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June 2024

IAL Economics WEC12 01

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June 2024

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Introduction

- This is the June series for assessment of WEC12: Macroeconomic performance and policy. There were over 6000 entries for this unit.
- In **Section A**, the multiple-choice section, candidates performed best on recession and GDP per capita (1 and 3 respectively). The two questions with the focus on trade balance and house prices were the least well answered questions in this section (4 and 5 respectively) and this part of the specification may need attention by candidates. 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.
- 7: Most candidates were able to attain the one application mark for correctly identifying the data. Explaining the likely impact was challenging, with many candidates explaining the impact on unemployment instead of employment.
- 8: Candidates had to draw an AD/LRAS diagram and to show the impact of an increase in the base rate of interest on consumption, the 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.
- 9: For this calculation-based question, candidates had to work out the change in balance of trade from a given set of figures on exports and imports. Many did not use the correct equation and found it challenging to access all marks.
- 10: The question asked the candidates to explain one likely effect of an increase in the rate of inflation. In general, they were able to explain an impact of inflation and get the application mark. The last mark on analysis should have required a development of the point identified; but this was the least likely mark to be recorded by candidates.
- 11: Candidates were required to study the stem and explain quantitative easing. Most candidates attained all marks for knowledge but often found it challenging to gain both application marks. They attained one mark for using the data in the stem.
- In **Section C**, the data response section, questions are based on information provided in the source booklet.
- 12a: Candidates only access two marks by correctly defining the term corporation tax. Most candidates scored two marks for the correct definition but some explained it in the context of income.
- 12b: This question required an explanation of the term Gross National Income (GNI). Two relevant pieces of data were required to attain the two application marks. Some candidates only defined GDP and they were only able to access one mark.
- 12c: A vast majority of candidates were unable to analyse two reasons for improvement in living standards in Ireland between 2015 and 2022. Two application marks were awarded for relevant use of the source. However, several candidates copied paragraphs from the extract and were not able obtain analysis marks. This is an area which all the candidates are advised to address. Some candidates evaluated their analysis points, but this was not credited as it is not a requirement of the question.

- 12d: Most candidates were able to examine two reasons why Ireland's rate of economic growth was expected to decrease. However only a small percentage of candidates could fully explain the reason to access analysis marks. Application marks were awarded for appropriate references to Figure 1 and Extract A. Many responses were also not able to access any evaluation marks as they gave solutions to increasing economic growth rather than answering the question directly.
- 12e: Most candidates made effective use of the information provided and discussed the limitations of using GDP to compare living standards between countries. 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 this response was to cover as many limitations 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 more accessible than previously, and this is reflected in the mean scores on both questions. Question 13 was more popular than question 14.
- 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 7e, 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 chains 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.
- The performance on individual questions is considered in the next section of the report.

Question 7

Many candidates were able to access the knowledge mark and the application mark. The most common answers included the impact on increasing labour supply. Some were unable to explain the impact further and therefore were limited to one analysis mark. Majority of the candidates attained the application mark using the stem.

7 In 2021 net migration in Nepal was approximately 300 000.

Explain **one** impact of this net migration on *employment* in Nepal.

(4)

Net migration is the difference between the number of people entering and leaving the country. Net migration = Immigration - Emigration. In 2021 net migration in Nepal was approximately 300000. This means more people enter than leave Nepal. This means more people will increase AD/consumption the economy as more people need to satisfy their needs and wants. This will lead to more production by firms to meet rising AD, hence, they will demand for labour to keep up with production and therefore, employment increases in Nepal.

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This response gets 1K, 2AN and 1AP. Therefore this answer attains an overall score of 4/4 marks.

7 In 2021 net migration in Nepal was approximately 300 000.

Explain **one** impact of this net migration on *employment* in Nepal.

(4)

One impact of this net amigration on employment is employment rates will fall, & as more workers enter the country, more jobs would be needed to keep employment rate steady, but in the short run, with 300 000 net migration, it would be impossible to provide jobs that fast, so this would cause employment rates to fall.

Question 8

There was clear understanding that an increase in the base rate of interest will result in a fall in AD. 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 have included to support their diagram

8 Between May 2022 and April 2023 the central bank of Nigeria increased the country's base rate of interest by six percentage points.

Draw an AD and LRAS diagram to show the effect of this increase in the base rate of interest on *consumption*, the price level and real output.
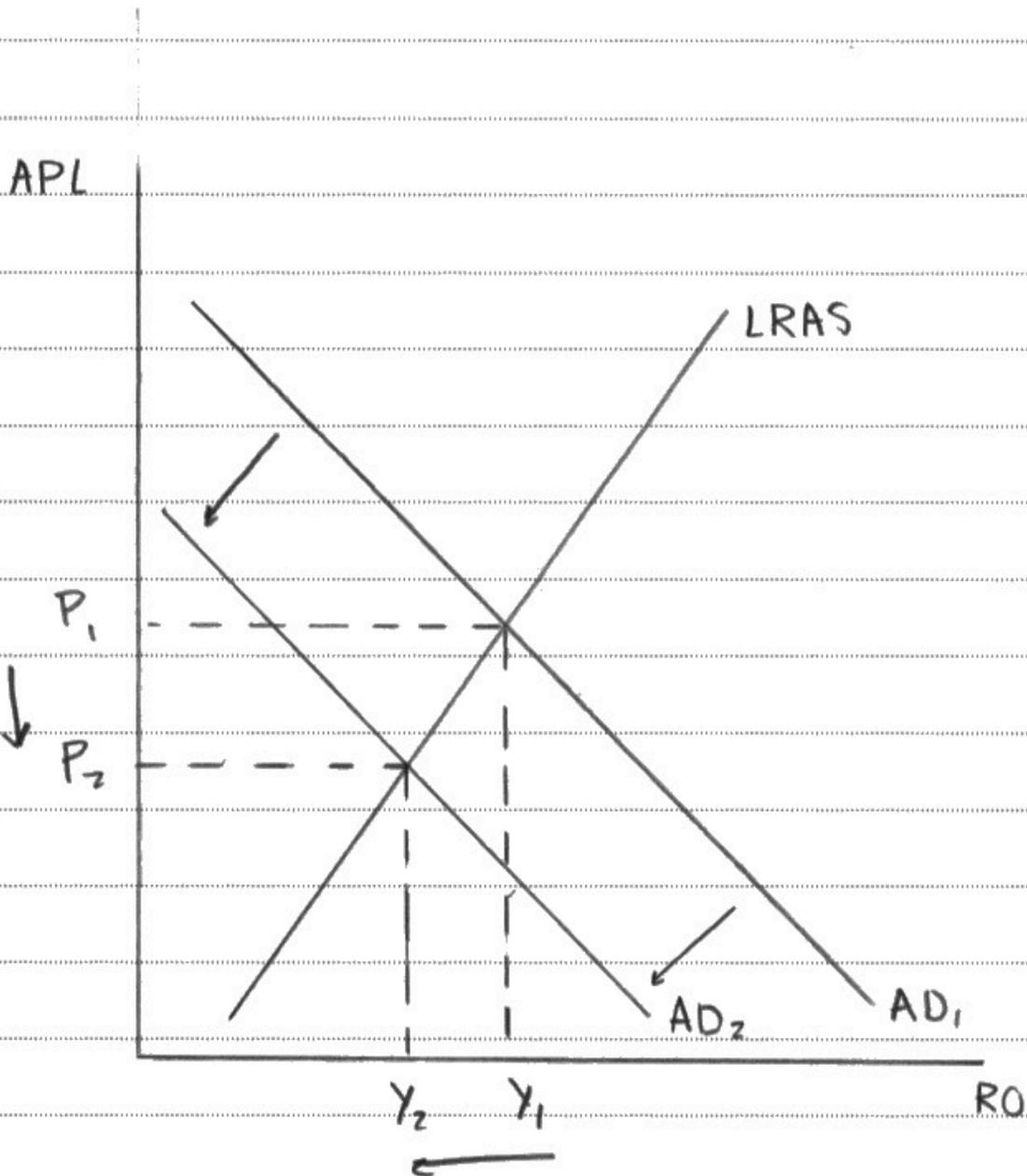
(4)

ResultsPlus
Examiner Comments
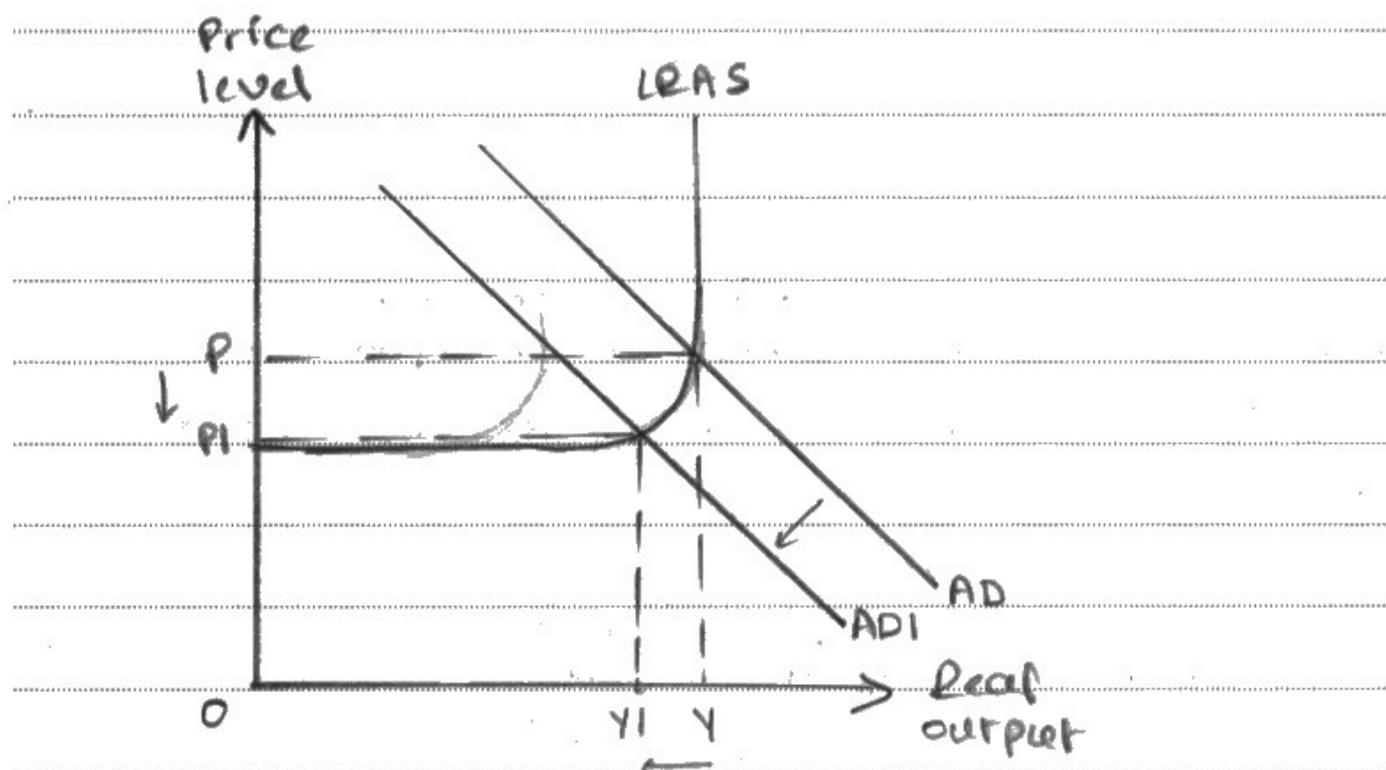
This answer gets 1K and 3AP, so 4/4 marks.

8 Between May 2022 and April 2023 the central bank of Nigeria increased the country's base rate of interest by six percentage points.

Draw an AD and LRAS diagram to show the effect of this increase in the base rate of interest on *consumption*, the price level and real output.

(4)

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

Question 9

Many candidates were able to correctly calculate the change in Thailand's balance of trade between 2020 and 2021. This is because they were informed of the net trade equation and hence arrived 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 The table shows the value of exports and imports of goods and services, $ billion, for Thailand in 2020 and 2021.

	Exports ($ billion)	Imports ($ billion)
2020	208	187
2021	257	230

Calculate the *change* in Thailand's balance of trade between 2020 and 2021. Show your workings.

(4)

Balance of trade refers to the difference between the ~~value of~~ imports of goods and services and the value of exports of goods and services.

Balance of trade = ~~imports - exports~~ exports - imports

2020 = ~~187 - 208~~ 208 - 187 = 21

2021 = ~~230 - 257~~ 257 - 230 = 27

change = 27 - 21

= $6 billion //

9 The table shows the value of exports and imports of goods and services, $ billion, for Thailand in 2020 and 2021.

	Exports ($ billion)	Imports ($ billion)
2020	208	187
2021	257	230

Calculate the *change* in Thailand's balance of trade between 2020 and 2021. Show your workings.

(4)

$$\frac{n - o}{o} \times 100$$

Imports → $\frac{230 - 187}{187} \times 100$

Exports → $\frac{257 - 208}{208} \times 100$

ResultsPlus
Examiner Comments

This answer gets 0/4 marks. It is beneficial to show the workings as this could help attaining some marks in case the final answer is incorrect.

Question 10

Candidates were asked for one impact of an increase in the rate of inflation. Most were able to explain the effect as their one knowledge mark. However, some 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 chart correctly.

10 The chart shows the annual rate of inflation* in Colombia, as measured by the consumer price index (CPI), January 2021 to January 2023.
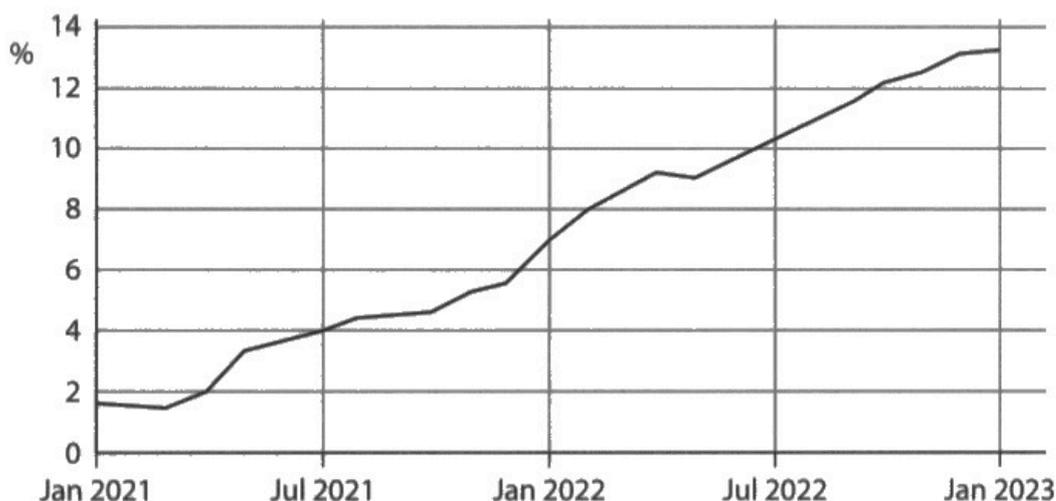
*This is the year-on-year inflation rate calculated monthly.

With reference to the chart, explain **one** likely effect of this trend in the rate of inflation.

(4)

The inflation will increase income inequality.
This is because, the inflation ~~continue the~~ rat continue to
increase from Jun 2021 to ~~Jun 2022~~ Jan 2023, the inflation rate
being 4 ~~bett~~ approximately 13% in Jan 2023. As such,
those with fixed income and limited bargaining power
who cannot demand for higher wages, will not be able to
increase their real income along with the increase rise in general
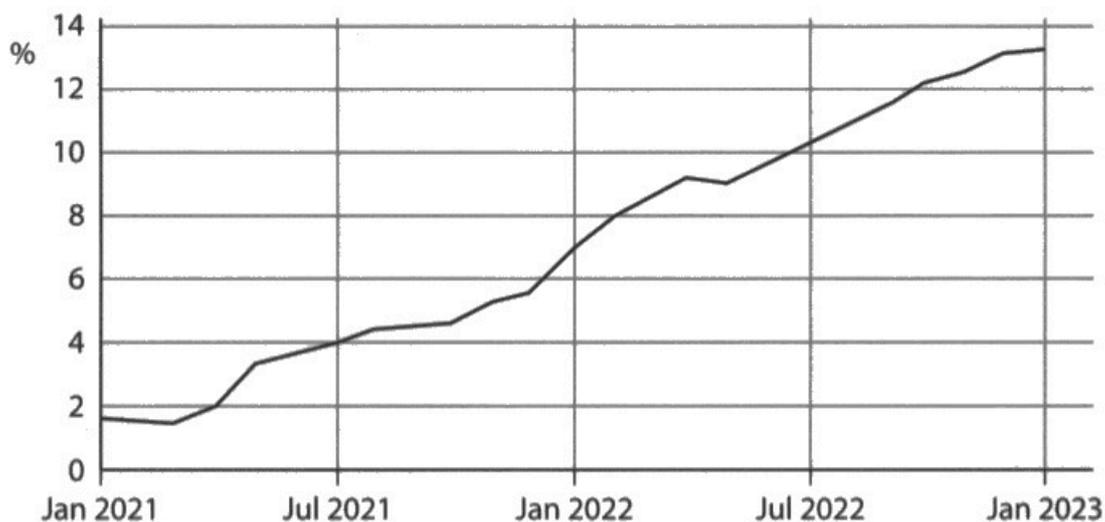price level. So these individuals will not be able to
consume certain ~~goods like~~ basic ~~g~~ needs. ~~They~~ Columbia
may risk poverty in longrun.

10 The chart shows the annual rate of inflation* in Colombia, as measured by the consumer price index (CPI), January 2021 to January 2023.

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

With reference to the chart, explain **one** likely effect of this trend in the rate of inflation.

(4)

Inflation is the general and continuous rise in the average price level. theconsumer From January 2021 to January 2023, the annual rate of inflation increased from approx 1.8% to approx 13%. This large increase in inflation could be due to an excessive amount of consumer spending. This increase in consumption increase AD (C + I + G + (x - M)) and eventually leads to an increase in prices as there is more demand in the economy.

Question 11

Candidates performed reasonably well on this question, which asked them to explain the term quantitative easing. They had to use the stem to gain the application marks, which many did and hence were able to access application marks for this question. It is important to remember the distinction between deflation and disinflation.

11 Between 2015 and 2023 the European Central Bank increased its asset purchases (quantitative easing) programme by approximately €3.5 trillion.

With reference to the data, explain what is meant by quantitative easing.

(4)

Quantative easing is a monetary policy in which the central ~~bank~~ bank digitally creates money and then buys assets like bonds in order to increase their money supply. That way the cost of borrowing reduces so Interest rates reduce The European Central Bank increased its asset purchases programme by about €3.5 trillion between 2015 and 2023. So the Interest rates may reduce.

11 Between 2015 and 2023 the European Central Bank increased its asset purchases (quantitative easing) programme by approximately €3.5 trillion.

With reference to the data, explain what is meant by quantitative easing.

(4)

Quantitative easing is own action utilised by the central bank to encourage consumers to borrow. Due to periods of Savings and consumers not spending on goods and services, the European central bank increases the asset purchasing programme - in which consumers would be motivated to invest more - by €3.5 trillion. As a result, allowing the consumers to gain more power and incentive to purchase.

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Examiner Comments

This answer gets 1AP mark only. It is important to know the definitions as in these 4 mark questions, there are 2 marks available for KN and two marks for AP.

ResultsPlus
Examiner Tip

Candidates need to be clear and accurate in their definitions. Vague statements do not get credited, so need to use technical vocabulary/terminology to access the full marks available.

Question 12 (a)

Candidates needed to define the term corporation tax. Although around 60% of total candidates scored the maximum of 2 marks this still indicates that many were not able to define the term correctly. It is important to explain the key definitions clearly and accurately.

12 (a) Define the term 'corporation tax' (Extract A, lines 4 and 5).

(2)

Corporation tax is tax charged by the government onto businesses on their profit. This would mean a low corporation tax of 12.5% would intice businesses to operate in Ireland.

ResultsPlus
Examiner Comments

This answer gets 2/2 marks. There are no application marks, so they will not be rewarded for making any reference to the extract.

12 (a) Define the term 'corporation tax' (Extract A, lines 4 and 5).

(2)

When the government

Taxation for firms implemented by the government.

ResultsPlus
Examiner Comments

This answer gets 1/2 marks as there is no reference to profits.

ResultsPlus
Examiner Tip

It is important to remember the difference between a firm's income/revenue and profits.

Question 12 (b)

Many candidates were able to successfully explain the term GNI. Most were not able to mention this correctly and hence unable to get their 2 knowledge marks. To access application marks, candidates had to include two separate pieces of data from Extract A. Given the nature of the question, it is important to cover all aspects of the answer in knowledge and application.

(b) Explain what is meant by Gross National Income (Extract A, line 24).

(4)

Gross national income (GNI) is a measure of economic growth that measures total output or expenditure on goods and services in an economy, in addition to overseas interest payments and dividends.* Ireland's central bank uses GNI as an alternative measure of economic growth to GDP (gross domestic product), as it accounts for overseas interest payments and dividends and therefore removes the impact of international companies on economic growth.

*over a period of time

ResultsPlus
Examiner Comments

This response gets 2K and 2AP. Therefore this answer attains an overall score of 4/4 marks.

(b) Explain what is meant by Gross National Income (Extract A, line 24).

(4)

Gross national income is ~~GDP~~ when incomes
earned from domestic citizens abroad is added to
GDP while incomes earned from foreigners
~~citizens~~ are subtracted.
therefore GNI can be used to calculate
~~GDP~~ ~~ecen~~ National income as ~~fe~~ ~~Et~~ Repatriation
of Profits from FDI, located in Y+land are subtracted and
transfer payments or incomes earned from abroad
are added to the GDP. making it a better
measure. ~~compared to G~~

Question 12 (c)

This question required candidates to analyse two reasons for the improvement in living standards in Ireland between 2015 and 2022. Most responses achieved both knowledge and analysis marks. Some were only able to identify their reasons but were not able to develop this further. They were able to access the two application marks by using the relevant data from Extract A. It is important to recall that there are two marks for knowledge, application and analysis for a six-mark question.

(c) With reference to Extract A, analyse **two** reasons for the improvement in living standards in Ireland between 2015 and 2022.

(6)

First reason for the improvement in living standards in Ireland between 2015 and 2022, is the moving of over 1500 international companies to Ireland. Those companies which moved had to hire people in Ireland in order to operate which increased employment in Ireland from 2.06 million in 2015 to 2.55 million in 2022. As more people were employed they had more disposable income which could be used to buy goods and services to improve their standards of living. Furthermore with companies moving to Ireland for the corporation tax rate of 12.5%, the government collected more corporation tax In 2022 the country's corporation tax receipts ros to an all-time high of € 22.6 billion. This money could be used by the government to provide goods an services such as free healthcare and education which increase the standards of living

> **ResultsPlus**
> **Examiner Comments**
> This response gets 2K+2AN+2AP, attaining an overall score of 6/6.

(c) With reference to Extract A, analyse **two** reasons for the improvement in living standards in Ireland between 2015 and 2022.

(6)

Living standards refer to how well off people are in an economy financially.

Between 2015 and 2022 employment increased from 2.06 million to 2.55 million. An increase in employment will lead to greater incomes in Ireland which will likely increase standard of living as people can buy more goods and services an like a more leisureful life.

The increase in employment contributed to a significant increase in government revenues from income tax and corporation tax. With the government having more money they can spend more of it on education, infrastructure and etc, these An increase in spending on education can increase living standards as the people benefitting from the education can likely land higher paying Jobs. Therefore there disposable income increases and they can like a more leisurefull life.

Question 12 (d)

The question required candidates to examine two reasons why Ireland's rate of economic growth was expected to decrease in 2023. Most candidates were able to identify the reasons effectively. They could gain the two application marks by effectively using Extract A. However, many found it difficult to analyse the identified reason 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 eight-mark questions and above, evaluation is an essential requirement and should be included. It is also important to remember that there are two marks for knowledge, application, analysis and evaluation for an eight-mark question.

(d) With reference to Figure 1 and Extract A, examine **two** reasons why Ireland's rate of economic growth was expected to decrease in 2023.

(8)

In 2023 Ireland's rate of economic growth was expected to decrease to just 4%, as measured by GDP. And in 2021 annual real GDP growth rate was 13.6% and in 2022 it has fallen by 1.4 percentage points to 12.2%. The one reason for this decrease to is a high rate of inflation. High economic growth is usually associated with demand-pull inflation as AD shifts to the right. This causes a fall in the real incomes as ~~they don't~~ which means lower standards of living. As a result consumers will post pone their consumption and AD ~~will~~ will stop rising and shift to the left as a result of the decrease in consumption. Moreover, rising interest rates due to high inflation will discourage consumption and investment in the economy decreasing AD. ~~They will encourage saving Additionally~~, Therefore, forecasts suggest that between 2024 and 2027, GDP is likely to grow by an average of 3.5% per year.

However, these are only assumptions and forecasts, since therefore whether economic growth will actually decrease isn't known. Furthermore, it depends on the ~~size of~~ the initial rate of inflation and of the interest rates. A 0.3% increase in the rate of interest won't be ~~significant~~ have a significant impacts on the economy and an increase in the rate of inflation by the same amount isn't significant either. ~~the~~ Since we are not given all the data: ~~needed for~~
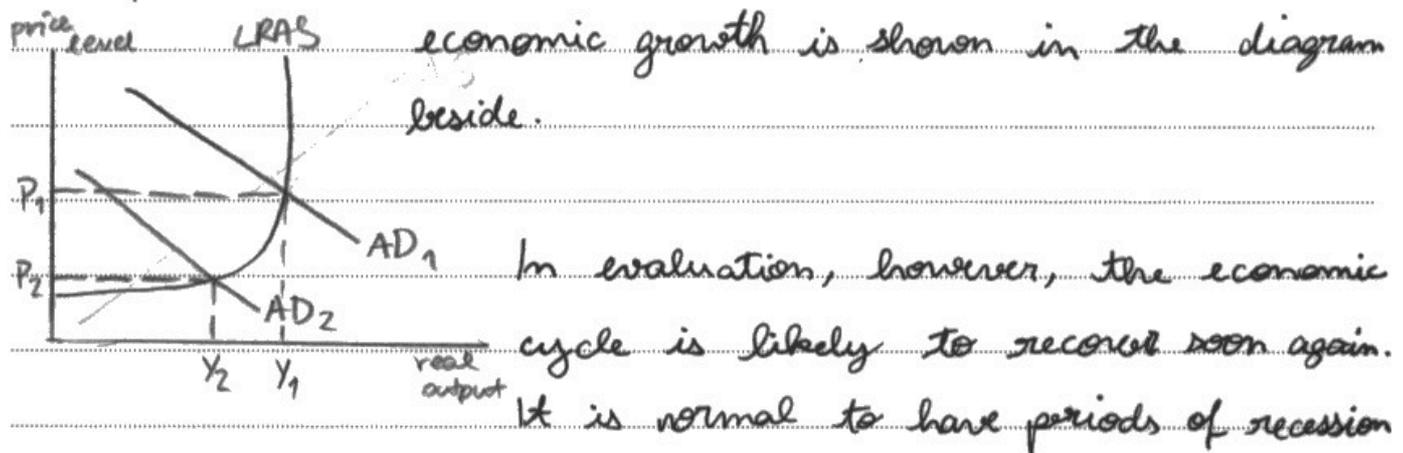
(d) With reference to Figure 1 and Extract A, examine **two** reasons why Ireland's rate of economic growth was expected to decrease in 2023.

(8)

"In 2023 Ireland's rate of ^economic growth was expected to decrease to just 4%, as measured by GDP". That is a fall of 8.2 percentage points from the 12.2% in 2022, as shown in Figure 1. That is due to an increase in inflation rates, which limits AD and output; "rising interest rates", likely a measure to lower inflation, by discouraging borrowing and consumption, which in turn decreases AD and output, and due to "the weakening state of the global economy", which decreases demand for exports, as other economies are also facing lower rates of economic growth. This fall in economic growth is shown in the diagram beside.

In evaluation, however, the economic cycle is likely to recover soon again. It is normal to have periods of recession and periods of boom in an economy, and as prices have fallen due to the shift in AD, consumption and exports are likely to rise again. Other measures that can be taken to solve this reduction in an economic growth rates include supply side policies, such as promoting competition, through the deregulation of the market, or a reduction in taxes, for example corporation taxes. Demand side policies can also be taken, such as an expansionary monetary policy or

an expansionary fiscal policy, though that may be very expensive for governments in times of recession.

Question 12 (e)

Candidates needed to use the source to discuss the limitations of using GDP to compare living standards between countries. It is important that candidates refer to limitations and develop the 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 income inequality and informal economy as limitations. They were able to integrate this with application. Although not required, they supported their analysis 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 the benefits of GDP. 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.

(e) With reference to Figure 2, Extract A and your own knowledge, discuss the limitations of using GDP to compare living standards between countries.

(14)

The first limitation of using GDP to compare living standards between countries is GDP does not reflect the income distribution. The annual real GDP growth rate In 2022 in India was likely to be 7% but was only 2% in the USA. Hence, the rate of change of real output in India is much greater than it is in the USA. But There is significant inequality of income distribution in India as people in India have their specific social status. People with lower status can only earn a few incomes to survive. But people with higher status are able to earn more and living in the city. They afford to buy luxury goods and experience better education and healthcare. In turn, people in America have much higher living standards though they have lower real GDP growth rate. As income can be distributed more equally through price mechanism and there are welfare payments by government.

The second limitation is GDP does not reflect environmental cost. The annual real GDP growth rate in 2022 in China was likely to be 4%

but was only 2% in Germany. As China is an export-led growth economy, it's important for China to produce as more as possible. But during the production, there must be damage to some forests, lakes or mountains. People in China may not experience better and green living places. In turn, ~~as a other~~ Germany may not spend much on production but on imports for goods and services, these may cost less to its environment. Hence, people in Germany may to have higher living standards though their real GDP growth rate is lower than China

However, GDP is the most convenient and ~~costly~~ costly measurement to compare living standards between countries. ~~As GDP as~~ Maybe GDP per capita ~~but~~ is more effective as it can reflect real incomes per ~~some~~ person. Besides, people in developing countries may ~~to totally~~ easily ignore the inequality and environmental cost ~~to~~ when measuring living standards. Or they only want to reduce the absolute poverty. If the real national incomes increases, they may feel that they are having better living standards.

(e) With reference to Figure 2, Extract A and your own knowledge, discuss the limitations of using GDP to compare living standards between countries.

(14)

Using GDP to compare living standard have alot of limitation. Ireland had greatest GDP growth rate in 2021, over 10% higher than USA, Germany. GDP may not measure the population. For example, China have large population, the GDP greater than USA, but the living standard in China may not greater than USA because divid by population, the average GDP for each person is low.

GDP in Ireland may over-estimate. there are big company foreign company such as Apple come to Ireland because of the low corporation tax, the GDP increase and money will flow to foreign country, the domestic people may not gain the benefits so much, it is better to use GNI to avoid misunderstanding of local economy and value the living standard of domestic people.

GDP does not consider the black market economy and the household DIY goods and service.

Although GDP does not consider the Inflation rate. Atowth the GDP growth rate is high, if the inflation rate is high, the domestic people will have bad living standard.

GDP does not consider the environment, some countries have high GDP cost environment damage, which also Influence the living standard.

However, it depends on the magnitude of inflation, if the inflation rate is small, it will not affect.

The environment pollution may be recover by government activities.

Higher GDP will give government more tax revenue, government can build infrastructure to increase citizen living standard.
If they use GNI can avoid misunderstanding of local economy

Question 13

This question asked candidates to evaluate supply-side policies that a government could use to increase the rate of economic growth and to decrease the rate of inflation. 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 range of policies without any linked development were only able to access Level 1 KAA. Candidates who mentioned causes of low economic growth did not attain many marks.

Evaluation should include 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.

Supply side policy is an economic policy that is used ~~to lower~~ to control aggregate demand and achieve macro economic objectives.

Price level
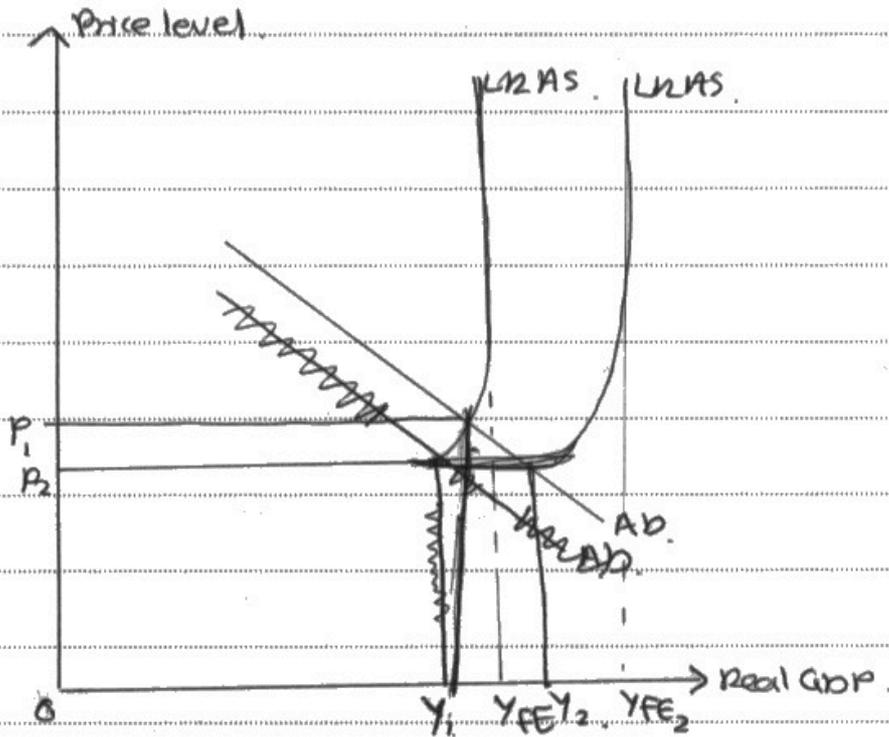
The ~~The~~ One way a government can increase economic growth is by using market based supply side policies. For instance Japan could encourage more businesses to be set up by reducing barriers to entry by ~~setting up more~~ using de regulation. With more businesses ~~set+t~~ up the ~~number~~ competition will increase. As such firms in Japan inorder to survive will ~~stqart~~ start to innovate and act efficiently. By ~~have~~ investing in capital goods and new technology to be used in production. This ~~is so where~~ is especially since ~~consur rational~~ Japanese consumers are attracted to lower prices and

new innovative products: The This will ~~increases~~ increase in the ~~efficiency~~ efficiency among firms and greater investments in capital goods, will increase Japan's productivity, Shifting the LRAS curve to the right, this is especially true if Japan also privatised ~~any~~ inefficient state owned businesses. ~~As~~ The shift will cause Japan to produce at Y_2 where, due to a movement along the aggregate demand curve. The price levels fallen to P_2. Japan will control it's inflation ~~This will cause the the This is without the increase in inflation,~~ levels in 2022 and ~~as th there is more spac~~ be able ~~to reduce~~ be ~~able to reduce~~ allow increase the purchasing power of it's citizen especially those with fixed incomes.

~~Hm~~ Moreover, another way is to make use of interventionalist methods. For instance the Japanese government can ~~can~~ invest ~~in~~ more in Japan's infrastructure. ~~For inst~~ This would mean their roads and building will be better structured, making it easier for business in Japan to transport raw material and goods ~~or~~ or have easy access to suppliers. This will influence ~~multinational~~ foreign direct investment, in the form of multinationals being set up. These multinationals will import new working practices and training methods, that may ~~increase~~ improve the current skills ~~of~~ of Japanese employees and may even create more jobs for the Japanese citizens. ~~The~~ This will improve the quality and quantity of ~~in~~ labour and factors of production, this is especially as such true if Japan also invested in more education, increasing the proportion of people in it's labour force. Therefore, the pressure on factors of production when ~~Japan head has~~ will have fallen the Space capacity

increasing as Japan now will be producing at Y_2. Therefore allowing produce low general price levels to fall.

However, there is a time lag for interventionalist methods. This is because, to improve infrastructure, Japan will have to wait for new roads to be constructed, which will take time, and the investments in education will rarely affect Japan's economy once the students benifiting graduate and enter the labour market, which will depend on the school leaving age in Japan. As such the foreign direct investment will not invests as immediatly, and the quantity of qualified labour will not happen immediatly The inflation rate will not full continue to increase, it whether it is due to for instance as aggregate demend continues to increase, since LRAS will not shift and aggregate demend to may continue to increase. Therefore Japan will fuel an opportunity cost where + Where it's and it's government budget will be weaker due to increased governments spending and the too in the long run the inflation rate will cause further consumer confidence, especially those who have fixed income and have low burgaining power. Japan will face a deck

In conclusion, it is best if the effectiveness of a supply the supply side policy is a good way of increasing reducing side policy will then inflation rate. This is because, Japan is still facing slower rates of economic in real GDP but the rates of increase as such income operating above to full capacity or at full capacity. So in order to avoid infla that will be more pressure after from factors of production, and the only way to relieve that pressure and

reduce Japan's high inflation rate is to ~~reduce the su~~ increase the quantity or quality of factors of production, which is what supply side policy does. But it's effectiveness will depend on the type of method used. It is best for Japan to use market based as interventionalist methods have a time lag and Japan has negative interest rates that may discourage foreign direct investment.

Firstly, supply-side policies are government schemes which aim to ~~decrease~~ increase ~~supply in an economy and the rate of~~ that are used to change the supply of an economy, aiming to increase the of economic growth and decrease inflation rate.

~~Econ~~ Supply side policies that could be used to increase the rate of economic growth ~~to~~ are the ~~interven~~ interventionist policies. For example, a country ~~a~~ such as France ~~could with highincome~~ which is a high income country ~~a~~ and ~~developed~~, its ~~could~~ government could invest money on infrastructure, transport, healthcare, technology and education. This will increase the economic growth rate of the country as better education could make ~~too~~ highly skilled workers, thus decreasing unemployment. Moreover, technology could increase productivity and so as ~~the could~~ France could produce and supply more, this would increase

profits and so increase living standards, leading to economic growth.

Furthermore, using free-market policies could help reduce inflation and increase economic growth. As there would be less government intervention, there will ~~be~~ ~~reasons~~ may be a reduction in tax thus firms could increase production and therefore ~~o~~ make more profits, causing an increase in the ~~o~~ country's economic growth rate.

However, during the process of ~~applying~~ all these supply side policies, there may be time lag hence changes in economic growth rates and inflation may only happen in the long-run. In addition, imperfect knowledge by the government when applying these policies may ~~cause it~~ cause it to face government failure. Also in the free market policy ~~as~~ monopolies may be formed and so these firms ~~will~~ ~~only~~ ~~do~~ can may cause external costs to other firms. Finally economic growth may cause

pollution and congestion problems to the environment due to congestion investment

Question 14

This question asked candidates to evaluate the macroeconomic effects of a government using deflationary policies to achieve a balanced budget. 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.

Points included effects on real output, unemployment and inflationary pressures. 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 budget deficit. Candidates offered positive effects for KAA and the negative effects for evaluation (or vice versa), and this was credited. Points that were quite generic and did not have any chains of reasoning, did not achieve more than Level 1.

The deflationary policies is that government may use taxes, government spending and government borrowing to adjust AD aggeregate demand. In this case, the government using the deflationary policies to achieve a balanced budget. Therefore, the government spending may decrease and the tax may increase. As Argentina as an example.

In Febr February 2024 government expenditure exceeded tax revenue by approximately $ 1 billion in Argentina. That cause the government deficit because government expenditure greater than tax revenue. So, there is some effects when government achieve the balanced budget.

Firstly, there may cause the living standard decrease. Because the government spending decrease.

$$AD = C + I + G + (X - M)$$ So, the AD will decrease.
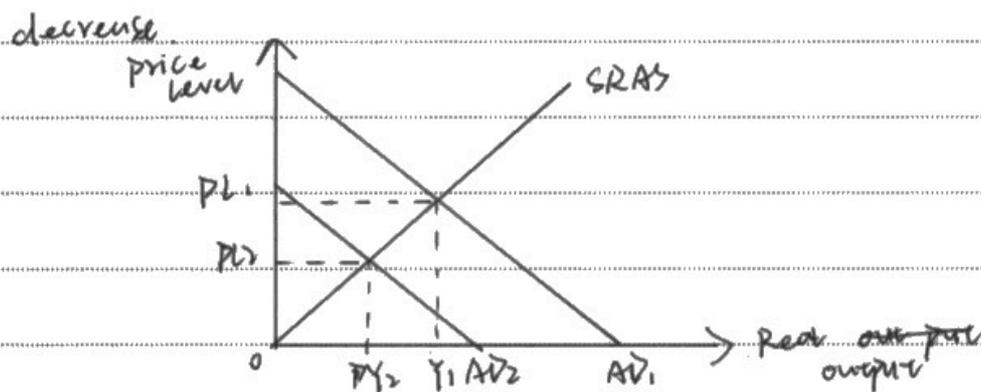
So the AD may shifts to left from AD_1 to AD_2. The price level will decrease from PL_1 to PL_2, the real output may also decrease from Y_1 to Y_2.

Therefore, the economic growth may ~~dero~~ decrease. ~~So~~ Also. the government spending decrease means the funds on infrastructure, healthcare and education may decrease. So, people may have a lower quality life. As the economic growth decrease, the firms may have less funds, so the salary for workers may decrease. Therefore, the disposable income may also decrease. So the living standard may decrease.

Besides, that may cause unemployment rate increase. Because the ~~government~~ tax increase. So the cost of production may also increase. Therefore firms may may fire workers that they could have enough money to investment or send salary. So more people may lose job. The economy may also decrease because the consumption decrease. Because if the people lose job, they may not have enough money to consume.

However, the magnitude of the tax may not too much. Therefore, it may not cause a big high cost for firms. Hence, the unemployment rate may not a increase. Because firms may still have enough money to send salary or investment. So they do not need to fire ~~workers~~ workers.

Also, the ~~lai~~ time for the tax may not too long. So the living standard may not decrease. Because people may have extra asset to consume. So they have also have ~~the~~ enough many

to have a better quality.

In conclusion, the country of Argenting have many factors that may affect the macroeconomics effect like & other component of AD. So we cen nor the deside the real influence on Argentina.

Write your answer here:

Deflationary policies are policies (fiscal) introduced by the government to decrease aggregate demand. It is demand-side policy. It contains increasing the tax rate for income taxes and corporation taxes, government spending. Monetary policies introduced by the central bank could reach the similar effects.

According to the information, in the February of 2023, the Argentina government had a budget deficit of about $1 billion.

If the Argentina government chooses to increase tax rates and decrease government spending, there would be less AD since G falls, and the economy would grow slower. Also, corporations have less income and households have less disposable income.

As disposable income decreases, people have less money to consume and Consumption would fall. Also, there may be a decrease in their living standard. As C falls, there will be less AD and less real GDP.

Also, as corporations have more costs for taxes, they would probably fire more people to cut cost. Unemployment rate would rise and real output may decrease.

Then, welfare payments increased and the tax revenue from individuals may decrease, if ceteris paribus.

Also, as tax increases, there will be more withdrawal from the circular flow of income, this is not beneficial to the total economy.

But the demand-pull inflation would decrease, and there will be less inflation pressure.

~~Also setting~~ However, the effects can be limited. The effects depend on the magnitude of the increase of tax rate and the decrease of government spending. If their size is small, then ~~there~~ their impact would be less significant.

According to the information, in Argentina the government budget deficit was about $1 billion in 2023, then, to reach the government budget balance, the effects from the fiscal policies ~~should~~ should be significant.

Monetary policies can also be used to decrease AD. And it could reach the same effects as the fiscal policies to some extent.

Trade-off between macroeconomic objectives is not negligible and they always exist. The decrease of G would bring to a decrease in economic growth rate certainly., in past few years, for low-income people For example, in China, the government cut income taxes so that citizens could have better living standard and reduce income inequality. Howeve, to reach budget balance, it has to reduce government spending and its economy is growing slower.

Also, the policies have time lag, they can't be exerted immediately.

Also, it can not be assumed to be ceteris paribus.

Paper Summary

- The main implications for centres regarding future teaching, learning and examination preparation are:
- Ensure that all candidates are familiar with 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 get 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