Mark Scheme (Results)

January 2025

Pearson Edexcel International Advanced Level in Economics (WEC12)

Unit 2: Macroeconomic performance and policy

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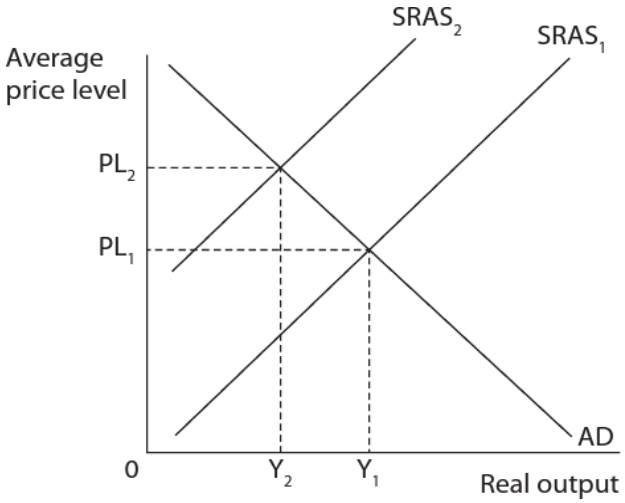
Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS4**: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because the classical LRAS is perfectly elastic when there is a high level of spare capacity* ***B*** *is not correct because the classical LRAS is perfectly elastic when there is a high level of spare capacity* ***C*** *is not correct because the classical LRAS curve is perfectly inelastic at the full employment level of real output*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy* ***C*** *is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy* ***D*** *is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy*	**(1)**
3	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as this is the percentage-point change* ***C*** *is not correct as this uses the incorrect equation: change/new x 100* ***D*** *is not correct as this is the sum of the two percentages*	**(1)**
4	**QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because between Y and Z, the government's tax revenue is likely to increase* ***C*** *is not correct because between Y and Z, the rate of unemployment is likely to decrease* ***D*** *is not correct because between Y and Z, business confidence is likely to increase*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because this is likely to have caused a decrease in investment* ***C*** *is not correct because this is likely to have caused a decrease in investment* ***D*** *is not correct because this is likely to have caused a decrease in investment*	**(1)**

6	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **QS10**: Distinguish between changes in the level of a variable, and the rate of change	**The only correct answer is C** ***A*** *is not correct as the rate of inflation was highest in November 2022* ***B*** *is not correct as the average price level was highest in July 2023* ***D*** *is not correct as the rate of inflation increased each month between June 2021 and June 2022*	**(1)**

Section B

Question	With reference to this information, explain **one** cost of economic growth.	**Mark**
7	**Knowledge 1, Analysis 2, Application 1** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and Analysis** 1 knowledge mark for identification of one cost and up to 2 marks for linked analysis: • Inflationary pressure **(1)** if economic growth is caused by increases in consumption/AD **(1)** as consumers may have higher incomes **(1)** • More air pollution **(1)** as factories will produce a higher level of emissions or toxic waste/use more non-renewable energy resources **(1)** reducing living standards **(1)** • More environmental degradation **(1)** as there is a greater demand for resources **(1)** and therefore more output being produced/greater total output **(1)** • The balance of trade may worsen **(1)** as the economy grows the demand for imports rises; **(1)** this leads to the value of imports rising **(1)** • Increased inequality **(1)** as those with higher incomes benefit more from economic growth as they own resources **(1)** and lower income households benefit less as they are on fixed contracts/incomes **(1)** **Application** 1 mark for appropriate use of the information, e.g.: • In 2022 Guyana's rate of economic growth was the highest in the world / Its annual percentage increase in real GDP was 62.3% **(1)**	**(4)**

Question	Draw a SRAS and AD diagram to show the effect of this increase in the price of coal on the price level **and** real output for Japan.	Mark
8	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** Correctly drawn SRAS and AD curves with correctly labelled axes **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing SRAS shifted to the left **(1)** • New equilibrium showing correct higher price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct lower real output/ income/GDP **(1)** (not rewarded if 'quantity' is used on axis) **NB: also allow a SRAS/AD diagram showing both a decrease in SRAS and a decrease in AD** as follows: • Drawing both SRAS and AD shifted to the left **(1)** • New equilibrium showing correct price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct lower real output/ income/GDP **(1)** (not rewarded if 'quantity' is used on axis) **NB: also allow a SRAS/AD diagram showing a decrease in AD**	**(4)**

Question	With reference to the table, calculate the value of the multiplier for this economy. Show your workings.	Mark
9	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS1:** Calculate, use and understand ratios and fractions **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for knowledge of multiplier formula • Multiplier = 1/MPW, where MPW = MPS + MPT + MPM **(1)** or 1/(1-MPC) **Application** Calculate that MPW = 0.4 + 0.3 + 0.1 = 0.8 **(1)** Calculate that multiplier = 1/0.8 **(1)** = 1.25 **(1)** **NB If the correct answer is given (1.25), award full marks regardless of working** **NB If the answer is given as $1.25/1.25%, award only 3 marks**	**(4)**

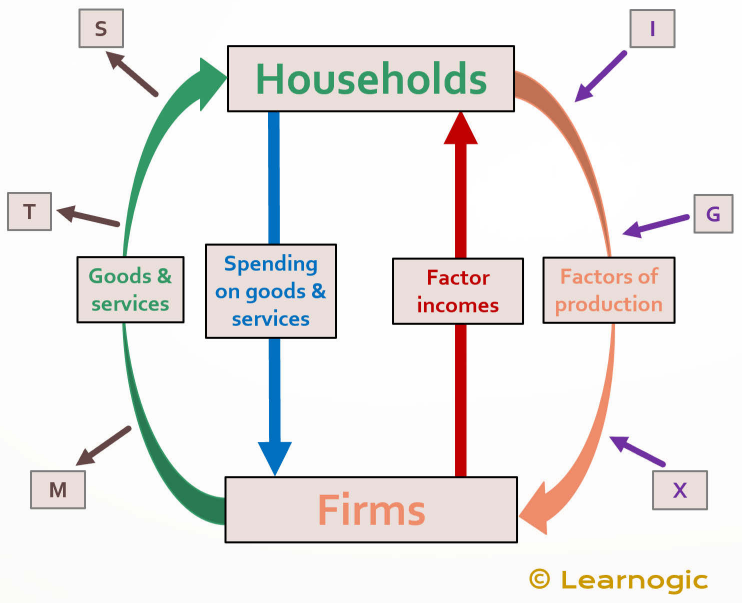
Question	With reference to the chart, explain the term 'quantitative easing'.	Mark
10	**Knowledge 2, Application 2** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for defining 'quantitative easing', e.g.: • Central bank buys government bonds/corporate bonds **(1)** from commercial banks/financial institutions **(1)** • Asset purchases by the central bank **(1)** to increase money supply/liquidity **(1)** • Electronically created money **(1)** to encourage lending/ borrowing in the economy **(1)** • It is an example of a *reflationary* monetary policy **(1)** **Application** Up to 2 marks for applying to the UK, e.g.: • Quantitative easing in the UK increased **(1)** from £200 billion in November 2009 to £895 billion in November 2020 / by £695 billion / by 347.5% **(1)**	**(4)**

Question	With reference to Kuwait, explain **one** likely impact of lower real incomes on subjective happiness.	Mark
11	**Knowledge 1, Analysis 2, Application 1** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge and Analysis** 1 knowledge mark for identification of the impact and up to 2 analysis marks for linked development, e.g.: • Lower the real GDP per capita, lower the World Happiness Score **(1K)** as people can't afford to purchase goods and services **(1AN)** and therefore reduce consumption/increase savings **(1AN)** • Lower the real incomes, lower the subjective happiness/ living standards **(1K)** which may be due to a recession **(1AN)** and people may be more anxious about their job prospects or have lower job security **(1AN)** **Application** 1 mark for appropriate reference to the data, e.g.: • World Happiness Score decreased from 6.52 in 2013 to 6.11 in 2022 / decreased by 0.41 • Between 2013 and 2022 Kuwait's real GDP per capita decreased from $31 082 to $26 788 / by 13.8% **(1)**	**(4)**

Section C

Question	Define the term 'recession'.	Mark
12 (a)	**Knowledge 2** • Fall in real GDP/negative economic growth/negative output gap/period of decline in economic activity **(1)** • for two or more consecutive quarters/six months **(1)**	**(2)**

Question	With reference to the third paragraph of Extract A, explain the term 'exchange rate'.	Mark
12 (b)	**Knowledge 2, Application 2** **Quantitative Skill Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for defining exchange rate: • The *value/price* of one country's currency **(1)** in terms of another currency **(1)** • The rate at which one currency will be exchanged **(1)** for another currency **(1)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Fall in domestic consumption / was mainly the result of Japan's weak exchange rate **(1)** • Japan's imports decreased by 4.3% **(1)**	**(4)**

Question	Analyse **one** likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income. Illustrate your answer with a circular flow diagram.	Mark
12(c)	**Knowledge 2, Application 2, Analysis 2** **Quantitative Skill Assessed** **QS4:** Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and Analysis** 1 knowledge mark and up to 2 marks for linked analysis of one likely effect, e.g.: • Exports increase **(1K)** which means the size of the injection rises **(1AN)** increasing the money flowing around the circular flow of income **(1AN)** 1 knowledge mark for diagram showing flows between households and firms OR identifying injections and withdrawals  **Application** Up to 2 marks for reference to Extract A, e.g., • The contribution of tourism to GDP is included in net trade figures / and returned to more than two-thirds of pre-global health crisis levels **(1)** • The number of tourists was expected to grow in the second half of 2023 / after China ended restrictions on group tours to a number of countries including Japan **(1)**	**(6)**

Question	With reference to Extract A, examine the likely impact on Japan's real output of the fall in domestic consumption.	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for understanding of real output, e.g.: • Output adjusted for inflation **(1)** *AND* 1 knowledge mark for identifying the impact: • Fall in Japan's real output **(1)** **Analysis** Up to 2 marks for analysing the impact (1+1), e.g.: • Consumption is a component of AD (C+I+G+(X-M)) **(1)** so AD is likely to fall (this can also be shown on an accurately drawn AD/AS diagram) **(1)** • Higher savings **(1)** so increases withdrawals from Japan's circular flow of income **(1)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Fall in domestic consumption … remained a concern **(1)** • Makes up more than half of Japan's economy **(1)** • Fell by 0.5% **(1)** • Consumers in Japan experienced significant increases in the prices of goods and services **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of the fall in domestic consumption is relatively small **(1)** so impact on real output is insignificant **(1)** • The impact on real output may be reversed in the long-run if the exchange rate gets stronger **(1)** and Japanese imports become relatively cheaper **(1)** • Real output may not fall in long-run **(1)** if other components of AD rise, e.g. government spending **(1)** • Impact on real output depends on elasticity of LRAS **(1)**; real output will decrease if AD lies on elastic segment of LRAS **(1)**	**(8)**

Question	With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** Use of Figure 1: e.g. identifying negative interest rates of -0.1% since 2016 • "To achieve the inflation target of 2% an increase in the base interest rate would be necessary / would no longer be a case for maintaining a low base interest rate, that was introduced at a time when the rate of inflation was below the inflation target" Factors that the BOJ would consider include: • Economic growth/recession/output gap/spare capacity: "This increase in Japan's real Gross Domestic Product (GDP) was double the original forecast" – ensure that AD would grow in line with productive potential • Forecast rates of inflation/inflationary expectations: "They stated that even the Government of Japan expected the annual rate of inflation to be 2.6% in 2023 against the BoJ's forecast of 1.8%." – determine if inflation is temporary or permanent • Net trade balance: exports rose by 3.2% in Q2 2023 / Japan's imports decreased by 4.3% • Consumption: "fall in domestic consumption, following the global health crisis, remained a concern" /level of savings • Exchange rate: "country's weak exchange rate" – may encourage BoJ to raise the base rate of interest to prevent a further fall in exchange rate • Commodity prices: "increase in the price of raw materials and energy" – cost-push inflation will need to be controlled by the BoJ • Level of confidence in the economy: business and consumer confidence "It also created greater uncertainty that had an impact on business investment." – can indicate turning points in the business cycle • Wage growth: "Upward pressure on prices caused workers to demand higher wages" – this could impact future inflation and influence BoJ's decision • Performance of other countries: "probability of a global recession, seen as a significant risk to Japan's economy"

Level	Mark	Descriptor
	0	No rewardable material.

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

Evaluation (6 marks) – indicative content

- Prioritisation of the relative significance of each factor
- Combination of factors is likely to be considered by BoJ
- Inaccuracies or inadequacies of data may mean that Japan's economic growth may not have been correctly forecasted
- Reliability of data/uncertainty of forecasting: many statistics are often revised later, such as real GDP/consumption/investment
- Difficulty in estimating the size of output gap/spare capacity in the economy
- Lagged effects of many influences on the rate of inflation e.g. net trade
- Commodity prices are very volatile: an increase in price might be temporary – therefore, problem of using the current inflation rate to guide monetary policy decisions
- Potential for economic shocks changing the global economic landscape considerably, leading to higher uncertainty in the world economy
- Lagged effect of monetary policy: could take 18 to 24 months
- Interest rate increases might be ineffective in dealing with cost-push inflation

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

Section D

Question	In 2022 the Government of China decided to invest 1.48 trillion yuan in many new transportation, energy, and telecommunication infrastructure projects. Evaluate the likely benefits of an increase in government expenditure on infrastructure. Refer to an economy of your choice in your answer.
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Infrastructure spending includes spending on transport, power supplies and telecommunications • Infrastructure projects will increase government spending/investment which will boost AD as government spending/investment is a component of AD (may be shown diagrammatically) • The injection into the circular flow of income will result in further rounds of spending via the multiplier effect (may be shown diagrammatically) • This may increase real output • Improved infrastructure will make doing business easier and cheaper; it lowers production costs for firms • Reliable energy/power supplies mean production can happen undisrupted • Better transport systems mean that raw materials can be moved quicker wasting less time, increasing efficiency • Workers will waste less time traveling as there is less congestion • Better telecommunications e.g. broadband speeds will enable workers to work more quickly, not waiting for information to download or upload • The LRAS shifts rightwards: this may cause deflationary pressure and an increase in potential output (may be shown diagrammatically) • Employment increases as people work on projects directly and indirectly **NB Award a maximum of Level 3 for answers with no reference to an economy in their answer**

Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context.

		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Increased AD may cause greater inflationary pressures • Infrastructure projects may have a negative effect on the environment • The rise in government expenditure may mean that the government cannot meet the objective of achieving a balanced budget • Significant time lag for infrastructure projects to be completed • Infrastructure projects can result in delays during construction • No guarantee that infrastructure projects will have a positive impact on productivity if the value of the projects is lower than the cost of building • Consideration of effectiveness of infrastructure projects at delivering economic growth that does not negatively impact third parties • Overall impact on real output depends on size of the multiplier • Impact on real output/inflation depends on the level of spare capacity in the economy/elasticity of the LRAS • Magnitude- this is substantial spending which should see a larger benefit in terms of increase in GDP • The increase in government spending/investment could be offset by a decrease in the other components of AD e.g. consumption or net trade	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Between 2012 and 2022 the productivity rate in Turkey increased by 39.2%. Evaluate the likely benefits of an increase in the productivity rate. Refer to an economy of your choice in your answer.

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Indicative content guidance

Answers must be credited by using the level descriptors (below) in line with the general marking guidance.

The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

Knowledge, Application and Analysis (12 marks) – indicative content

- Understanding of productivity: measures the efficiency of production.
- It is usually measured as output per worker/output per hour worked

- Increased productivity rate increases the productive potential of the economy, increasing LRAS and resulting in a rise in real output causing economic growth and a reduction in unemployment (may be shown diagrammatically)
- An increase in LRAS could result in a decrease in the price level/lower inflationary pressures (may be shown diagrammatically)
- Higher productivity rates may increase demand for exports. As export prices fall/the value of exports increases: improves the current account of the balance of payments/ balance of trade
- Increased productivity rate can result in a greater incentive for businesses to invest: this leads to greater injections into the circular flow of income
- A highly productive workforce may increase the demand for labour and real wages, increasing consumption and AD: hence real output (may be shown diagrammatically)
- Higher productivity rate is likely to reduce unit costs and therefore increase company profits: this could result in an increase in investment and/or increase in wages of the workforce
- Higher productivity rate is likely to increase tax revenue: this can lead to more government spending and potential multiplier effects on GDP

NB Award a maximum of Level 3 for answers with no reference to an economy in their answer

Level	Mark	Descriptor
	0	No rewardable material.
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Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

- May conflict with government's environment objectives
- Higher productivity may be the result of capital investment that may reduce employment of labour / structural unemployment
- Workers may need to be retrained to move to a different sector
- Magnitude of productivity rate improvement
- Depends on relative productivity rates
- Difficulty in measuring productivity rates e.g. especially service sector
- Increased productivity may only occur in the long-run, so unlikely to have an immediate impact on real output
- Other factors might be more significant for economic growth e.g. high consumption through demand-side policies
- Impact on inflation on the shape of/elasticity of LRAS and position of AD
- Current account of the balance of payments is also influenced by other factors e.g. exchange rate
- Investment by businesses may be based more on confidence than productivity

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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