

# INTERNATIONAL GCSE

Economics (9-1)

EXEMPLARS WITH EXAMINER COMMENTARIES  
PAPER 2

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Pearson Edexcel International GCSE in Economics (4EC1)

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# Introduction

## 1.1 About this booklet

This booklet has been produced to support teachers delivering the Pearson Edexcel International GCSE 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 1(c), 1(d), 1(e), 1(f), 2(e), 2(g), 3(d), 3(e), and 4(c) 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 example covered in this booklet contains:

- Question
- Mark scheme
- Exemplar responses for the selected question
- Example 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 examples highlight the achievement of the assessment objectives at the lower to higher levels of candidate responses.

Centres should use this content to support their internal assessment of students and incorporate examination skills into the delivery of the specification.

## 1.3 Further support

A range of materials are 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 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:

		<b>% in International GCSE</b>
<b>A01</b>	Recall, select and communicate knowledge of economic terms, concepts and issues	14–15
<b>A02</b>	Demonstrate understanding and apply economic knowledge using appropriate terms, concepts, theories and calculations effectively in specific contexts	48–49
<b>A03</b>	Select, organise and interpret information from sources to investigate and analyse economic issues	23–24
<b>A04</b>	Evaluate economic information to make reasoned judgements and draw conclusions	12–13

## Question 1(c)

What is meant by the term interest rate?

(2)

### Mark scheme

Question Number	Answer	Mark
1(c)	<p style="text-align: center;"><b>AO1 2 marks</b></p> <p>Award 1 mark for reference to cost of borrowing and 1 mark for reference to reward for lending.</p> <p>The cost of borrowing <b>(1)</b> and the reward for lending/saving <b>(1)</b></p> <p><b>OR</b></p> <p>The cost of borrowing/the reward for lending/saving money <b>(1)</b> An interest rate is normally expressed as a % of the total borrowed/lent/saved <b>(1)</b></p>	(2)

### Exemplar response A

An interest rate is a percentage given on money.  
It's either an award for saving or a percentage on how much  
~~percentage~~ you need to pay back when borrowing  
money.

#### Examiner's comments:

**This response was given 2 marks.**

The response was awarded 1 mark for reference to percentage given on money and 1 mark for reference to this being either for saving or borrowing. This response does mix and match the examples in the mark scheme.

## Exemplar response B

(c) What is meant by the term interest rate?

the Interest rate is the Cost of borrowing<sup>(2)</sup>  
money, and is set by the central  
bank.

### Examiner's comments:

**This response was given 1 mark.**

This was only awarded 1 mark for the reference to the cost of borrowing. Credit was not given for responses which made reference to interest rates being set by a central bank or for the use of examples. For the 'what is meant by' questions, examiners are looking for two parts to the definition to award both marks.

## Question 1(d)

Describe **one** impact on consumers of a decrease in interest rates. (2)

### Mark scheme

Question Number	Answer	Mark
1(d)	<p style="text-align: center;"><b>AO1 2 marks</b></p> <p>Award 1 mark for reference to the impact and 1 mark for development of the impact.</p> <p>The cost of borrowing has become cheaper <b>(1)</b> therefore more consumers take out loans to buy products <b>(1)</b></p>	(2)

### Exemplar response A

Decrease in interest rates will make loans cheaper, hence consumers will borrow more to buy goods and services, thus improving their living standards.

#### Examiner's comments:

**This response was given 2 marks.**

This response does identify an impact in terms of making loans cheaper, and then develops this impact with reference to consumers being able to borrow more to buy goods and services, which improves living standards. There is a clear link between the impact and the development of the impact.

This is just one example of an impact on consumers from a decrease in interest rates and a wide range of responses were accepted and marks were also awarded for responses which focused on there being less of an incentive to save.

## Exemplar response B

→ One impact on consumers would be that it is now cheaper to take out loans this therefore encourages them to borrow money.

### Examiner's comments:

**This response was given 1 mark.**

This response clearly identifies an impact on consumers in terms of the cost of taking out a loan and therefore encouraging borrowing and was awarded 1 mark for this part of the response. The response does not fully develop the impact in terms of what consumers might do with the loan or additional borrowing so is not awarded the second mark. Candidates must give an impact and describe the effect of this to gain both marks. Make sure there are two parts to the response for a **describe** question.

## Question 1(e)

Rachel buys a t-shirt for 1000 Kenyan shillings (KES) when she is on holiday. The exchange rate is £1 = 137.73 KES.

Calculate, to two decimal places, the price in sterling (£) of Rachel's t-shirt. You are advised to show your working. (2)

### Mark scheme

Question Number	Answer	Mark
1(e)	<p style="text-align: center;"><b>A02 2 marks</b></p> <p>Award 1 mark for showing the calculation.</p> <p>Award 1 mark for the correct answer.</p> <p><math>1000/137.73</math> <b>(1)</b> = £7.26 <b>(1)</b></p> <p>Award 2 marks if the correct answer is shown, with sterling symbol, even if no calculations are shown.</p> <p>Do not award marks for the formula</p>	<b>(2)</b>

## Exemplar response A

$$1000 \div 137.73$$
$$= 7.260582299$$
$$20p = \text{£}7.26$$

### Examiner's comments:

**This response was given 2 marks.**

This response gave the correct answer of £7.26 so scored 2 marks. This candidate did show how they arrived at the correct answer. This is always advisable as marks can be awarded for correct workings if the answer is not given to the correct decimal place or if units, such as currency, are omitted. If workings are not shown, e.g. 7.26 and units are omitted, then marks cannot be awarded.

## Exemplar response B

$$1 = 137.73 \text{ KES}$$
$$1000 \div 137.73 = 7.26$$
$$\boxed{7.26} = 1000 \text{ KES}$$

### Examiner's comments:

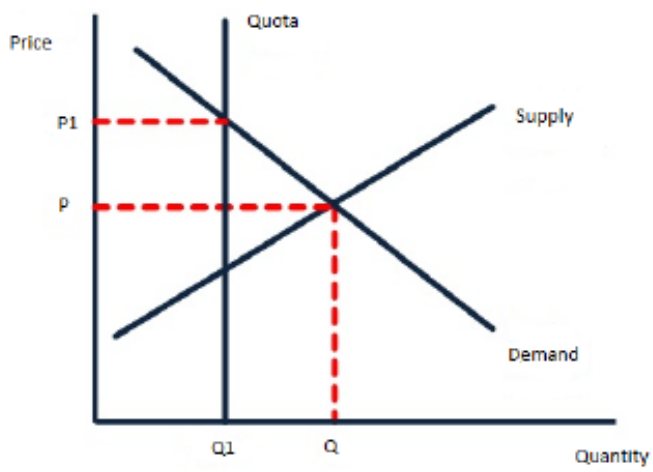
**This response was given 1 mark.**

This does show the workings but does not give the correct answer in sterling and has omitted the £ sign so is only awarded 1 mark. Again, if the answer given was just 7.26 without any workings, then 0 marks would have been awarded so always show workings for any calculation question. Make sure you check the decimal places and the correct units are used.

## Question 1(f)

Using the diagram below, draw the effects of the introduction of a quota on the equilibrium price and quantity of a good. Label the new curve, the new equilibrium price and new equilibrium quantity. (3)

### Mark scheme

Question Number	Answer	Mark
1(f)	<p style="text-align: center;"><b>AO2 3 marks</b></p> <p>Award 1 mark for perfectly inelastic supply curve, labelled.            Award 1 mark for higher equilibrium price, labelled.            Award 1 mark for lower equilibrium quantity, labelled.</p> 	<b>(3)</b>

## Exemplar response A

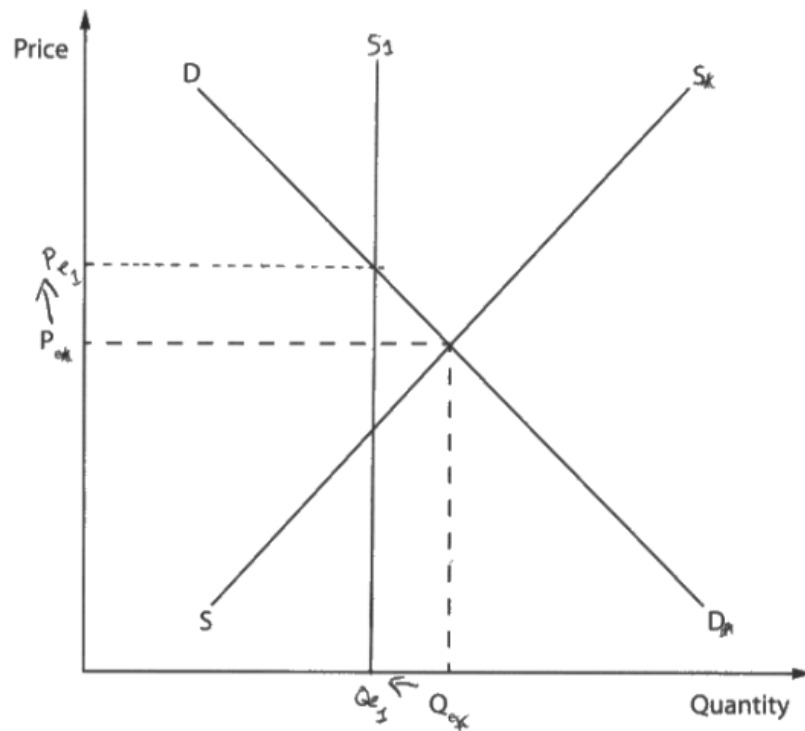


Figure 1

### Examiner's comments:

**This response was given 3 marks.**

The diagram clearly shows a new perfectly inelastic supply curve ( $S_1$ ) to show the quota and a new equilibrium price ( $P_{e1}$ ) and new equilibrium quantity ( $Q_{e1}$ ). All three are clearly labelled so all 3 marks are awarded.

## Exemplar response B

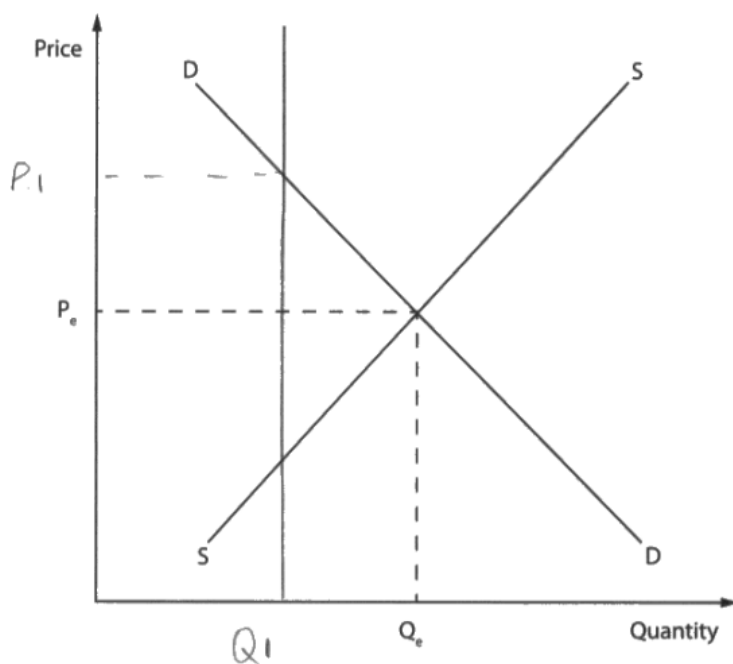


Figure 1

### Examiner's comments:

**This response was given 2 marks.**

The diagram does indicate both a higher equilibrium price ( $P_1$ ) and new equilibrium quantity ( $Q_1$ ) so gains 2 marks for these new labels. The response does not achieve all 3 marks because although a new and perfectly inelastic supply curve has been drawn on the diagram, it has not been labelled as a quota or  $S_1$ . It is essential that all three are clearly labelled on the diagram.

## Question 2(e)

In October 2017 the currency of the Philippines, the peso, fell to its lowest level against the US dollar in more than 11 years. Explain **one** advantage of having a depreciating currency for an economy such as the Philippines. (3)

### Mark scheme

Question Number	Answer	Mark
2(e)	<p style="text-align: center;"><b>AO2 3 marks</b></p> <p>Award 1 mark for identifying a relevant advantage of having a depreciating currency.</p> <p>Award 1 mark for developing the advantage.</p> <p>Award 1 mark for the response being in context.</p> <ul style="list-style-type: none"><li>• An improvement on the current account (1) A weaker value of the peso leads to rising export sales (1) resulting in a larger trade surplus for the economy of the Philippines (1)</li><li>• Economic growth for the economy of the Philippines (1) The price of exports should fall because of the weaker peso (1) This may result in an increase in demand for goods/services (1)</li></ul> <p>Accept any other appropriate response.</p>	<b>(3)</b>

## Exemplar response A

A depreciating currency would mean that the price of the peso would be much lower (for the same number of US dollars, more pesos could be bought.) This would lead to the exports of the Philippines being cheaper. Therefore, demand for <sup>these</sup> exports would rise. As a result, Philippines will experience a positive BOPs (a surplus in the current account.)

### Examiner's comments:

#### This response was given 3 marks.

The response gains 1 mark for giving an advantage in terms of the impact on the current account. The response continues to develop this advantage and explains why the current account would be positive in terms of an increase in demand for exports, gaining 1 mark. The response is in context as it refers to the US dollar being able to buy more pesos for 1 mark.

This response shows that all 3 marks can be awarded in any order and the response does not necessarily have to start with the advantage. Often examiners saw the advantage appearing at the end of the response.

## Exemplar response B

Depreciating currency means exchange rate falls. So the price of exports will decrease. Philippines' exports will be more price competitive and the demand will increase, they can gain more profits from exports and improve balance of payment and even get a surplus.  
(budget)

### Examiner's comments:

#### This response was given 2 marks.

This response was typical of a response which scored 2 marks for giving an advantage and an explanation of why the advantage occurred but was lacking context. Always use the data and information in the stem to help contextualise a response to gain all 3 marks. Many candidates gave very detailed answers but they lacked context.

## Question 2(g)

With reference to the data above and your knowledge of economics, assess the benefits for a country, such as Thailand, of being a trade bloc member.

(9)

### Mark scheme

Question Number	Indicative content	Mark
2(g)	<p style="text-align: center;"><b>A02 (3 marks)/A03 (3 marks)/A04 (3 marks)</b></p> <p><b>A02 and A03</b></p> <ul style="list-style-type: none"> <li>• Trade blocs are usually groups of countries in specific regions that manage and promote trade activities</li> <li>• This can result in more free trade between member countries</li> <li>• This can benefit member countries such as Thailand because they have access to a wider market in ASEAN countries, such as Vietnam, in which to sell their goods and services</li> <li>• Firms in countries such as Thailand may be able to exploit economies of scale or specialisation can occur</li> <li>• Consumers may benefit with lower prices and/or greater choice of goods and services</li> <li>• Being a member of the ASEAN trade block may attract increased FDI</li> <li>• Membership of the trade bloc has contributed to an increase in GDP per capita from \$122 to \$4 021</li> </ul> <p><b>A04</b></p> <ul style="list-style-type: none"> <li>• Thailand may face increased competition as imports from other member countries increase</li> <li>• This may have a damaging effect on Thailand's domestic firms</li> <li>• Countries such as Thailand may rely too heavily on trade within the bloc rather than trading with non-member countries such as India</li> <li>• The overall benefits will depend on the ability of a country to compete within the region and the level of trade with non-member countries</li> </ul>	(9)

Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–3	<ul style="list-style-type: none"> <li>• Demonstrates basic knowledge and understanding by developing relevant points. Limited application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will lack selectivity and organisation. Interpretation of economic information will be limited, with a lack of analysis of issues (AO3).</li> <li>• Only offers one viewpoint, meaning there is an unbalanced and incomplete evaluation, showing limited understanding and awareness (AO4).</li> </ul>
<b>Level 2</b>	4–6	<ul style="list-style-type: none"> <li>• Demonstrates partial knowledge and understanding by developing relevant points. Partial application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will demonstrate some selectivity and organisation. Interpretation of economic information will be good, with some analysis of issues (AO3).</li> <li>• Offers more than one viewpoint but the argument may lack balance, leading to an evaluation that may not demonstrate full understanding and awareness (AO4).</li> </ul>
<b>Level 3</b>	7–9	<ul style="list-style-type: none"> <li>• Demonstrates clear knowledge and understanding by developing relevant points. Appropriate application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will demonstrate excellent selectivity and organisation. Interpretation of economic information will be excellent, with a thorough analysis of issues (AO3).</li> <li>• Offers more than one viewpoint. The argument is well balanced and coherent, leading to an evaluation that demonstrates full understanding and awareness (AO4).</li> </ul>

## Exemplar response A

A trade bloc is economic integration of nations or countries through Regional Economic Associations in which member nations agree to reduce protectionism methods and barriers to allow for free trade.

Trade blocs are advantageous as they can allow free trade. This helps to widen the market. Initially the market (ASEAN-5) consisted of 185 million to supply goods and services to ~~them~~ however now (ASEAN-10) can supply to a greater market - 634 million. This means there is more demand and more goods can be exported which brings about Economic Growth <sup>an increase in GDP</sup> and also an improvement in CA. Due to this larger market the firms can grow and exploit economies of scale. Their average costs will decrease and profits increase. To grow in size the resources must also be available and ASEAN-10 has 4326 thousand  $\text{km}^2$  as land for expansion, as compared to the smaller trade bloc of only 2950 thousand  $\text{km}^2$ . Another benefit due to the trade bloc formation is not only protection from cheaper poor quality imports but also the opportunity to specialise and produce goods for which they have a comparative advantage.

Although, trade blocs can also bring about disadvantages for Thailand. Due to the free trade, it is easier to import thus domestic companies who produce the same goods will have higher competition and may go out of business. They cannot compete with the large economies of scale and will be driven out of the market due to their low market share and exploitation or dominance from larger firms.

In conclusion, it is the duty of the World Trade Organisation to overlook trade bloc formations and also the government's duty to help protect smaller, infant firms.

Furthermore, it depends upon the type of trade bloc whether it be customs unions, common market or free trade and the degree or magnitude of free trade.

### Examiner's comments:

#### This response was given 8 marks.

This was marked using a levels-based approach rather than points-based for the other type of questions. Examiners read the whole response in full to decide which level best matches the response and take a holistic approach to marking. The indicative content is just a guide to what might be seen in a response but any valid points worthy of merit are considered. The levels-based approach applies to all 6-, 9- and 12-mark questions.

This response was placed in the middle of Level 3 for a very good evaluation of Thailand being a member of the ASEAN trade bloc. The response demonstrates clear knowledge and understanding of trade blocs by developing relevant points and provides a thorough analysis. Data from Figure 2 is used to support the advantages of being a member of the ASEAN trade bloc and a counterargument is given to show more than one viewpoint. The counterargument is not as detailed or contextualised as the argument for being a member of a trading bloc so was placed in the middle of the level. Although a conclusion is not required for a 9-mark question, there are some relevant points made in the conclusion to help support the counterargument.



by other factors. This will not be a benefit. In conclusion although there are some negative ~~thing~~ effects of being part of a trading block. The benefits for the country will be greater ~~to~~ if the country such as Thailand belongs to a trading block such as the ASEAN.

### Examiner's comments:

#### This response was given 5 marks.

This response was placed in the middle of Level 2 for showing some development of the advantages and disadvantages of being a member of a trade bloc. There was some understanding of how Thailand might gain from being a member of the ASEAN trade bloc and the response did make use of the data provided in Figure 2 to help contextualise the benefits. Application can be the use of the data in the question or it can be the use of economic concepts and theories. The response did give more than one viewpoint and the latter part of the response does give some disadvantages of being a member of a trade bloc, although this was more generic in nature compared to the advantages. Many candidates provided a conclusion, but a conclusion is not required for the 9-mark questions.

For the 9-mark questions, always evaluate and give developed chains of reasoning rather than a list of benefits or disadvantages. As marks are not available for conclusions in the 9-mark questions, time would be better spent structuring an answer so that there is a balanced evaluation of the economic concept being examined. Good use of the data or context given in the stem will also help to provide a more detailed response rather than just a generic application of economic concepts.

## Question 3(d)

Analyse the possible impact of unemployment on an economy. (6)

### Mark scheme

Question Number	Indicative content	Mark
3(d)	<p style="text-align: center;"><b>AO2 (3 marks)/AO3 (3 marks)</b></p> <p><b>AO2 and AO3</b></p> <ul style="list-style-type: none"> <li>• Unemployment represents a loss of output and therefore less GDP for a country</li> <li>• This could reduce standards of living for the population and increase poverty in the long run</li> <li>• The government will receive less tax revenue as there will be fewer workers in employment paying direct and indirect taxes</li> <li>• The government will have to pay out more in unemployment benefits to support the unemployed person whilst they are looking for a job</li> <li>• There is great pressure on the unemployed person as unemployment can cause social problems such as stress and health-related problems</li> </ul>	<b>(6)</b>

Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–2	<ul style="list-style-type: none"> <li>• Demonstrates basic knowledge and understanding by developing relevant points. Limited application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will lack selectivity and organisation. Interpretation of economic information will be limited, with a lack of analysis of issues (AO3).</li> </ul>
<b>Level 2</b>	3–4	<ul style="list-style-type: none"> <li>• Demonstrates partial knowledge and understanding by developing relevant points. Partial application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will demonstrate some selectivity and organisation. Interpretation of economic information will be good, with some analysis of issues (AO3).</li> </ul>
<b>Level 3</b>	5–6	<ul style="list-style-type: none"> <li>• Demonstrates clear knowledge and understanding by developing relevant points. Appropriate application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will demonstrate excellent selectivity and organisation. Interpretation of economic information will be excellent, with a thorough analysis of issues (AO3).</li> </ul>

## Exemplar response A

Unemployment can be very dangerous to an economy, firstly, the working population will reduce thus <sup>there</sup> ~~there~~ will be a decline in output of goods and services hence Economic Growth will reduce ~~set~~ and the economy will be in jeopardy. More people will be unemployed and the government loses their tax revenue. Instead there is an opportunity cost. Money which could've been spent on the betterment of the economy on public goods i.e. investment in education and healthcare must now be used for employment benefits (Job-seekers Allowance)

Furthermore, as many people are out of work for a long period of time their skillset deteriorates and they become less productive, there is erosion of human capital. Technology, Machinery, and other factors of production become obsolete and redundant thus the economy becomes wasteful and inefficient.

In conclusion, government may have to also spend more "unnecessary" funds on re-training labourers to ensure they have skills and qualification if they do find employment.

### Examiner's comments:

**This response was given 5 marks.**

This response was placed in Level 3 and awarded 5 marks for a very good analysis of the impact of unemployment on an economy. This response has developed strands and chains of reasoning which clearly demonstrate the impact of unemployment on an economy. This question does not have a stem so application comes from the application of economic concepts or theories. This is a levels-based question and is marked holistically rather than points-based so it is the quality not the quantity of analysis which matters for this type of question.

**Analyse** questions do not require evaluation and marks are only awarded for a detailed analysis of the economic concept. Many candidates did evaluate when this was not necessary.

## Exemplar response B

Unemployment on an economy would mean the wasting of resources. This would make the production possibility frontier shift to the left as production may be unattainable.

Unemployment for long periods of time causes deskilling of workers which would decrease the amount of skilled workers ready and available to work.

Unemployment would reduce economic growth as most government spending would be focused on pensions and welfare benefits that would keep the economy from growing.

~~However~~ In conclusion unemployment is affected by government intervention and use of fiscal or supply side policies which increase or decrease it. The impact to the economy also depends on the magnitude of people unemployed.

### Examiner's comments:

#### This response was given 3 marks.

This response is more like a series of statements rather than a developed analysis of the impact of unemployment on an economy. There are 3 undeveloped strands and the last paragraph attempts to give ways to reduce unemployment which is not what the question is asking.

For the 6-mark questions, detailed chains of reasoning rather than a series of statements will always score highly. For Level 3, we are looking for responses which demonstrate clear knowledge and understanding by developing relevant points rather than a long list of possible impacts.

## Question 3(e)

Inflation remains a major problem for Turkey's economy. Annual inflation in Turkey increased to 11.9% in October 2017. The highest price rises were for transportation, which rose by 16.79% and food, which increased by 12.74%.

With reference to the data above and your knowledge of economics, assess the impact of inflation on a country such as Turkey. (9)

### Mark scheme

Question Number	Indicative content	Mark
3(e)	<p>A02 (3 marks)/A03 (3 marks)/A04 (3 marks)</p> <p><b>A02 and A03</b></p> <ul style="list-style-type: none"> <li>• Inflation is the rate at which the general level of prices for goods and services is rising within an economy</li> <li>• This may make goods and services too expensive for many people and they cannot afford as much as they used to</li> <li>• The data shows the price of transportation and food has increased by 16.79% and 12.74%, which reduces the purchasing power of consumers if wages do not keep up with inflation</li> <li>• Shoe leather costs may increase as consumers must shop around to find the best deals on food and other products due to the high rates of inflation</li> <li>• Investment is likely to fall as firms lose confidence</li> </ul> <p><b>A04</b></p> <ul style="list-style-type: none"> <li>• Inflation may not be a problem if wage increases keep up with inflation</li> <li>• Demand pull inflation may lead to a fall in unemployment as firms try to cope with rising demand</li> <li>• Although high rates of inflation are bad for an economy, low rates of inflation can also have disadvantages to an economy</li> <li>• Figure 3 shows the inflation rate fluctuates over the period of time and much will depend on future fluctuations</li> </ul>	(9)

Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–3	<ul style="list-style-type: none"> <li>• Demonstrates basic knowledge and understanding by developing relevant points. Limited application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will lack selectivity and organisation. Interpretation of economic information will be limited, with a lack of analysis of issues (AO3).</li> <li>• Only offers one viewpoint, meaning there is an unbalanced and incomplete evaluation, showing limited understanding and awareness (AO4).</li> </ul>
<b>Level 2</b>	4–6	<ul style="list-style-type: none"> <li>• Demonstrates partial knowledge and understanding by developing relevant points. Partial application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will demonstrate some selectivity and organisation. Interpretation of economic information will be good, with some analysis of issues (AO3).</li> <li>• Offers more than one viewpoint but the argument may lack balance, leading to an evaluation that may not demonstrate full understanding and awareness (AO4).</li> </ul>
<b>Level 3</b>	7–9	<ul style="list-style-type: none"> <li>• Demonstrates clear knowledge and understanding by developing relevant points. Appropriate application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will demonstrate excellent selectivity and organisation. Interpretation of economic information will be excellent, with a thorough analysis of issues (AO3).</li> <li>• Offers more than one viewpoint. The argument is well balanced and coherent, leading to an evaluation that demonstrates full understanding and awareness (AO4).</li> </ul>

## Exemplar response A

Due to inflation rates rising, workers who are paid low wages, <sup>and most consumers</sup> may not be able to afford many goods and services they could before inflation rates began to rise. This means demand for these goods and services will reduce and this will lead to the standard of living becoming worse. Overtime ~~economic~~ economic growth will also reduce.

~~Higher infla~~ Inflation also means that a country's exports will reduce as most countries will find their goods too expensive, and imports will increase as they would be cheaper. This means that the country's Balance of Payments - current account is worsening as they would be left with a deficit.

However, inflation may benefit borrowers as the value of the money they are paying back to lenders is lower than what they borrowed. This will increase the amount consumers borrow giving them more purchasing power and increasing demand for goods and services.

In conclusion, it depends on the magnitude of inflation. If the magnitude is greater then the negative impacts may outweigh the positive, but if the magnitude is small then the impact will not be as significant and thus ~~may~~ can be overlooked.

**Examiner's comments:**

**This response was given 6 marks.**

This response was placed at the top end of Level 2. This response does evaluate the impact of high levels of inflation in Turkey. The first part of the response focuses on the disadvantages in terms of standards of living and the negative impact on the balance of payments. The counterargument focuses on the benefits of high inflation to borrowers. Although a conclusion is not required for a 9-mark question, there is some merit in what has been written here to help support the overall evaluation of the impact. However, a conclusion would not typically lead to a response gaining a higher mark for an 'assess' question.

## Exemplar response B

Inflation is the average rise in price level and the fall in the value of money.

Inflation can impact a country negatively. It will cause the demand for exports to decrease. If inflation rates are higher ~~at~~ in Turkey than other countries, firms may find it difficult to sell in overseas markets. This is because the price of exports has increased, which in turn causes demand for these exports from other countries to decrease. This will continue to worsen the balance of payments and current account. Also, if prices go up, there will be a reduction

in ~~the~~ the purchasing power of money. This would mean that consumers would not be able to buy as much goods ~~with~~ with their income. This will result in lower living standards in the economy. The highest inflation rate in Turkey was ~~however~~ recorded on April 2017 at approximately 11.8%. However, inflationary pressures may benefit businesses. Firms may have to pay their workers higher wages so that the workers can compensate for loss of purchasing power. These firms will then have to raise their prices because their costs have risen, when they may be able to make more profit from. The more profit gained from ~~the~~ firms, the more taxed by governments. These governments can use this extra revenue to fund investment projects or lower taxes and ~~improve~~ improve services, which will benefit the economy. Also, inflation benefit borrowers ~~at~~ at the expense to savers as it reduces the value of an existing debt.

In conclusion, the impact ~~on~~ of inflation will depend on how the inflation rates compare with other countries. If inflation is higher in other countries compared to Turkey, the impact would not be so heavy on the economy. In addition, ~~the~~ the impact of inflation would depend on the price elasticity and demand for exports.

### **Examiner's comments:**

**This response was given 4 marks.**

This response was placed at the lower end of Level 2. The first part of the response does look at the negative impact of high rates of inflation in terms of the balance of payments and the purchasing power of money. Reference has been made to the data provided but overall the response is generic and does not apply to Turkey or the data provided. There is a brief counterargument and the response does start to improve towards the end and tries to link back to the impact on the current account. The response does demonstrate partial knowledge and understanding by developing relevant points with an attempt at a counterargument so matches the descriptor for Level 2.

Many responses did not evaluate and only focused on the negative impact of inflation. Some responses tried to evaluate the use of government policies such as monetary policy to try and reduce inflation, which is not what the question was asking.

## Question 4(c)

With reference to the data above and your knowledge of economics, evaluate whether an increase in progressive taxes is the most effective way to reduce inequality and poverty for a country such as Vietnam. (12)

### Mark scheme

Question Number	Indicative content	Mark
4(c)	<p style="text-align: center;"><b>AO2 (4 marks)/AO3 (4 marks)/AO4 (4 marks)</b></p> <p><b>AO2 and AO3</b></p> <ul style="list-style-type: none"> <li>• There can be a reduction in inequality by taking lower average levels of tax from low wage earners and taking more from higher earners</li> <li>• Increasing progressive taxes will take more income from those on high-income levels</li> <li>• If the Vietnamese government taxed the 210 super-rich at a higher rate of taxation, the government would have more revenue</li> <li>• This could be spent on public services such as education which could help to reduce inequality and poverty</li> <li>• If low income work has a lower rate of tax, it encourages people to enter the labour force thereby reducing poverty</li> </ul> <p><b>AO4</b></p> <ul style="list-style-type: none"> <li>• Increasing the levels of progressive taxation can be difficult and unpopular</li> <li>• Higher rates of progressive taxation may create a disincentive effect on higher earners</li> <li>• Similarly, higher corporation tax may discourage investment in Vietnam which may have a negative impact on the economy</li> <li>• However, it also depends at what level income tax is set as to its effectiveness</li> <li>• There are alternatives to increasing progressive taxation which may be more effective such as redistribution through benefits payments or investment in education and healthcare</li> <li>• A combination of measures may be best in reducing levels of poverty and inequality in Vietnam</li> </ul>	(12)

Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–4	<ul style="list-style-type: none"> <li>• Demonstrates isolated elements of relevant knowledge and understanding; may lack development of relevant points. Limited application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will lack selectivity and organisation. Chain of reasoning may be attempted. Interpretation of economic information will be limited, with a lack of analysis of issues (AO3).</li> <li>• Only offers one viewpoint, meaning there is an unbalanced and incomplete evaluation, showing limited understanding and awareness. A judgement or conclusion is unlikely to be attempted (AO4).</li> </ul>
<b>Level 2</b>	5–8	<ul style="list-style-type: none"> <li>• Demonstrates partial selectivity and some accurate knowledge and understanding by developing some relevant points. Partial application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will demonstrate some selectivity and organisation. Chain of reasoning will be present but may be limited. Interpretation of economic information will be good, with some analysis of issues (AO3).</li> <li>• Offers more than one viewpoint but the argument may lack balance, leading to an evaluation that may not demonstrate full understanding and awareness. A judgement or conclusion is attempted, but may not be fully supported (AO4).</li> </ul>
<b>Level 3</b>	9–12	<ul style="list-style-type: none"> <li>• Demonstrates specific and accurate knowledge and understanding by developing relevant points. Appropriate application of economic terms, concepts, theories and calculations (AO2).</li> <li>• Information presented will demonstrate excellent selectivity and organisation. Chain of reasoning will be coherent and logical. Interpretation of economic information will be excellent with a thorough analysis of issues (AO3).</li> <li>• Offers more than one viewpoint. The argument is well balanced and coherent, leading to an evaluation that demonstrates full understanding and awareness. A supported judgement or conclusion is present (AO4).</li> </ul>

## Exemplar response A

Progressive taxation refers to the government placing a higher percentage of income tax on the income of an individual as the amount increases. Inequality of income is the unequal distribution of money between the rich and poor i.e. gap between the rich and poor.

Firstly, an increase in progressive taxes places the burden on high-income earners. The poor people will pay less tax so they are able to afford more goods and services i.e. have more disposable income to spend. The money generated from the taxes by the government can be used to improve merit goods like healthcare and educational services e.g. better schools. Unemployment may reduce as more jobs can be generated e.g. as hospitals, public teachers and doctors. If more people are employed, their living standards would increase as they can now have more income to spend. This may help to close the gap between the rich and poor. The government can also use this tax revenue money generated from tax revenue to spend directly on the poor people e.g. providing them with free or subsidized land for housing. ~~or This would increase~~ The poor may also benefit from

better healthcare facilities making them healthier and therefore more productive. Economic growth may be boosted.

However, an increase in progressive taxes would ~~reduce~~ act as an disincentive to work for many people. As they earn more money, the tax would increase so they may opt to ~~re-~~ become demotivated. Demotivated workers can be less productive and economic growth may fall. There could be an increase in voluntary unemployment therefore the government can lose ~~money~~ <sup>revenue</sup> as unemployed people do not pay tax. The government ~~can~~ ~~is~~ may also face an extra  $\downarrow$  burden providing these unemployed people benefits eg JSA  $\#$  (Job Seeker's Allowance) in U.K. This could increase costs for the government.

In conclusion, it depends on the magnitude of the increase in progressive taxes. A large increase in taxes would have a greater effect eg higher disincentive to work while a smaller increase in taxes may have little effect. Additionally, it also depends on how the government will use the extra money generated from tax revenue. If the government spends it on the poor directly, there may be a greater effect on reducing poverty. However, some ~~poor~~ poor people may become too reliant on governmental aid and would not have an incentive to 'get out of poverty' themselves.

## Examiner's comments:

### This response was given 9 marks.

This response was placed at the lower end of Level 3 for a good evaluation of the use of progressive taxes to reduce inequality and poverty in Vietnam. There are developed chains of reasoning which show how taxation could be spent on merit goods and services such as schools and healthcare, which would help to improve living standards. The counterargument discussed the disincentive to work from higher rates of taxation and the implications for the government if workers became voluntarily unemployed. This has a very good conclusion which does consider the magnitude of the increase in progressive taxes and how the government uses the extra tax revenue.

A conclusion is required for the 12-mark question and this must add something to the evaluation and not simply repeat the earlier points already made. Think about what it depends on and what other factors might affect the use of a government policy rather than a simple conclusion which does not weigh up external influences on a government decision.

## Exemplar response B

Progressive tax is when the people with a higher income, pay more tax than people with a lower income do. This is ~~for~~ in order to reduce income inequality.

By increasing progressive tax in Vietnam, it is argued that because of the 210 super-rich people it would be enough to take 3.2 million people out of poverty and ultimately end absolute poverty in Vietnam, just by their earnings in one year.

So therefore those super-rich people have too much money and should pay a higher level of tax to those who can't even afford to live. Their tax could go towards funding healthcare, education and job creation, which will benefit the economy and increase economic growth. Spending money on education will give people the chance to learn skills to enter the work force to be able to gain their own income to increase their living standards and come out of poverty, and this could all be done by taxing the rich people who have

too much money anyways. By increasing progressive tax, it also reduces income inequality which is unfair to the people who work just as hard, but have a less well paid profession.

however, increasing progressive tax could be argued to not be the most effective way to reduce poverty and income inequality, this is because ~~the more~~ it causes a lot of issues with people complaining about fairness, how people shouldn't pay more tax than others. Therefore, government spending could be argued to be a more effective way since government intervention through fiscal spending could also ~~introduce~~ introduce education and training schemes which reduces poverty by increasing the skilled pool of labour for firms to employ. ~~more~~

In conclusion, I believe an increase in progressive tax is the most effective way, along side government spending. Because government spending alone will result in a ~~the~~ fiscal deficit and progressive tax is an effective way to prevent that and also reduce inequality and poverty for Vietnam.

### Examiner's comments:

#### This response was given 7 marks.

This response was placed in Level 2 and the candidate did attempt an evaluation of the use of progressive taxation. There is some accurate knowledge and understanding of progressive taxes and how these can be used to reduce poverty in Vietnam. The response does evaluate and offers more than one viewpoint although the counterargument was not as strong. The conclusion is not developed and does not add anything else to the overall evaluation. This response best matches the Level 2 descriptor.

A balanced evaluation with use of the data and information provided will always score highly. Try and ensure that the evaluation for the 12-mark question is balanced and makes use of economic concepts and terminology rather than simply repeating large parts of the stem. Always give a conclusion which considers whether a government policy is the most effective way or what else it depends on.

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