



# **Examiners' Report**

## **June 2023**

**International Advanced Level Economics WEC12 01**

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## Introduction

This is the June series for assessment of WEC12: Macroeconomic performance and policy. There were over 4500 entries for this unit.

In **Section A**, the multiple-choice section, candidates performed best on withdrawals and economic policy (Q1 and Q5 respectively). The two questions with the focus on LRAS and house prices were the least well answered questions in this section (Q3 and Q4 respectively) and this part of the specification may need attention by centres. On the remaining two questions, candidates performed marginally better.

In **Section B**, the short answer section, candidates were able to access application marks on most questions but found the knowledge and analysis marks more difficult to obtain.

Q7: Most candidates were able to attain the one application mark for correctly identifying the data. Explaining the likely effect was challenging, with many candidates explaining the concept of trade deficit instead of fiscal deficit.

Q8: Candidates had to draw an AD/LRAS diagram and to show the likely impact of a fall in business confidence on price level and real output. Almost all candidates did this correctly, accessing the first mark for the initial equilibrium. The majority also indicated the correct shift. The most common cause for dropped marks was in the labelling of the axes or the labelling of the equilibria before and after the change.

Q9: For this calculation-based question, candidates had to work out the MPC from a given set of figures on government spending and national income. Many did not use the correct equation and found it challenging to access all of the marks.

Q10: The question asked the candidates to explain one likely impact of a negative output gap. In general, they were able to explain an impact on unemployment. The last mark on application should have required a simple reference to the information in the stem; but this was the least likely mark to be recorded by candidates.

Q11: Candidates were required to study the chart and explain the term deflation. Most candidates attained all marks for knowledge but often found it challenging to gain both application marks for the correct use of data.

In **Section C**, the data response section, questions are based on information provided in the source booklet.

Q12(a): Candidates can access two marks by correctly defining the term 'GDP growth rate'. Most candidates scored two marks for the correct definition, but some explained it in the context of inflation.

Q12(b): This question required an explanation of the difference between a balance of trade deficit and a balance of trade surplus. Two relevant pieces of data were required to attain the two application marks. Some candidates reversed these definitions and they were not able to access any marks.

Q12(c): A vast majority of candidates were unable to analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade'. Two application marks were awarded for relevant use of the source. However, several candidates copied paragraphs from the extract and were not able to obtain analysis marks. This is an area which all the centres are advised to address. Some candidates evaluated their analysis points, but this was not credited as it is not a requirement of the question.

Q12(d): Most candidates were able to examine the likely impact on India's real output of its 'increased expenditure on imported oil'. However only a small percentage of candidates could fully explain the effect to access analysis marks. Application marks were awarded for appropriate references to Extract A. Many responses were also not able to access evaluation marks as they gave solutions to increasing real output rather than answering the question directly.

Q12(e): Most candidates made effective use of the information provided and discussed likely effects of the increase in the base rate of interest on the Indian economy. A low proportion of candidates developed their analysis with clear chains of reasoning to achieve at least Level 3 KAA marks. A common feature in responses was to try to cover as many effects as possible but without any development in the analysis or evaluation comments.

In **Section D**, candidates have the opportunity to choose one out of two questions. The section was less demanding than previously and this is reflected in the mean scores on both questions. Question 14 was more popular than Question 13.

- In both questions, candidates' knowledge of relevant economic concepts was sound but they often struggled to apply it to the context of the question. Another challenge was the level of analysis. As in Question Q12(e), answers often lacked a fully developed chain of reasoning. This is because they focussed their explanations on several points, and this meant they did not have time to develop them. Some candidates drew appropriate and accurate diagram(s) and incorporated it with sound analysis. This facilitated them in consistently achieving within the top levels.
- Evaluative comments were often made and, whilst some offered supporting evidence and were linked to the context, many were unable to offer logical chain of reasoning. It should be stated that 8 marks are now awarded for evaluation in the essay section. Application will always form part of the questions in Section D. Candidates are expected to include this in their arguments to achieve the highest levels.
- The questions were accessible at all levels and offered good opportunities for candidates to differentiate by ability. Answering the exact question asked, integrating the data with analysis and strong evaluation continue to remain the essential ways that the A-grade candidates achieve higher marks. It appears that most candidates were not actually able to complete the paper in the time available.
- Moreover, candidates are highly encouraged to have better structure to their answers. Many have written essay questions in bullet points, and some have written in long blocks/ paragraphs without making a clear distinction between analysis and evaluation. This was also seen in the higher mark question in Section C.

## Question 7

Many candidates were able to access the knowledge mark and the 2 analysis marks. The most common answers included the impact on government spending. Some were unable to explain the impact further and therefore were limited to one analysis mark. The majority of the candidates attained the application mark using the stem. However, there needs to be an emphasis on the difference between percentages and percentage points.

- 7 Between 2018 and 2021 the annual rate of unemployment in Pakistan increased from 4.1% to 6.5%.

Explain **one** possible effect of the increase in the rate of unemployment on the public finances of Pakistan.

Unemployment means people who willing and able to work but do not have work.

The effect of increasing in the rate of unemployment on public finances is government should pay more unemployment benefits to ensure unemployed people can lived. It may lead to government budget deficit as less income tax revenue and more government spending.

Between 2018 and 2021 the annual rate of unemployment in Pakistan increased from 4.1% to 6.5%.



This response gets 1K, 2AN and 1AP.

Therefore, this answer attains an overall score of 4/4 marks.

- 7 Between 2018 and 2021 the annual rate of unemployment in Pakistan increased from 4.1% to 6.5%.

Explain **one** possible effect of the increase in the rate of unemployment on the public finances of Pakistan.

Increased unemployment from 4.1% to 6.5% would mean that there is spare capacity in Pakistan's economy, meaning that they are not efficiently using their resources and the more people not at work means the more people not contributing to any output, thus not contributing to paying taxes either, leading to government of Pakistan having to provide welfare benefits for the unemployed and reducing their public finances.



This response gets only 2 marks – 1 for application and 1 for analysis.

## Question 8

There was clear understanding that a fall in business confidence will result in a fall in AD or LRAS.

Almost all candidates managed to draw the initial equilibrium position for AD and LRAS. A few drew the SRAS and labelled it LRAS, and others mentioned price and output on the axes; this got no credit for the knowledge mark.

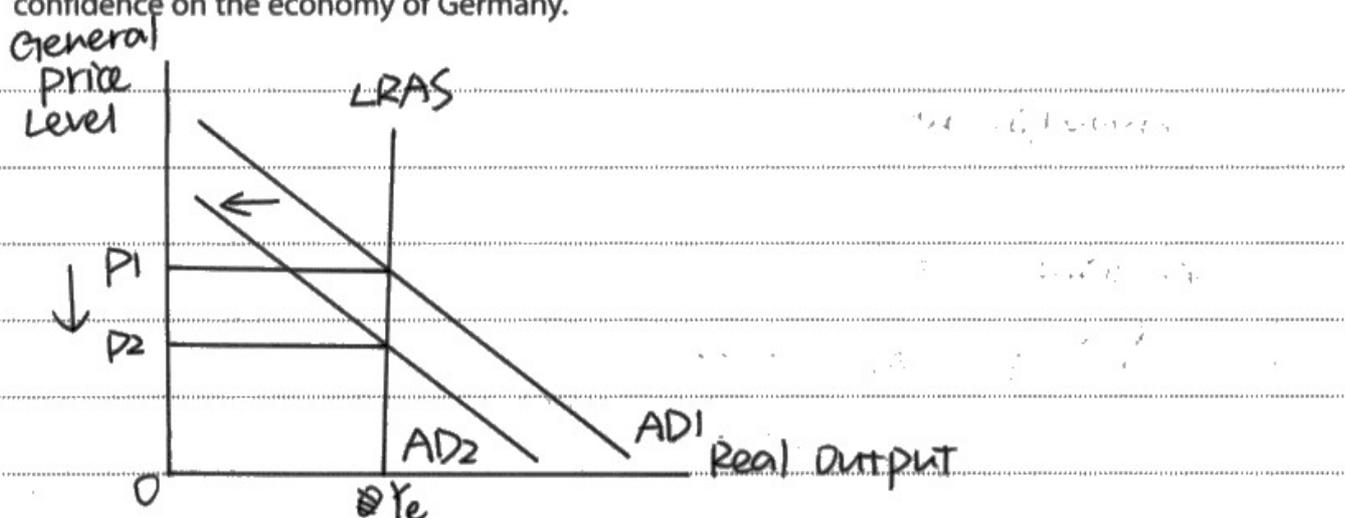
Both the classical and Keynesian LRAS were awarded. There are no marks for additional text, which some candidates included to support their diagram.

It is important to ensure that all labels are accurately written/shown.

There is a distinction between labelling of the axes written in micro and macro. More emphasis needs to be given to this in order to avoid losing application marks.

**8** Between July 2021 and July 2022 there was a fall in business confidence in Germany.

Draw an AD and LRAS diagram to show the likely impact of a fall in business confidence on the economy of Germany.

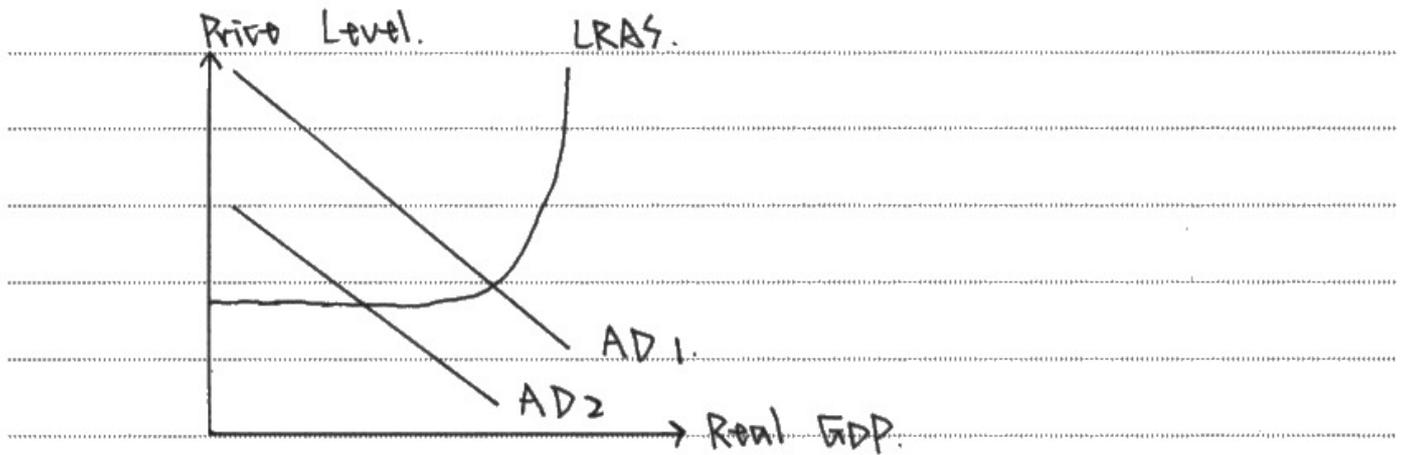


**ResultsPlus**  
Examiner Comments

This response gets an overall score of 4/4 marks – 1 for knowledge and 3 for application.

8 Between July 2021 and July 2022 there was a fall in business confidence in Germany.

Draw an AD and LRAS diagram to show the likely impact of a fall in business confidence on the economy of Germany.



This response gets an overall score of 1/4 marks.

Only 1 mark for application.

## Question 9

Many candidates were unable to correctly calculate the MPC. This is because they were not always informed of the multiplier equation and hence did not arrive at the correct workings.

It is advisable that candidates show all their workings so that they could attain either knowledge or application marks if some stages of their calculations are correct, but not the final answer.

- 9 In 2022 it was estimated that an increase in government spending of \$25 billion in an economy would eventually result in an increase in the country's national income of \$100 billion.

Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.

Marginal propensity to consume is the proportion of individuals, firm's income spent on consumption.

$$\frac{100 \text{ bil}}{25 \text{ bil}} = 4 \text{ billion} - \text{multiplier}$$

$$\frac{1}{1 - \text{MPC}} = 4$$

$$1 - \text{MPC} = 0.25$$

$$\boxed{\text{MPC} = 0.75}$$



**ResultsPlus**  
Examiner Comments

This response gets an overall score of 4/4 marks – 1 for knowledge and 3 for application.

- 9 In 2022 it was estimated that an increase in government spending of \$25 billion in an economy would eventually result in an increase in the country's national income of \$100 billion.

Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.

$$MPC = \frac{\text{changes in consumption}}{\text{changes in income}}$$

$$= \frac{25}{100}$$

$$= 0.25 \text{ billion.}$$



**ResultsPlus**  
Examiner Comments

This response gets an overall score of 1/4 marks – only 1 mark for knowledge for the definition of MPC.

## Question 10

Candidates were asked for one impact of a negative output gap on Vietnam's economy.

Most were able to explain negative output gap as their one knowledge mark. Many were also able to explain the impact, especially on unemployment. However, candidates often struggled in developing their knowledge and therefore were not able to access both the analysis marks. They attained the application mark for using the stem correctly.

**10** In 2022 Vietnam's output gap was forecast to be between -5% and -10%.

Explain **one** likely impact of a negative output gap on Vietnam's economy.

A negative output gap is when actual growth is lower than trend growth. This indicates that there is spare capacity in the economy & resources including <sup>labour</sup> ~~factor~~ are not fully employed. This means higher <sup>rates</sup> ~~levels~~ of unemployment.

In 2022, Vietnam's output gap was forecast to be between -5% & -10%.



**ResultsPlus**  
Examiner Comments

This response gets 1K, 2AN and 1AP.

Therefore, this answer attains an overall score of 4/4 marks.

**10** In 2022 Vietnam's output gap was forecast to be between -5% and -10%.

Explain **one** likely impact of a negative output gap on Vietnam's economy.

Negative gap is a situation that potential growth is bigger than actual growth. One likely impact of a negative output gap is that it will lead to economic growth decrease. Because of the negative output gap, the resources ~~is~~ are not full used ~~the~~. There are spare capacity and the use of resources is not efficiency. As a result of that the rate of economic ~~gro~~ growth will be slower than the economy growth when resources are full used.



**ResultsPlus**  
Examiner Comments

This response gets only 1K and 1AN.

Therefore, this answer attains an overall score of 2/4 marks.

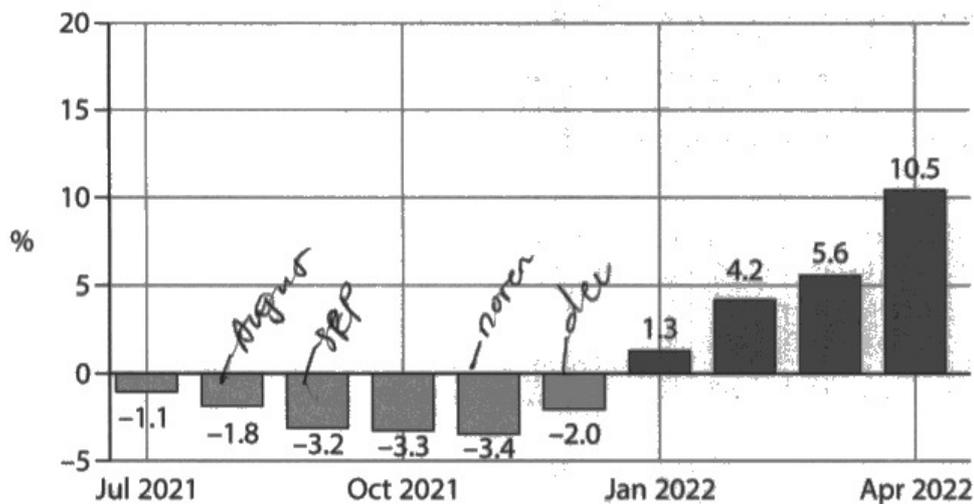
## Question 11

Candidates performed reasonably well on this question, which asked them to explain the term deflation.

They had to use the chart to gain the application marks, which many did and hence were able to access any application marks for this question. It is important to remember the distinction between deflation and disinflation.

These 4-mark questions carry 2 marks for knowledge and 2 marks for application. The application to the answers can be found from the chart provided. These need to be included to get both application marks.

11 The chart shows the CPI inflation rate\* in Rwanda between July 2021 and April 2022.



\*This is the year-on-year inflation rate calculated monthly.

With reference to the chart, explain what is meant by deflation.

Deflation is sustained decrease in general price levels of goods and services in an economy over a given period of time.

from July 2021 to September 2021 there was deflation rate

Deflation rate fall from -1.1% to -3.2%

from July 2021 to November 2021, there was the highest fall in deflation rate from -1.1% to -3.4%

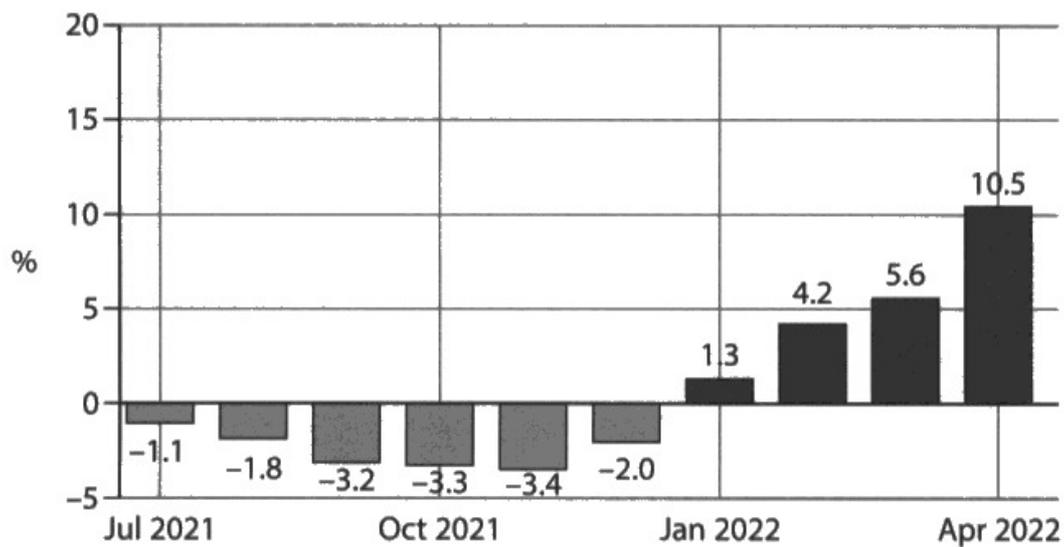


**ResultsPlus**  
Examiner Comments

This response gets 2K and 2AP.

Therefore, this answer attains an overall score of 4/4 marks.

11 The chart shows the CPI inflation rate\* in Rwanda between July 2021 and April 2022.



\*This is the year-on-year inflation rate calculated monthly.

With reference to the chart, explain what is meant by deflation.

Deflation means the inflation rate was negative, for example, in the diagram, from Jul 2021 to Oct 2021, the data of inflation are all negative, and decrease from  $-1.1\%$  to  $-3.3\%$ .



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Examiner Comments

This response gets 1K and 2AP.

Therefore, this answer attains an overall score of 3/4 marks.

## Question 12 (a)

Candidates needed to define the term GDP growth rate. Although 65% of total candidates scored the maximum of 2 marks, this still indicates that 35% were not able to define the term correctly. It is important to explain the key definitions clearly and accurately.

12 (a) Define the term 'GDP growth rate' (Extract A, line 23).

(2)

~~the not~~  
GDP is the total value of goods & services produced in an economy. The GDP growth rate is the percentage at which GDP increases or by. If percentage is negative, country is experiencing a negative growth rate.



This candidate gets 2/2 marks for knowledge.

12 (a) Define the term 'GDP growth rate' (Extract A, line 23).

(2)

GDP growth rate is at what rate the value of all ~~finished~~ <sup>final</sup> goods and services produced in Indian economy in a certain period.



This response gets only 1 mark for knowledge: for the definition of GDP and not for growth rate.

## Question 12 (b)

Many candidates were able to successfully explain the difference between a balance of trade deficit and a balance of trade surplus.

Most mentioned this correctly to get their 2 knowledge marks. To access application marks, candidates had to include two separate pieces of data from Figure 1. Given the nature of the question, it is important to cover all aspects of the answer in knowledge and application.

4-mark questions carry 2 marks for knowledge and 2 marks for application. The application to the answer can be found from the sources provided. These need to be included to get both the application marks.

(b) With reference to Figure 1, explain the difference between a balance of trade deficit and a balance of trade surplus.

(4)

Balance of trade deficit means the value of imports are greater than the value of exports.  
Balance of trade surplus means the value of exports are greater than the value of imports.  
The data shows, the rate of Jun 20 was \$0.8 billions, so it was balance of trade surplus.  
The rate from Jul 20 to Jul 22 were negative, so they were balance of trade deficit.



**ResultsPlus**  
Examiner Comments

This response gets 4/4 marks: 2 for knowledge and 2 for application for correct use of data.

(b) With reference to Figure 1, explain the difference between a balance of trade deficit and a balance of trade surplus.

(4)

Balance of trade deficit is when imports are higher than exports. Negative sign. (minus)

Balance of trade surplus is when exports are higher than imports. Positive sign. (plus)



**ResultsPlus**  
Examiner Comments

This response gets 2/4, only for knowledge. No application provided here.

## Question 12 (c)

This question required candidates to analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade'.

Most responses achieved both knowledge and analysis marks. Some were only able to identify their factors but were not able to develop this further. They were able to access the 2 application marks by using relevant data from Extract A. It is important to recall that there are 2 marks for knowledge, application and analysis for a 6-mark question.

It is important to remember that 6-mark questions do not have any evaluation marks. Accurate reference needs to be made to the figures and information provided, as instructed in the question, to gain access to the application marks.

(c) Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9).

(6)

Inflation means a sustained period that price level are increasing. Balance of trade ~~means~~ means the balance between imported goods and services and export goods and services. The rate of inflation was 7.01% in June 2022 which is <sup>second</sup> highest rate of inflation. Such higher inflation rate will increase the domestic price of domestic goods and services, which will decrease the <sup>price</sup> competitiveness of domestic goods, less foreigners will buy domestic goods, exports will decrease, trade balance may deficit.

However, the balance of trade may have not effect because there has some non-price factor, if the <sup>quality</sup> ~~quantity~~ of goods or services is enough, though the price increase, the demand of domestic goods won't decrease, what's more, if the goods or services is price inelastic, ~~the~~ <sup>like</sup> necessities, the demand may also won't be effect, the trade are still balance.



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Examiner Comments

This response gets 2K+AN+2AP, attaining an overall score of 6/6.

No marks were awarded for evaluation as it is not a requirement of the question.

(c) Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9).

(6)

Inflation is a general and sustained rise in the level of prices within an economy. The rate of inflation in India is expected to rise which will have a further negative impact on India's ~~the~~ balance of trade. The rate of inflation was 7.01% in June 2022 compared with June 2021. This will have a negative impact on the balance of trade as prices of capital ~~and~~ goods and raw materials will rise as well. This will increase the costs of production for Indian producers which can lead to decreased output or increased prices in the goods and services. This will make Indian producers less price competitive than other foreign producers and will thus decrease exports. Moreover, if goods produced in India are more expensive, consumers are more likely to import cheaper goods from abroad. This will lead to decreased exports and increased imports and will cause a balance of trade deficit.



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Examiner Comments

This response gets 2K+1AP+2AN. It is important to recall that there are two marks available for application.

## Question 12 (d)

The question required candidates to examine the likely impact on India's real output of its 'increased expenditure on imported oil'. Most candidates were able to identify the impact effectively. They could gain 2 application marks required by effectively using Extract A. However, many found it difficult to analyse the identified effect and were unable to understand that question.

Evaluation was lacking, and not very well written, with some only identifying a point and not explaining it well. There were some candidates who did not try writing any points. For 8-mark questions and above, evaluation is an essential requirement and should be included. It is also important to remember that there are 2 marks for knowledge, application, analysis and evaluation for an 8-mark question.

(d) Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7).

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2/2  
(8)

Real output is the quantity of goods and services produced in a country in a period of time and adjusted for inflation. The expenditure is the spending on the goods and services.

Increased expenditure on imported oil from oil accounts for 30% of India's imports by value. ~~This is~~ OIL can be considered as a commodity. There is a increase in the commodity price so the ~~oil~~ <sup>oil</sup> producers buy commodity in higher price that increases the cost of production. As the cost of production rises, the firms get less profit and reduces the supply in order to cover the cost. It results in a decrease in short run aggregate supply that decreases the real output. And decreases the economic growth.

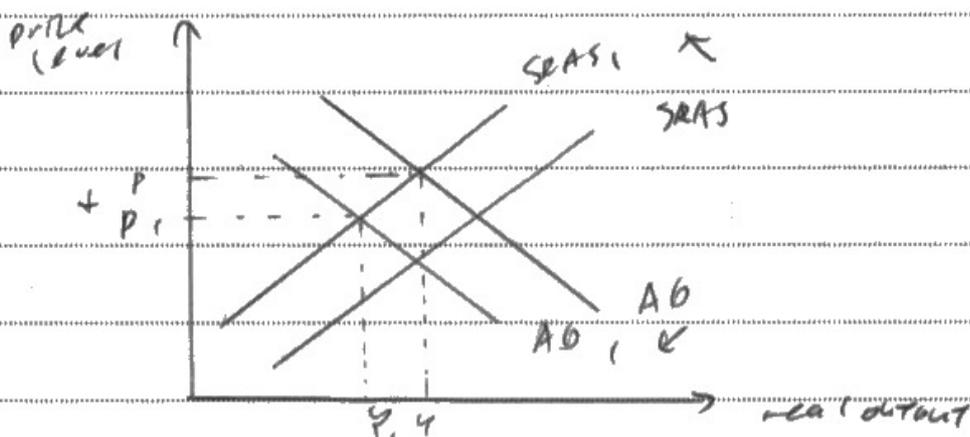
Increased expenditure ~~on~~ on imported oil by more than double the average of 14.7% for other major Asian countries. ~~It~~ It causes ~~the~~ less ~~the~~ profit and revenue of firms. ~~and~~ ~~due~~ ~~to~~ increase in cost of production so the business confidence level decreases. ~~As~~ As the confidence level decreases, the investment level also decreases as they don't have money to earn and spend on investment. As a result, aggregate demand

decreases and <sup>may</sup> cause a negative economic growth that decrease the India's real ~~output~~ output. It has a negative ~~price~~ multiplier effect on the economy as the output decreases.

However, the increased expenditure on imported oil is quite significant with 30% of India's imports by value, with its magnitude, it will have a big impact on India's real output, ~~as~~ as the cost of production is significant.

In addition, the ~~to~~ <sup>demand</sup> ~~price~~ of commodity is inelastic so the producers still need to buy the oil and supply it but the price may be paid by the consumers and result in a increase of ~~real~~ profit to the firms.

The confidence level might not be decrease significantly so that the impact on investment and aggregate demand can be decrease and economic growth is less affected.





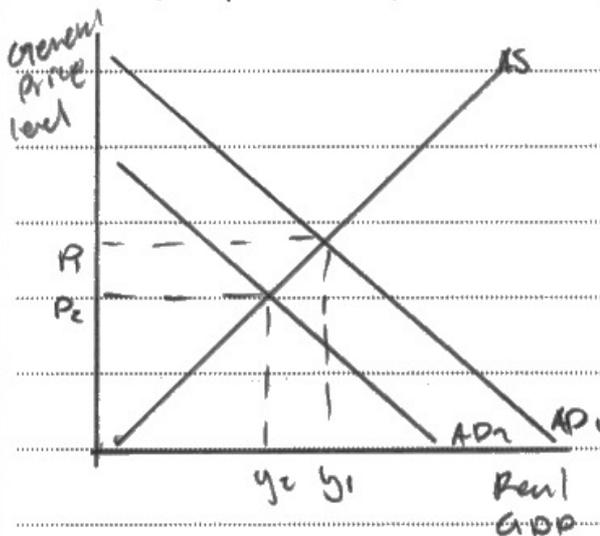
This response gets 8/8 marks – 2K+2AP+2AN+2EV – as it covers all the Assessment Objectives.

(d) Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7).

(8)

~~India's~~ Real Output is the amount ~~of~~ of goods and services ~~over~~ total value of goods and services produced in an economy adjusted for inflation. It is a measurement of economic growth. ~~It~~

India ~~it~~ reports a balance trade deficit of \$30 Billion, largely caused by the increased expenditure on imported oil. As a result of this Aggregate Demand would decrease from  $AD_1$  to  $AD_2$  causing Real GDP to decrease from  $y_1$  to  $y_2$ .



This is because of the increased government spending in importing oil would result in a decrease in government spending in other industries. Thus

According to the formula

$$AD = G + I + C + (x - m)$$

decrease in  $G$  (Government spending) would ~~cause~~ result in a decrease ~~in~~ ~~the~~ Real GDP. However this might not be the case if the Indian ~~government~~ government decides to ~~to~~ borrow. ~~As seen~~

India's ~~world~~ also real output would also decrease due to the increase in leakages (inputs) as a result of the increase in spending on imported oil. This ~~loss~~ would thus take money out of the circular flow of income causing a contraction in the economic output by firms. However



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Examiner Comments

This response gets 3/8 – 2 for knowledge and 1 for analysis.

No correct/relevant application and no evaluation given.

## Question 12 (e)

Candidates needed to use the source to discuss the likely effects of the increase in the base rate of interest on the Indian economy. It is important that candidates refer to base rate of interest and develop their analysis by focusing on those points rather than trying to cover as many effects as possible. This will allow the candidates to access the higher levels of response.

A handful of candidates were able to successfully explain the likely effects on investment and consumption. They were able to integrate this with the application given in the source from the extract and supported their analysis points with an accurately drawn and labelled diagram. This gave them access to Level 3. However, several candidates copied text from the source and did not explain their points. This gave them access to Level 1 only.

Evaluation points made were fairly sound. They included references to short run vs long run considerations. Many included time lags as an evaluative comment, but were not able to successfully support this point using a logical chain of reasoning. Candidates should ensure that they do this as opposed to listing a number of separate undeveloped points.

Centres should ensure the focus is on developing only two points by adding multi-stage chains of reasoning. Evaluation of these two analysis points should also carry depth to access the higher levels. A conclusion is not required for this question.

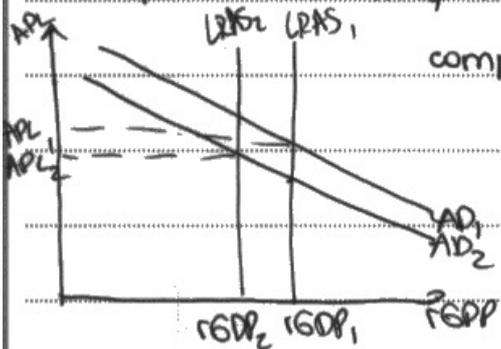
(e) With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy.

Consumption Savings Investment Trade level: time (14)  
 ↓  
 Asset prices

Base rate of interest is the price of money set by Central Banks for commercial ones. It represents the reward for saving and price of borrowing. In 2022, India's central bank raised the country's base rate of interest to 4.9% to deal with the rising inflation of 7.01% in June as a form of deflationary monetary policy.

One likely effect is the fall in consumption. This is because it is now more expensive for consumers to obtain money so they might wait to purchase consumer durables until lower interest rates so that they reduce the risk of defaulting on their loans. At the same time, higher interest rates mean that it is more profitable to save money as the reward will be higher.

A higher likelihood of saving means that the savings ratio will increase leading to a higher MPS and a lower value of the multiplier. This may lead to lower AD as Consumption is a



component of AD, illustrated by the shift from  $AD_1$  to  $AD_2$  which is accompanied by a fall in the average price level of the economy. However, to evaluate,

the impact of higher interest rates may be limited by, for example, the magnitude of the change. If the previous rate was not much lower, the likelihood that a lot of people will stop consuming is small. Extract A suggests a change of 0.5 percent points which is not a very big change so perhaps the impact will be smaller on the

average price level. Additionally, another limitation would be the rate of inflation. An average increase in APL by 7.01% in June may send consumers in an inflationary spiral leading to higher initial consumption, thus it may not lower AD as much and have a less significant ~~the~~ opposite impact of further inflation. Another limitation is that an increase in the interest rate may lead to less consumption of durables as they often require loans but not necessarily of every day products which may still be in demand.

Another impact of high interest rates may be ~~the rate the interest~~ a fall in investment illustrated by LRAS<sub>1</sub> moving to LRAS<sub>2</sub>. This is because higher interest rates may lower the profits of investment because a larger proportion will have to be spent on paying back interest. Thus, the incentive function will lead to a lower ~~to~~ level of investment which may ~~to~~ limit the productive potential of the economy ~~as~~ as well as raise unemployment as there are no new jobs being created and a lower output ~~is~~ indicates a potential negative output gap. ~~To evaluate, however, Ad~~ To evaluate, this lack of investment may be short term as high interest rates may lower inflation which will eventually raise business confidence ~~is~~ as a more stable macroeconomic environment happens. Thus, once the deflationary policy succeeds, fall in investment may be lower, especially because firms could have saved during the high rates of interest and made more retained profit to invest later.

Another effect may be on trade. Higher interest rates in India may attract foreign citizens ~~or~~ firms to save money in the Indian banks

because of higher ~~rate-reward~~ <sup>leading to inflow of "hot money"</sup>. This may cause a higher demand for the rupee leading to its appreciation against the dollar. This may make Indian exports less price competitive ~~to~~ other foreign markets thus lowering the value of ~~the~~ exports and increasing the amount of imports which may lead to a trade deficit. However, this may have short term impact as a higher demand and price of exports may actually disincentivise global markets to purchase Indian exports leading it to depreciate again. Moreover, the impact would not be as bad as Extract A suggests that the rupee had already depreciated so an appreciation may be beneficial as imports will be less expensive. At the same time, if trade in goods and services is inelastic, the change in value of rupee against other currencies will have a less than proportionate impact. Lastly, high interest rates may lead to a fall in the demand of houses and other assets which may lead to a fall in their price. A fall in the price of assets leads to a negative wealth effect which will further decrease consumption due to lower consumer & business confidence.



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Examiner Comments

This response gets three L3's for the effects explained. The first evaluation is strong and gets E3, whilst the others are not as developed so get only E2. Overall: L3 for KAA and E3 for EV.

(e) With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy.

(14)

The base rate of interest is imposed by central banks, and it's the main interest rate for borrowing. Interest rates are the cost of borrowing and reward for saving.

One likely effect of the increase in the base rate of interest will be the decrease in levels of investment. As borrowing becomes more expensive, businesses will decrease their confidence. This will lead to a decrease in consumption that will help to bring levels of inflation down. However, this will not have a positive impact on businesses as they will lose profit.

Another likely effect of the increase in the base rate of interest to 4.9% will be the attraction of people to save that will want to save their money in India, as their returns will be bigger. If demand for Rupee increases, this one's currency will become stronger as there will be an increase as it sells to foreigners. However, the increase in the currency could lead to a deficit in the balance of trade as exports will become less price competitive in comparison.

to other countries (Hot money process)

a

Another effect of the increase in the base rate of interest will be the



**ResultsPlus**  
Examiner Comments

This response just reaches L3 for analysis for both points but offers no evaluation.

Overall L3 KAA + 0 EV.

## Question 13

This question asked candidates to evaluate supply-side policies that a government could use to increase the country's productivity. In addition, to access high Level 4 for KAA, candidates are required to include application in the answer by referring to a country of their choice.

Most candidates were able to analyse the policies, especially government spending on education and infrastructure. There were many who were unable to explain their points identified in depth by adding multi-stage chains of reasoning. Most of the answers only carried a two-stage chain of reasoning, and hence, they were not able to access Level 3 KAA. Those who identified a range of policies without any linked development were only able to access Level 1 KAA. Candidates who mentioned causes of low productivity did not attain many marks.

Evaluation included an attempt to discuss the short run versus long run impact and the magnitude of the change in economic growth. These were under-developed and did not contain many stages of arguments. Those who listed evaluation points achieved Level 1. That said, most candidates evaluated using benefits of economic growth and were able to attain higher levels.

Focus on fully developing only 2 KAA and 2 EV points to maximise chances of attaining the top end of the higher levels. The depth of answers is equally important as having sufficient breadth to answers.

Write your answer here:

Productivity refers <sup>to</sup> the number of units of products can be produced per worker for a period of time.

Supply-side policies are policies that central government can use to manipulate the aggregate supply, including free-market and interventionists. ~~Therefore~~ There are several supply-side policies government can use to improve productivity.

Firstly, ~~the~~ <sup>in</sup> Japan economy, who has 30% lower productivity than the U.S., ~~may~~ <sup>is</sup> the Japanese government could invest more on infrastructures like highways and roads to improve the productivity. This is because the greater financial support enables the construction of and improvement of roads that ~~could~~ some roads can be expanded to ~~can~~ allow more cars passing. It may reduce congestion as cars can drive faster due to larger and more roads they can drive on. Consequently, Japanese workers, who usually need ~~to~~ <sup>about</sup> 1 hour to commute from home to company ~~due~~ due to congestion, may have greater productivity as time of transportation falls, ~~and~~ leaving more time for Japanese workers to focus on their jobs.

Secondly, China, for example, may had relatively low productivity in the 20 century. The Chinese government could invest more in education, such as the nine-year compulsory education, to provide free books textbooks that encourage all Chinese could receive education of nine years.

After time, Chinese students may become more educated, and learning a variety of skills like communication skill. Consequently, after the Chinese students graduated and work, they may have higher productivity as they know how to cooperate with others efficiently through communication. In fact, the nine-year compulsory education boosted Chinese productivity, leading to rapid economic growth.

Furthermore, the central governments could privatise part of firms, meaning that they convert some public sectors to private sectors. Since the goal of public sector is usually providing social welfare, and there's low competition, workers in the public sectors may have low productivity.

However, the private sectors who aim at profit maximization, and experience fierce competition in the market, may have higher productivity. In other words, if a private sector firm fails to become productive, its high unit cost may lead to bankruptcy of it under the fierce competition. Also, deregulation of the U.S market, for example, could significantly improve the productivity as businesses can freely choose and make

decisions to maximize profit. It may have greater innovation and higher quality of goods as a result.

However, to evaluate, there are other factors that need to be considered. Firstly, the Japanese government who spent a lot of money in infrastructure construction and repairment may have higher opportunity cost, meaning investing in infrastructure means would give up the possible benefits being brought by other investment, such as healthcare and social welfare. For example, the Japanese government invested several billions in infrastructure may lead to the sacrifice of higher health conditions of Japanese.

In addition, there might be some government failure in investing in the Chinese nine-year compulsory education, for instance. Since the Chinese government have relatively ~~low~~ ~~and~~ few knowledge about the Chinese education level due to deficiency of technologies, they might find it hard to figure out the optimum level of investment in the nine-year compulsory education. If the government invest too much, crowding out effect may occur when the Chinese government's loan rose the interest rate, which increase the cost of borrowing and investment for Chinese businesses.

Furthermore, since ~~private~~ private sectors aim at profit maximization, if the market ~~is~~ is relatively free, meaning that there're ~~to~~ few regulations ~~so~~ block the development of firms, monopoly might happen as one business has ~~so~~ much power than others, leading to market failure as other firms' development is limited. For example, in U.S., the Windows was accused for monopoly, which is a negative effect of ~~priv~~ free-market.

In conclusion, although governments could invest on infrastructure, education, and privatisation, other factors need to be considered, including opportunity cost, time-lag, and market failure.

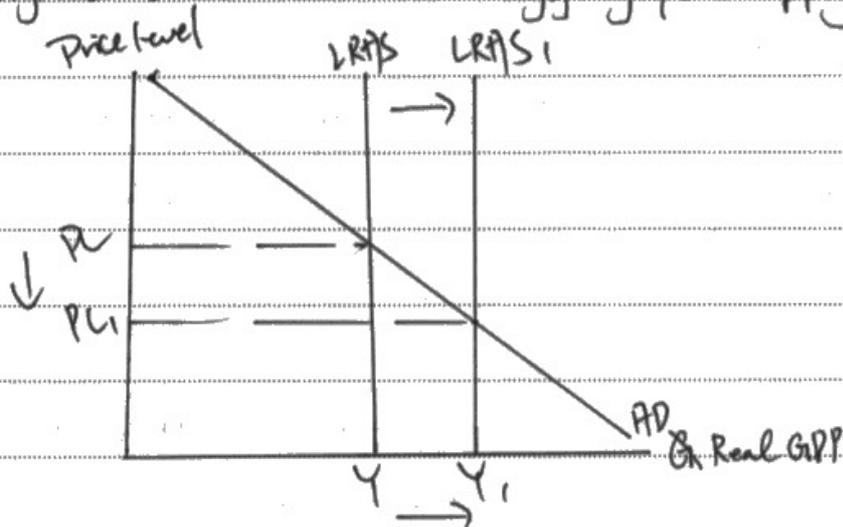


**ResultsPlus**  
Examiner Comments

This is a strong answer which attains the highest level for both KAA and EV. It meets all the Assessment Objectives and integrates application well.

Consistent contextualisation of arguments would give this response higher marks.

Supply-side policies is policies that government designed to increase the aggregate supply of an economy.



Using supply side policy such as <sup>providing education and</sup> ~~subsidy or remove~~ barriers or training would improve the quality of labour, skilled labour will improve the productivity and ~~increase~~ produce more output of a country. In The USA, the productivity is higher than Japan by 30% may due to the high quality of education and training.

However, there is opportunity cost when USA invest their money on education and training, the government budget on other area spending such as medical and public services will be lower.

The government may also use tax relief or subsidy to encourage firm to do investment, firms have subsidy and or

tax relief will have more retained profit and they can spend their money on investment on new machines or provide training to the workers. The productivity in firms will improve.

However, firms receive the subsidy and tax relief may not use the retained profit on doing investment and improving labour skill. Firms may spend the money on other areas such as distribute as dividend. As a result, the productivity would not improve.

Removing barriers of <sup>firms</sup> entry such as deregulation would also improve the productivity by encouraging the competitiveness. Firms in USA or Japan will try to be efficient and improve their productivity to win their rivals. As a result, productivity improve.

However, it has to see which economic cycle the country is experience. If the country is experiencing a recession, supply-side policy would make any effect because the business confidence is low, it is not likely that firms would do investments and competing.

Therefore, it depends the time frame. In the long run, the supply-side policies may make an effect on the productivity. In the short run, the impact on productivity may be insignificant to see.



This response gets L2 for the various policies explained. Similarly, it only gets E2 for the different evaluation comments included.

All the arguments are not fully developed and hence the answer attains L2 for KAA and E2 for EV.

## Question 14

This question asked candidates to evaluate the likely costs of a recession. Moreover, to access high Level 4 for KAA, candidates are required to include application in their answer by referring to a country of their choice.

Costs included impact on unemployment, firms' profits and the deterioration of public finances. Most answers demonstrated some chains of reasoning, but they were not always fully developed or had some key stages omitted. These candidates were not able to access more than Level 3 KAA. Those who mentioned causes of recession did not attain many marks.

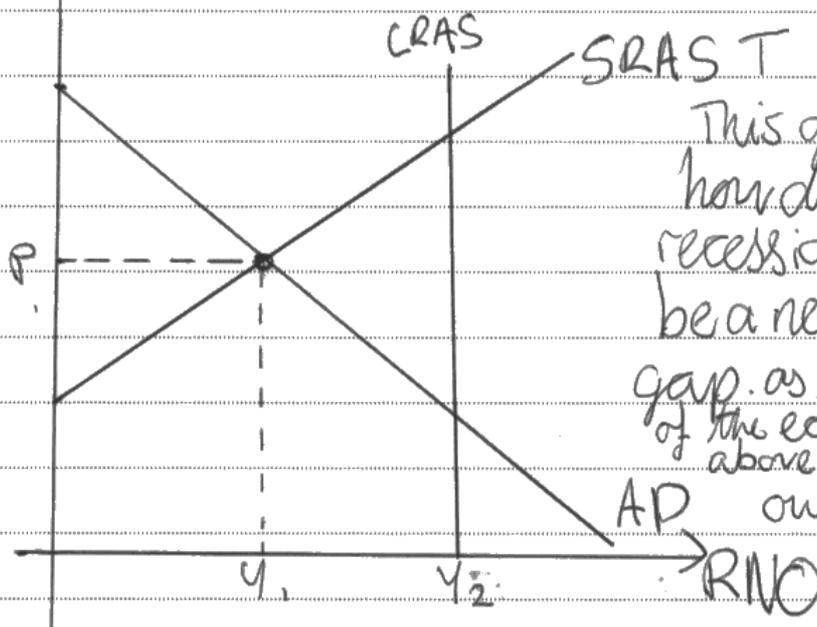
Evaluative comments were not well written. Many offered solutions to solving recession. These were some, however, who were able to explain the benefits of recession, and this was credited. For points that were quite generic and did not have any chains of reasoning, did not achieve more than Level 1.

A recession is when there is negative economic growth for two or more consecutive quarters. Several of the world's leading economies are predicted to go into one in 2023 such as the ~~UK~~ UK.

To start with, a likely effect <sup>of a recession</sup> on an economy such as the UK would be that there are higher rates of unemployment. This is because firms will no longer be able to afford to hire as many workers due to the lower levels of Aggregate demand which in turn may lead to cyclical unemployment. Therefore, there may be a ~~spike~~ increase in social issues such as a rise in crime rates. Furthermore this would also mean that the government will experience a decrease in tax revenues as well as an increase in government spending ~~which~~ as it will have to hand out more welfare benefits. This may mean that it would have a budget deficit ~~or~~ therefore it will have to go into debt in order to pay for its expenses. This

might also mean that there is a very large opportunity cost as it will have to take money from other public services such as education or healthcare which may worsen their quality.

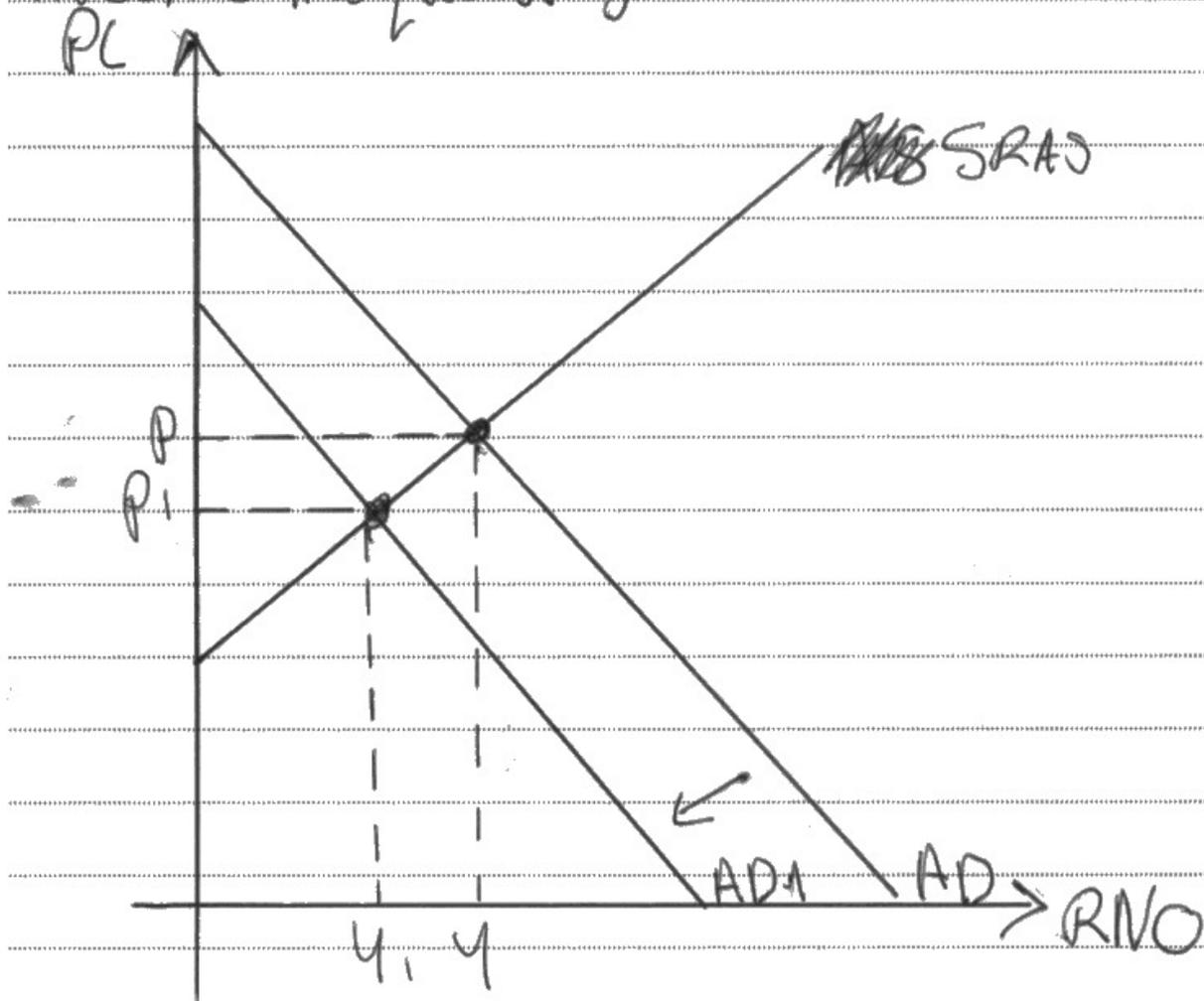
In addition, another likely effect of a recession on an economy such as the UK could be that there are lower levels of investment. This is because wealth levels will decrease which in turn may result in <sup>business</sup> confidence levels decreasing as well therefore decreasing investment which may mean that there will be a reduction in the long term ~~capacity~~ productiveness of an economy and  
 RL  $\uparrow$  a loss in output



This graph shows how during a recession there will be a negative output gap as the potential of the economy  $y_2$  is above the actual output  $y_1$ .



On the other hand, during times of recession there will be lower levels of inflation. This is because Aggregate Demand will decrease which will in turn reduce the levels of demand-pull inflation. This may mean that the purchasing power of money will increase therefore reducing income inequality.



This graph shows how as AD shifts inwards from AD to AD<sub>1</sub>, prices will reduce from P to P<sub>1</sub>. However in the UK the opposite effect is occurring and there is stagflation.

which means that cost push inflation is occurring which is decreasing economic output. Therefore a recession will not always cause low inflation.

On the other hand, during a recession there will be ~~less~~ a reduction in imports. This is because demand for commodities will decrease. This may mean that the country may ~~also~~ close a deficit on the current account which in turn would reduce leakages in the circular flow therefore increasing a positive multiplier effect.

In conclusion, I believe that a recession will likely have more costs in an economy compared to ~~benefits as there will be such~~ as the UK compared to the benefits as everyone will be worse off.



**ResultsPlus**  
Examiner Comments

This is a good answer which attains L3 for both KAA and full marks for EV. KAA is missing application but EV meets all the Assessment Objectives.

Contextualisation of KAA arguments would give this response higher marks.

Recession is the two consecutive quarters of negative economic growth rate.

When there is a ~~recess~~ recession, the economic growth rate will decrease. So the output of whole economy will decrease. And the firms may ~~not~~ need less workers. So there will be more workers are <sup>cyclical</sup> unemployed. <sup>And</sup> So the government spending will increase also because they need to spend money on those people.

~~When~~ Also, the firms may reduce investments. People may have less business confidence when there is a recession. They may ~~spend less money~~ decrease their consumption. So the AD of ~~products~~ goods and services will decrease. At the same time, the GDP will decrease when AD falls.

In ~~addition~~ addition, the balance of trade may be deficit. The reason why is that <sup>consumers</sup> ~~costs~~ will not ~~at~~ consume the domestic goods because lack of ~~to~~ confidence. They may save most of their disposable income. So there <sup>may</sup> be choose to consume the cheaper imported goods. <sup>The</sup> ~~So~~

value of imported goods will increase. So there may be a ~~trade~~ balance of trade deficit.

Moreover, when there is a recession, demand of goods and services will decrease. So the firms may have less profits than before. And the worker's wages will be lower. And their purchasing power will decrease ~~or so they~~ ~~are~~ have ~~less~~ and their living standard will decrease.

However, these negative impacts ~~on~~ depends on the time of recession. If ~~the~~ <sup>recession is</sup> ~~time is~~ temporary, the size of impact could be small. Also, it may have larger impact on developing countries, but smaller effect on developed countries. ~~Some~~ And the unemployment rate may not decrease because it may only impact some industries. The ~~other~~ <sup>others</sup> may not be influenced. And ~~when there is a~~ recession in ~~any~~ <sup>a</sup> ~~country~~ <sup>country</sup>, ~~it~~ And the government could <sup>give</sup> increase the subsidies ~~to~~ the firms to encourage ~~the~~ production. So the recession could be overcome soon.



**ResultsPlus**  
Examiner Comments

This response is limited and only gets L2 for KAA points and E1 for a list of evaluation points for the last paragraph on the second page.

The response needs more depth to arguments and context to access higher levels.

## Paper Summary

The main implications for centres regarding future teaching, learning and examination preparation are:

- Ensure that all parts of the specification are taught and internally assessed. This needs to include addressing all the quantitative skills (as found on page 69 of the specification).
- Candidates must read all questions carefully, and make sure that they have addressed all parts of a question in their response. In a few different questions on this paper, not understanding requirements of the questions, in terms of its depth and breadth, was the main reason for low scores.
- Encourage candidates to draw accurate, appropriate, legible and labelled diagrams to support their arguments, even if not required. This would help add depth to arguments.
- **Section B:** for diagram-based questions, all marks can be achieved through a diagram and no written explanation is required. This is an inefficient use of time. For calculation-based questions, all marks can be achieved through working out the right answer. For questions where a text response is required, candidates should focus on identifying one point and developing it. Giving a list of points will only give knowledge marks.
- **Section C:** Ensure that candidates refer to the relevant extracts but do not copy from them. Brief quotations are acceptable but, in themselves, will not achieve higher level marks. Remember that the 4 – and 6-mark questions do not require evaluation, so please use the time given effectively and avoid assessing the analysis points made.
- **Section C** 14-mark question and **Section D** essays: Encourage candidates to develop a chain of reasoning by analysing two salient points in depth. By contrast, covering a lot of points in a superficial way will limit the mark to a low Level 2 at best. In addition, analysis needs to be contextualised by using relevant source information (Section C), appropriate examples (Sections C and D) or context at the start of Section D questions.
- In addition, ensure that candidates are aware that evaluative comments should be linked to the context of the question being asked. These should have a chain of reasoning or sufficient development to be able to achieve at least Level 2. To achieve Level 3 for evaluation in Section D it is necessary to include an informed judgement.
- Candidates are encouraged to have a clear structure to their answers. They must avoid writing essays in bullet points or in long blocks/paragraphs without making a distinction between their analysis and evaluation points. The nature of essay questions means that they draw on a student's knowledge accumulated throughout their course, and on their ability to apply that knowledge directly to the question.
- Encourage candidates to make full use of the specimen papers, previous examination papers, mark schemes and principal examiner reports. Paying greater emphasis on time management is also vital for the completion of the paper.

## **Grade boundaries**

Grade boundaries for this, and all other papers, can be found on the website on this link:

<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

