



**Pearson Edexcel
International GCSE in
Economics (9-1)
4ECO 02**

**Exemplar student
answers with
examiner comments**

Paper 2 Commentaries

What is meant by? (2 marks)

(c) What is meant by inflation?

A general and sustained rise in the level of prices of goods and services over a period of time

This response was awarded both marks; 2 separate marks for a 2-part definition. For this question 1 mark is awarded for the idea that there is reference to a rise in the general price level and 1 mark for the time period.

2 marks

Describe (2 marks)

(d) Describe **one** impact of inflation on a firm.

Firms will experience shoe leather costs. They are forced to search for the best deals from suppliers because of inflation. The opportunity cost is the time that is wasted

This response correctly identifies a possible impact on a firm (increase in shoe leather costs) and explains the impact on a firm (forced to search for best deals/opportunity cost in time being wasted). There are 2 marks available for a describe question and therefore candidates should provide 2 parts.

2 marks

Calculate (2 marks)

(e) Calculate the price in euros of goods priced at £12 when the exchange rate is £1 = €1.30. You are advised to show your working.

$$12 \times 1.30 = \text{€ } 15.6$$

1 mark was awarded for showing the correct calculation and 1 mark for the correct answer of €15.60. As the question only advises for working to be shown, 2 marks would still be awarded if only €15.60 was given in response. However, we strongly advise to always show working as mistakes could easily be made under exam conditions, even copying from a calculator. By showing the working, there is more chance of securing at least 1 mark if this happens.

2 marks

Draw (3 marks)

- (f) Using the diagram below, draw the effects of the introduction of a tariff on the equilibrium price and quantity of a good. Label the new curve, the new equilibrium price and quantity.

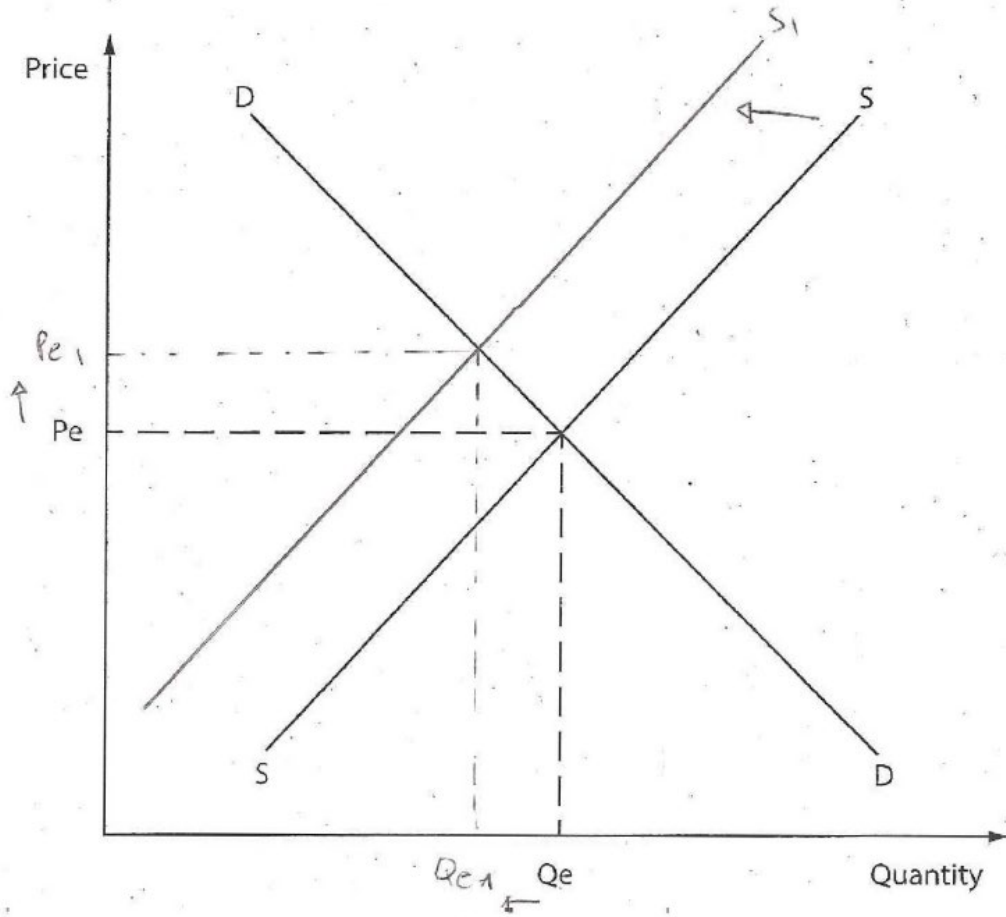


Figure 1

1 mark was awarded for the correct leftward shift of the supply curve, showing an increase from P_e to P_{e1} . Labelling the new curve and putting an arrow makes it very clear. 1 mark was awarded for the higher equilibrium price which has been clearly labelled on the axis. Another 1 mark has been awarded

for the lower equilibrium quantity which has also been clearly labelled on the axis, with 'Qe1' and an arrow.

3 marks

- (f) Using the diagram below, draw the effects of the introduction of a tariff on the equilibrium price and quantity of a good. Label the new curve, the new equilibrium price and quantity.

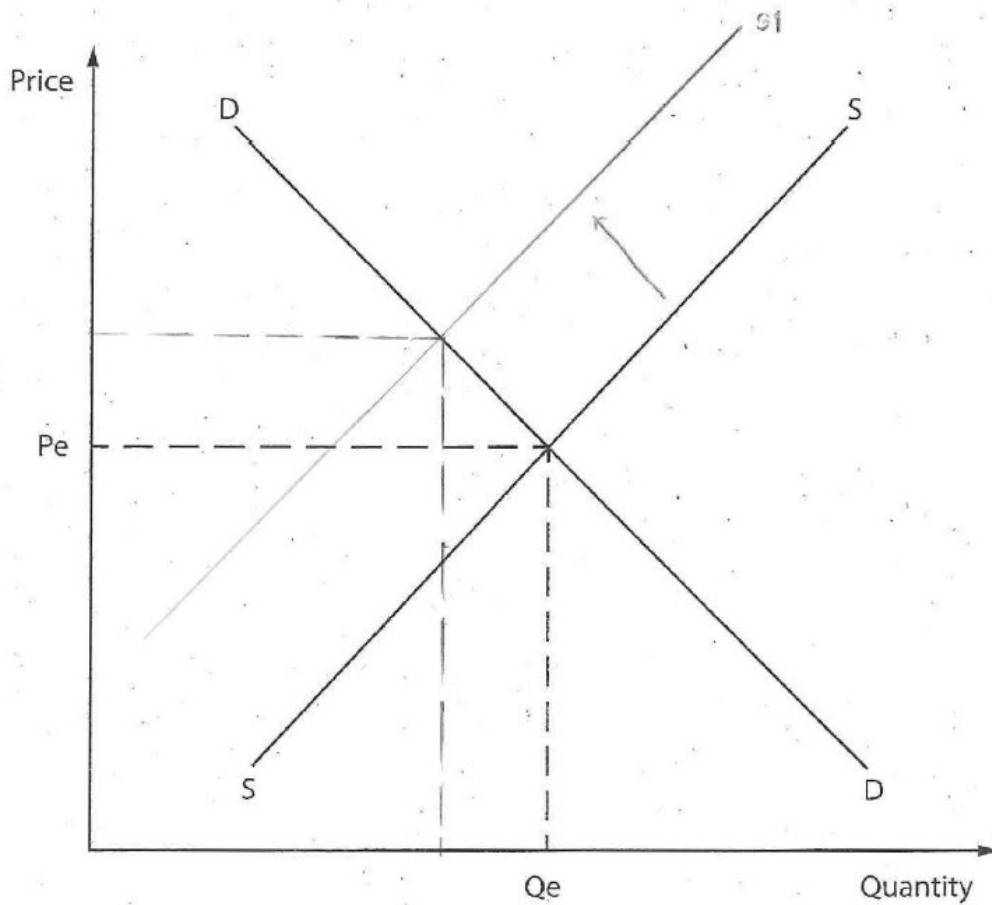


Figure 1

Only 1 mark has been awarded for the leftward shift of the supply curve. This candidate has not been awarded the other marks because of not labelling the new equilibrium price and quantity which is clearly stated in the question.

1 mark

Explain (3 marks)

In 2015 Vietnam's economic growth was 6.68%.

(g) Explain **one** disadvantage of economic growth.

There would be unsustainable growth. Economic growth uses up non-renewable resources such as oil and gas. This means that future generations will have fewer resources. There would be a decreased output of goods and services.

The disadvantage of unsustainable growth was awarded 1 mark. An additional mark was awarded for the development of this disadvantage in terms of future generations having fewer resources. The third mark was awarded for the consequence of this in terms of a decrease in output of goods and services.

3 marks

In 2015 Vietnam's economic growth was 6.68%.

(g) Explain **one** disadvantage of economic growth.

If the economy grows too fast, it may overload. This means that suppliers won't be able to meet the increasing demand, so they will have to increase their prices. This will increase inflation in the economy, which is disadvantageous to the consumer because it reduces their purchasing power.

The disadvantage of 'overloading' the economy was awarded 1 mark. An additional mark was awarded for the development of this disadvantage in terms of inflation and increasing prices. The third mark was awarded for the consequence of this in terms of consumers seeing a reduction in their purchasing power.

3 marks

Levels of Response questions: Analyse (6), Assess (9) and Evaluate (12)

These questions are all marked using descriptor tables. The response is looked at holistically and then placed within the level it matches most closely. We start in the middle of the level and then move up or down, if appropriate, in order to award a mark within the level.

Analyse (6)

6 mark 'analyse' questions require argument(s) to be presented which are in context and have logical, developed and coherent chains of reasoning.

(h) Analyse how a government might use fiscal policy to stimulate economic growth.

Fiscal policy is the use of government spending and taxation to influence aggregate demand in the economy. Expansionary fiscal policy is the increase in government ~~spend~~ spending and decrease in taxation that increases budget deficit, however stimulates growth. This policy can help get an economy out of recession and stimulate its growth because a cut in taxes would give people more disposable income, and thus more purchasing power, so they would contribute to the economy by spending more on domestically produced goods & services (higher aggregate demand overall). It would also lead to more investment by firms, which would also help grow the economy. The aspect of increased government spending would also lead to more demand for goods and services (for eg. with more civil servants ^{employed} ~~and~~ and if the gov. invested more in capital projects like transport, infrastructure and schools, the economy would be kickstarted.

This response demonstrates clear knowledge and understanding of fiscal policy by developing relevant points. It also applies the concept of fiscal policy in terms of how this could stimulate economic growth and there is a thorough analysis of how this can be achieved within an economy with developed chains of reasoning. Implications of expansionary fiscal policy are very well explained and therefore the candidate is awarded the full 6 marks.

Level 3, 6 marks

(h) Analyse how a government might use fiscal policy to stimulate economic growth.

Fiscal policy are decisions about government spending and taxation which affect aggregate demand. Expansionary fiscal policy can be used to help generate economic growth. Increases in govt expenditure will increase aggregate demand. Cuts in taxes will also generate more demand because firms and households will have more money to spend. Economic growth is more likely to result from extra government expenditure on capital projects. This is because money spent on investment is the key to economic growth.

This response starts off well and clearly demonstrated their understanding about what fiscal policy is and how this can be used to stimulate economic growth. There are references to expansionary fiscal policy and how cuts in taxes could generate more demand for firms and households. However, this response best fits the level 2 descriptor as the issues are not as thoroughly analysed and greater development is required to access level 3.

Level 2, 4 marks

State (1 mark)

(c) State **one** cause of globalisation.

Developments in technology

1 mark was awarded for giving a cause of globalisation.

1 mark

What is meant by? (2 marks)

(d) What is meant by monetary policy?

The use of interest rates and the money supply to control aggregate demand in the economy

This response was awarded both marks; 2 separate marks for a 2-part definition. For this question 1 mark is awarded for the reference to the use of interest rates and the money supply level and 1 mark for reference to controlling aggregate demand.

2 marks

Explain (3 marks)

In 2016, Brazil complained to the World Trade Organization (WTO) about Thailand's use of sugar subsidies.

(e) Explain one role of the WTO.

The WTO helps to reduce or eliminate trade barriers through negotiation and agreeing on the rules of international trade relating to matters such as anti-dumping and subsidies. This is to help and may help developing countries that are struggling or help settle disputes such as between Brazil and Thailand.

The role of the WTO in terms of helping to reduce or eliminate trade barriers was awarded 1 mark. An additional mark was awarded for the development of this in terms of negotiation to agree on matters such as anti-dumping and subsidies. The third mark was awarded for being in context and applying to the information in the stem about Thailand and Brazil.

3 marks

Explain (3 marks)

Malawi is a developing country that relies heavily on the export of agricultural commodities, the most important of which is tobacco.

(f) Explain one way in which the pattern of trade might be different for a developed country than for a developing country.

A developed country will have better transport and communications and will be more efficient and cheaper to trade goods. Trade barriers may also be a lot ~~sticker~~ more important for developing countries, as they have less exporting goods has a larger impact for their economy. The trade barriers would affect the ease of ~~transport~~ trading certain goods, and developing countries rely on trade as a large source of revenue for the country as opposed to developed countries

This response scored 0 marks as it did not answer the question about the patterns of trade for developed and developing countries. For this type of 'Explain' question there are 3 marks for AO2. This type of question therefore requires candidates to provide either a way, a reason, an advantage or a disadvantage for the first mark and then the other marks are awarded for developing this and applying to the context in the question.

0 marks

Assess (9)

9 mark 'assess' questions require balanced 2-sided arguments to be presented, with both sides in context. These arguments should have logical, developed and coherent chains of reasoning.

(g) Assess one policy that the UK government could use to reduce the level of relative poverty.

The UK government could implement expansionary fiscal policy to reduce the level of relative poverty. By cutting taxes and increasing government expenditure, this could increase economic growth in the country. By cutting taxes, households will have more disposable income, because most taxes are related to income and spending. This will increase ~~low~~ GDP per capita as the economy has grown and therefore will increase living standards. This will help to reduce ~~relative~~ the level of relative poverty:

However, generating economic growth is from the extra demand. All the ~~dem~~ extra demand leads to inflation and a rise in average price level, which may combat the effects of cutting taxes. This means that households may not actually be better off by having taxes cut, if ~~g~~ the prices of goods and services increase.

This response did some knowledge/understanding of ways in which a government could reduce the levels of relative poverty by the use of expansionary fiscal policy. It also has a counter argument as to the disadvantages of this method but the whole response is not in context and could apply to any situation. Information in Figure 2 is not used and it was provided to help candidates contextualise their response. Both sides of the argument have limited chains of reasoning and was therefore placed at the bottom of level 2.

Level 2, 4 marks

Explain (3 marks)

(c) Explain the different impact on exports of a revaluation and devaluation of a currency.

If a country's currency has been depreciated, then ~~the~~ the foreign price of the country's exports will be lowered, causing an increase in demand for exports and increasing aggregate demand.^(AD) If the currency revalues, then exports will be expensive for ~~other~~ foreign countries, lowering demand, and decreasing AD.

This response was awarded 2 marks for stating the impact on exports from a revaluation and devaluation of a currency. The third mark was not awarded as there was insufficient development in terms of the impact on competitiveness.

2 marks

Analyse (6)

6 mark 'analyse' questions require argument(s) to be presented which are in context and have logical, developed and coherent chains of reasoning.

In 2015, the UK pound (£) appreciated against the euro (€), reaching a high of £1 = €1.44.

(d) Analyse the impact this appreciation may have had on the UK's current account of the balance of payments.

(6)
An appreciation of the pound would cause the UK's ~~own~~ current account of the balance of payments to worsen. This is because the foreign price of exports would be more expensive, thus foreign countries would reduce their demand for ~~the~~ UK exports. This means that the UK would be importing a lot more than they are exporting, causing their current account to worsen. This would further impact the domestic producers of the exported goods as there would be less demand for the goods. Overall, the UK had a current account deficit because their imports exceeded their exports.

This response demonstrates some knowledge and understanding of the impact on the UK's current account in terms of it worsening. There is an attempt to explain why this is the case with some developed chains of reasoning. The analysis was not thorough enough to access level 3 and it was placed at the top of level 2.

Level 2, 4 marks

Assess (9)

9 mark 'assess' questions require balanced 2-sided arguments to be presented, with both sides in context. These arguments should have logical, developed and coherent chains of reasoning.

Spain, in common with most other economies has different levels of regional unemployment. In 2015, the highest rate was found in Melilla with 34.0% and the lowest was in Navarra with 13.8%. Unemployment among 15-24 year olds was significantly higher than other age groups in all areas of Spain.

(e) Assess the likely effectiveness of supply-side policies in reducing unemployment in Spain.

Supply side policies are government measures designed to increase aggregate supply in the economy. Increasing the quantity and quality of labour, labour productivity, will improve and increase aggregate supply. Improving training and education can help unemployed workers find jobs in new fields of the sector. The government can do this by implementing government grants to help with training costs, low interest rates, and complementary advice from experts. Regional unemployment is prevalent in Spain, so that structural unemployment is a problem many face in Spain. These policies need to be concentrated in areas with high levels of unemployment, and can be successful. These policies tend to take a long time to have an impact on the unemployment rates. Unemployment might not actually be structural, but cyclical since the unemployment rate is very high, even for the lowest rate at 13.8% in Navarra. Fiscal and monetary policies can be used in place of the supply-side policies. Unemployment can be caused by both structural and cyclical factors, therefore, ideally, a combination of all the three forementioned policies may have a greater effect in attempt to reduce unemployment.

This response showed clear knowledge and understanding of how supply-side policies can help to reduce unemployment. There are developed chains of reasoning in terms how training and education could help unemployed workers. This candidate identifies that there is both regional and structural unemployment within Spain by using the information in Figure 3 and it is essential that any information given is used within the response – it is there for a reason! The response does then evaluate the problems of supply-side policies and there is context on both sides of the argument as well as trying to give a conclusion. The mark of 8 was awarded rather than 9 due to a lack of balance on both sides of the argument – the counter argument was not as well developed.

Level 3, 8 marks

Spain, in common with most other economies has different levels of regional unemployment. In 2015, the highest rate was found in Melilla with 34.0% and the lowest was in Navarra with 13.8%. Unemployment among 15–24 year olds was significantly higher than other age groups in all areas of Spain.

(e) Assess the likely effectiveness of supply-side policies in reducing unemployment in Spain.

A supply-side policy is a government measure designed to increase aggregate supply in the economy. Improvements in the labour market such as restoring incentives and increasing the quality and quantity of labour will help to reduce unemployment. If taxes were reduced in Spain, such as income tax or corporation tax, people would be incentivised to work more or set up businesses. If people receive more education and training which will help improve productivity and retired people can choose to work again with the extra training.

However, spending money on education and training means there will be an opportunity cost. ~~and~~ The money used on education could have been used on healthcare or infrastructure. Increasing employment will also depend on how receptive unemployed people are to being retrained; they may not want to study for long periods of time again.

Investment in education and healthcare will increase the quality of human capital, however, there can be time lags for decades for how long the supply-side policy will take to have an effect. Therefore governments may only look for a short-term fix

(Total for Question 3 = 20 marks)

This response was placed at the top of level 2 and had some knowledge and understanding of supply-side policies and did attempt evaluation of these policies. The arguments were not as well developed and were generic in nature and could have applied to any country. There was no attempt to provide a conclusion as to the likely effectiveness of supply-side policies.

Level 2, 6 marks

Calculate (2 marks)

- 4 Figure 4 shows the change in gross domestic product (GDP) per capita for Sri Lanka.

| | 2014 | 2015 |
|---------------------|------|------|
| GDP per capita US\$ | 2004 | 2135 |

Figure 4

- (a) Calculate to one decimal place the percentage increase in GDP per capita between 2014 and 2015. You are advised to show your working.

$$2135 - 2004 = 131$$

$$\frac{131}{2004} \times 100 = 6.5\% \text{ increase}$$

1 mark was awarded for showing the correct calculation and 1 mark for the correct answer of 6.5%. As the question only advises for working to be shown, 2 marks would still be awarded if only 6.5% was given in response. However, we strongly advise to always show working as mistakes could easily be made under exam conditions, even copying from a calculator. By showing the working, there is more chance of securing at least 1 mark if this happens.

2 marks

Analyse (6)

6 mark 'analyse' questions require argument(s) to be presented which are in context and have logical, developed and coherent chains of reasoning.

Sri Lanka's average tariff is 6.3%. However, agricultural imports have higher tariffs. Dairy products, meat products, fruit and vegetables have a 30% tariff.

(b) Analyse why Sri Lanka might impose higher tariffs on agricultural imports.

Sri Lanka may impose higher tariffs on agricultural imports to try and protect jobs of workers. If the agricultural imports ~~are cheaper to import~~ can be cheaply imported, then they will not be domestically produced, resulting in unemployment, as the overseas competitors are stronger. Sri Lanka primarily produces raw materials and ~~is an~~ has a lot of business in the primary sector, so may import a lot of other resources. By imposing a tariff on agricultural goods, it may help to improve the country's current account deficit as imports will decrease, ~~the~~ and the agricultural goods produced domestically can be exported.

This response demonstrates very good knowledge and understanding of why Sri Lanka might impose higher tariffs on agricultural imports in terms of trying to protect jobs. There are developed chains of reasoning and good use of the information in the question to try and contextualise the response by references to Sri Lanka producing primary raw materials. The impact on the current account deficit is also mentioned.

Level 3, 5 marks

Sri Lanka's average tariff is 6.3%. However, agricultural imports have higher tariffs. Dairy products, meat products, fruit and vegetables have a 30% tariff.

(b) Analyse why Sri Lanka might impose higher tariffs on agricultural imports.

Tariffs or custom duties are taxes placed on imports. This means that the price of imports would increase. This is done in Sri Lanka in order to protect farmers from rival competitors, to make sure Sri Lankan customers purchase home-grown products, to boost the GDP.

This response does show some knowledge and understanding of tariffs and that they are used to protect farmers and encourage the purchase of home-grown products. There is basic analysis and a limited chain of reasoning so was placed at the bottom of level 2.

Level 2, 3 marks

Evaluate (12)

12 mark 'evaluate' questions require balanced 2-sided arguments to be presented, with both sides in context. These arguments should have logical, developed and coherent chains of reasoning, leading to a supported conclusion/judgement.

Sri Lanka signed agreements for foreign direct investment (FDI) worth \$1.6bn in 2015, up from 2014's total of \$1.5bn. New projects include a \$26.5m assembly plant from Volkswagen and a \$100m investment in the sugar industry by companies from Singapore. Other multinationals already operating in Sri Lanka include Unilever[®], Nestlé[®], Holcim[®], Coca-Cola[®] and Reckitt Benckiser[®].

(c) Evaluate the impact that FDI might have on a developing economy such as Sri Lanka.

Foreign direct investment might have a positive impact on Sri Lanka's economy. Developing countries are keen for foreign multinationals to develop business interests in their economies because, if money flows into less developed countries, their economies may grow faster. The money and employment they get from investments will further help to generate economic growth and develop infrastructure. The \$100m investment in the sugar industry will help with unemployment, as workers are skilled for work in the primary sector.

A negative impact might ~~be~~ ^{have} a bad effect on the balance of payment. All the multinational firms may have lots of imports into the host country, ~~such~~ ~~for example~~ in this case, Sri Lanka. This may create a current account deficit and increase the economy's external debt. Multinationals may also exploit Sri Lanka as a less developed country by paying low wages to the workers and having poor working conditions.

Overall, FDI in Sri Lanka will help globalisation to gather pace and provide market opportunities for firms all over the world. Globalisation in developing

countries should result in higher levels of GDP. There will also be a transfer of technology. However all the multinational firms could create a dual economy, where the developed sector is owned by all the foreign firms and the underdeveloped sector is owned by domestic firms. This will drastically change the structure of the economy and hamper development of the host country

(Total for Question 4 = 20 marks)

TOTAL FOR PAPER = 80 MARKS

This response does show some knowledge/understanding shown but it is very generic in many parts of the response. There is only one piece of context used throughout (reference to \$100m investment). Arguments for FDI are present but not in context. Although counter arguments are also present, the whole response is unbalanced and again, not applied to Sri Lanka. (Simply using the words Sri Lanka is not context). There is a supported and detailed conclusion offered but again this is generic and could apply to any developing economy.

Level 2, 7 marks