth needed for a higher mark.

Overall, the knowledge application and analysis could have been improved if the candidate focused on a few developed points instead of lots of short chains of reasoning.

The evaluation overall was very strong from this candidate.

The first point offered a partially developed evaluation when addressing the conflict between economic growth and the trade balance. The next point discussing the negative externalities caused by higher levels of consumption was supported by a logical chain of reasoning helping this answer move into higher levels for evaluation.

The final evaluation paragraph was strong, linking the AS/AD diagram to the potential for demand-pull inflation with high levels of consumption.

This candidate also provided an informed judgement which explicitly addressed the importance of growth to developing countries such as India, this was particularly good as it considered both the question and the wider context.

To achieve full evaluation marks, this candidate would need to include more developed chains of evaluation in their first or third evaluations and make the link between the demand-pull inflation diagram and their write up more explicit.
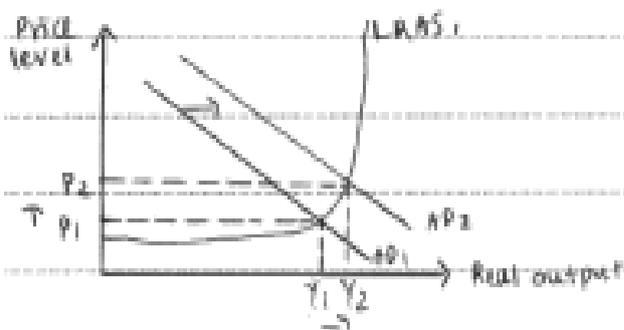
Exemplar response B

Increased

Consumption is total spending by households on goods and services.
Increased household consumption may not always benefit an economy,
as consumption is a direct component of AD, which would cause AD to rise.
This would cause the price level to rise from P₁ to P₂, as shown on the
graph below, as well as rise in output from Y₁ to Y₂.

This may lead to demand-pull inflation, which would cause disposable
incomes of consumers to fall, as well as living standards.
In addition, greater household consumption would cause production by
firms to increase, which

This rise in AD would cause a multiplied expansion of national income
and output, which would cause actual economic growth. This may help
to create jobs, which would increase incomes, as well as living
it would also lower unemployment rates.
standards. Furthermore, the increase in consumption may cause firms to
invest due to higher demand for goods and services. Therefore, investment
by firms would increase, further increasing aggregate demand. In

addition, increased consumption would mean that the government would read more tax revenue in the form of VAT, and may have less strain to provide unemployment benefits, as consumption brings job creation. This would improve the government's fiscal position and allow funds to be spent on further improving the economy. Further, increased consumption would provide an incentive for firms to provide better quality products due to increased competition, therefore leading to higher levels of innovation. This would increase the productive potential of the economy, causing potential economic growth.

However, increased consumption may also cause demand-pull inflation, as price rises from P_1 to P_2. This causes a fall in real incomes and may lower living standards. Further, if firms decide to respond to increased demand by using more machinery, rather than recruiting more workers, then unemployment may not be significantly reduced.

Further, increased consumption would cause production by firms to increase, increasing damage to the environment, as well as gas emissions which may contribute to global warming.

Increase consumption could also increase the demand for imports, which would cause the value of imports to rise. This causes a fall in net exports and a deficit on the balance of payments on the current account.

Examiner's comments:

This response was given 13 marks.

This answer achieved a low level 3 (7 marks) for knowledge application and analysis and high level 2 for evaluation (6 marks).

This response starts with a strong definition of consumer spending followed with an accurate AS and AD diagram showing an increase in AD this was explained in the first paragraph.

The candidate expands this point by linking increasing AD to the multiplier, however the student does not link the multiplier to an increase in the marginal propensity to consume and growth in consumption, this was essential when addressing the question. This was a very common error made by many of the candidates sitting this paper.

The first paragraph on the second page provided a well-developed chain of reasoning linking consumption to the fiscal position. This was evidence of level three knowledge, application and analysis, as it offered an accurate understanding of economics with developed analysis.

The point addressing the link between consumption and business incentives was only two stages of analysis.

This candidate achieved a low level 3 as the quality of the fiscal position point was not sustained throughout their answer. If the other points had been more accurate or developed, this response would have moved into a higher level.

This candidate provided four separate evaluation points, each supported by a partially-developed chain of reasoning. The candidate did not write a conclusion; therefore, this answer achieved a level 2 for evaluation. This response could have been improved by providing logical developed chains of reasoning and a final informed judgement.

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