



# **Examiners' Report June 2024**

**IAL Economics WEC14 01**

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## Introduction

This is the June series for assessment of WEC14 Developments in the global economy. The examination tests the candidates' abilities to select and apply appropriate economic concepts, theories, and techniques in a variety of contexts. As Unit 4 is a synoptic unit, the examination may draw on material from Units 1, 2 & 3.

In **Section A**, the multiple-choice section, candidates performed best on the role of the World Bank (question 1). The question with the focus on terms of trade was the least well-answered question (question 4), and this part of the specification may need attention by candidates. On the remaining questions, candidates performed reasonably better.

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

- Q07(a): Candidates only accessed two marks for correctly calculating Indonesia's GDP. Most candidates scored two marks for this question.
- Q07(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 from Figure 1 to attain the two application marks. Many simply reversed the definitions and did not get any marks.
- Q07(c): Most candidates could analyze two benefits of Indonesia's increasing population to its economy. However, only a small percentage of candidates could fully explain the benefits to access both analysis marks. As this is a data response question, the candidates are required to explain the benefits that have been provided in the extract and not from their own knowledge, unless specifically mentioned.

Application marks were often awarded for appropriate references to Extract A. Some candidates evaluated their analysis points, but this was not credited as this is not a requirement of the question.

- Q07(d): A large majority of candidates were able to examine two likely problems for the Indonesian economy due to its dependence on commodities. Two knowledge and application marks were often awarded for relevant use of the sources. However, several candidates copied paragraphs from the extract and were not able to obtain analysis marks. This is an area that candidates are advised to address. Candidates attained the two evaluation marks for explaining the benefits.
- Q07(e): Most candidates made effective use of the source given and were able to discuss market-orientated strategies that the Indonesian Government might use to increase its rate of economic growth. 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 strategies as possible but without any development in analysis. Many responses were also not able to access evaluation marks as they gave solutions to these problems rather than directly answering the question.

In **Section C**, candidates have the opportunity to choose two out of three questions. The section appeared less accessible than previously, and this is reflected in the mean scores on all three questions. Question 10 was most popular, followed by question 8, and then 9.

In all three 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 Q07(e), answers often lacked a fully developed chain of reasoning. This is because they focused their explanations on several points, and this meant they did not have enough time to develop them. Some candidates drew appropriate and accurate diagrams and incorporated them with sound analysis points. This allowed them to consistently achieve 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 a logical chain of reasoning. It should be stated that 8 marks are now awarded for evaluation in the essay section. A reference to a country will always form part of the questions in Section C. Candidates are expected to have an awareness of countries to form a basis of their arguments and 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 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 B.

## Question 7 (a)

Candidates needed to calculate Indonesia's GDP in 2022. Although around 60% of total candidates scored the maximum of 2 marks this still indicates that around 40% were not able to calculate the change correctly. It is important to use the data carefully for calculation-based questions.

7 (a) In 2022 Indonesia's current account surplus was 1% of its GDP.

With reference to line 26 of Extract A, calculate Indonesia's GDP in 2022.  
You are advised to show your working.

(2)

Current account surplus in 2021 3,5 bln \$  
Current account surplus in 2022 13,2 bln \$

$GDP = \text{Current account surplus} \cdot 100$   
 $GDP \text{ in } 2022 = 13,2 \text{ bln } \$ \cdot 100 = 1320 \text{ bln } \$$

$\frac{100 - x}{1 - 13,2}$



This gets 2/2 marks.

7 (a) In 2022 Indonesia's current account surplus was 1% of its GDP.

With reference to line 26 of Extract A, calculate Indonesia's GDP in 2022.  
You are advised to show your working.

(2)

January - 1 \$ billion

July - 4.1 \$ billion

$$\frac{1}{4.1} = 0.24\%$$



**ResultsPlus**  
Examiner Comments

This gets 0/2 marks. It is good to show workings that will allow to access 1 mark if the final answer is incorrect.

## Question 7 (b)

Many candidates were able to successfully explain the difference between a balance of trade deficit and a balance of trade surplus. Only a handful did not attain full marks. A common response was to explain it in terms of value of imports and value of exports. To access both the application marks, candidates had to include two pieces of data from Figure 1, one for each. Some candidates only offered one, and not both. Given the nature of the question, it is key to cover all aspects of the answer in knowledge and application.

(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 the value of ~~exports~~ <sup>imports</sup> exceed the value of ~~imports~~ <sup>exports</sup> whilst balance of trade surplus is when the value of exports exceed the value of imports. In January 2019 the Indonesian economy according to figure 1, experienced a balance of trade deficit of approximately -0.9 \$billion whilst in January 2021 it experienced a balance of trade surplus of 2 \$billion.



This gets 4/4 marks – 2K + 2AP.

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

(4)

A balance of trade deficit is when the value of imports exceeds the value of exports. A balance of trade surplus is when the value of exports exceeds the value of imports. As shown in Figure 1 the balance of trade of Indonesia was positive from July 2020 until January 2023, which indicates that they have a current account surplus and the value of exports exceeds the value of imports.



**ResultsPlus**  
Examiner Comments

This gets 3/4 marks - 2K + 1AP.



**ResultsPlus**  
Examiner Tip

Four-mark questions carry two marks for knowledge and two 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.

## Question 7 (c)

This question required the candidates to analyse two benefits of Indonesia's increasing population to its economy. Most responses included the benefits e.g. larger pool/supply of workers and increased consumption. They were also able to access the two application marks by using relevant data from Extract A. Few candidates confused population growth with immigration and were unable to access any marks.

(c) With reference to Extract A, analyse **two** benefits of Indonesia's increasing population to its economy.

(6)

Ever since 2012, Indonesia had the highest ~~growth~~ <sup>growth</sup> of population of 26 million people, reaching 276m by 2022. This will lead to several benefits for Indonesia. Firstly, Indonesia's economic performance improved, and the real GDP increased by 5.3%. As the population grew, it increased the consumption of various goods and services in the economy, leading to higher output being produced and thus the AD of the country increased, leading to economic growth.

Secondly, as the population grew, the working capital would also grow leading to ~~lower inflation~~ <sup>lower inflation</sup>. The increased population increased the amount of the working capital in the economy, meaning that the supply of workers would increase, which means their wages will fall as their supply is high. This would lead to lower costs of production for firms, and overall lower prices in the economy. This is shown as Indonesia had the lowest rate of inflation of 4.6% in the region.



This response gets 2K+2AN+2AP, attaining an overall score of 6/6. It covers all the knowledge, application and analysis required for the question. No marks were awarded for evaluation as it is not a requirement of the question.



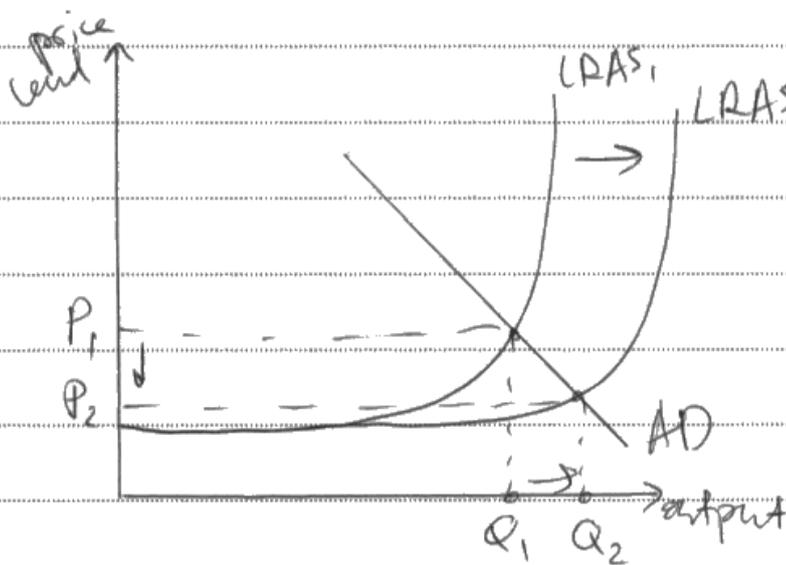
It is important to remember that 6 mark questions do not have any evaluation marks.

(c) With reference to Extract A, analyse two benefits of Indonesia's increasing population to its economy.

(6)

In 2022 the population of Indonesia was 276 million people and it increased by 26 million since 2012.

As the population increased, the capacity of the economy also increased leading to an outward shift of LRAS:



This would happen, as the size of the workforce would increase. As a result, the long run price level will decrease.

Another benefit is an increase in productivity, which would occur, as "the Government relaxed its previously strict employment regulations". ~~This would lead to lower costs for firms, making Indonesian exports more competitive~~ and the population increased. Consequently, unit labour costs are likely to fall ~~and productivity is likely~~, which would help make Indonesia's exports more price-competitive.



This response gets 1K+2AP+1AN. The second para gets no K or AN marks as it is not answering the question.



It is important to recall that there are two marks available for knowledge and analysis.

## Question 7 (d)

The question required the candidates to examine two likely problems for the Indonesian economy of its dependence on commodities. Most candidates were able to identify the problems from the given extract and were also able to gain the two application marks required. Many copied paragraphs from the extract and did not explain it. This did not allow them to gain the higher analysis marks.

Evaluation was good and well written with many identifying their point and explaining it well. There were some candidates who did not make an attempt of writing any points. For 8-mark questions and above, evaluation is a key requirement and should be included.

(d) With reference to Extract A, examine **two** likely problems for the Indonesian economy of its dependence on commodities.

(8)

According to extract A, 'In 2022 Indonesia's exports of commodities made a more significant contribution [...] to its economic ~~growth~~ growth rate than its exports of manufactured goods.' This means that Indonesia's economy is largely dependent on the export of commodities. This primary product dependency means that Indonesia's growth is dependent on the prices of commodities because the demand for them is inelastic. 'It was forecast that advanced economies would experience lower rate of economic growth in 2023. This would result in a fall in demand for Indonesia's commodities.' This means that the value of Indonesia's exports would fall, leading to lower net exports, lower aggregate demand and a lower rate of growth. This is a constraint on its development because its revenue and growth are not steady so firms cannot plan for the future.

Furthermore, 'Indonesia's exports of commodities made a more significant contribution to the country's current account surplus.' This means that if the value of its exports ~~fall~~ fell, as was forecast for 2023, there would be a worsening of its current account. This is negative because it would not receive enough foreign currency needed for imported capital goods to promote growth.

and development.

However, 'In 2022 the country benefited from rising global commodity prices.' This means that, when commodity prices are high, the country can use the additional revenue for investment into other industries that will diversify its economy and reduce its dependency on commodities.



This response gets 2K+2AN+2AP+2EV (on second page), attaining an overall score of 8/8. It covers all the knowledge, application, analysis and evaluation required for the question.

(d) With reference to Extract A, examine **two** likely problems for the Indonesian economy of its dependence on commodities.

(8)

The ~~Pre~~ Prebush-Singer hypothesis states that in the long-run, the prices of all commodities will increase. This will make countries that are dependent on the export of them suffer.

As Indonesia is a net exporter of commodities, they greatly benefit from price increases. The country's current account surplus increased from \$3.5 bil in 2021 to \$13.2 bil in 2022. This is a \$9.7 bil difference. The economy is greatly dependent on its exports for economic growth.

One problem of being highly dependent on the export of commodities is the Prebush-Singer hypothesis. This will cause Indonesia to have very lower ability to be price competitive.

In addition, commodity prices are rarely ever stable. This makes it hard for the commodity exporters to plan for the future.

However, these drawbacks can be dampened due to different reasons.

Firstly, commodities are mainly relatively price inelastic. So, changes in the prices of them will not cause demand to fall in proportion to it. It will fall less than the increase in price so Indonesia may not suffer greatly.

The volatility of commodity prices can also be combatted by long-term contracts. This can ensure to Indonesian commodity producers that they will earn fair amounts no matter the changes in commodity prices.



**ResultsPlus**  
Examiner Comments

This answer gets 6/8 – 1K+2AP+1AN+2EV.

The answer starts with benefits and was given the evaluation marks along with two application marks for the points made. The last para on page 1 gets one knowledge and one analysis. No more marks given for KAA.



**ResultsPlus**  
Examiner Tip

Application for points-based question can be found in the sources provided. Always remember to include two pieces of relevant data. Two marks are also reserved for evaluation in every 8-mark question.

## Question 7 (e)

Candidates needed to use the source to discuss market-orientated strategies that the Indonesian Government might use to increase its rate of economic growth. It is important that candidates select any two strategies and develop their analysis by focusing on those points rather than trying to cover as many strategies as possible, some of which are not in the source provided. This will allow candidates to access the higher levels of response.

A handful of candidates were able to successfully identify and explain strategies such as privatisation and promotion of FDI. They were able to integrate this with the application given in the source from Extract A. This gave them access to Level 3. However, many candidates just copied the source and did not explain their points. This gave them access to Level 1 only. Those who mentioned interventionist strategies, did not get any marks.

Evaluation points were well written. Many candidates included references to corruption and significance of factors changing over time. Many included the problems associated with the policies identified 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 Extract A and your own knowledge, discuss market-orientated strategies that the Indonesian Government might use to increase its rate of economic growth.

(14)

Market-orientated strategies used to promote economic growth and development of Indonesia.

First strategies was promoting foreign direct investment (FDI), because of that, transfer better technology to this country with higher productivity and keep advantage of cheaper labour cost and cheaper raw materials. This will cause Indonesia exports products with higher international competitiveness due to lower prices of products with better quality. Such as electronics, machinery, textiles, garments and take advantage of rising global demand of electric vehicles. Therefore, exports products increase in sales in international market. Net exports increase, increase in AD and injection of circular flows of income. Result in positive multiplier effect and economic growth. Unemployment rate decrease, employees rise in income spend more on consumption also. Because rise in AD of Indonesia, reach economic growth.

On the other hand, rise in FDI may have less efficiency and diseconomies of scale. Due to low efficiency of communication <sup>between workers</sup> and managers, information gap of Indonesia's <sup>market skill</sup> marketing, spend time and higher cost to train labours. Result in lower efficiency and higher cost.

Second strategies is privatisation. Company used to owned by national, transferring to private sectors, leading to the profit driven. Therefore, firms become ~~to~~ more X-efficiency and more sensitive to <sup>to achieve</sup> dynamic efficiency. This will cause lower cost of production, lower price transfer to consumer. Rise in consumer surplus and demand. Net exports will increase and achieved current account surplus. Increased from \$3.5 billions in 2021 to \$ 13.2 billions in 2022. Promote AD

Increase in Indonesia, leading to further economic growth.

On the other hand, privatisation company may <sup>set</sup> monopoly power in domestic market, feeling complacent. Causing them less incentive to do R&D. Productivity and output level will decrease, causing slow rate and small effect to economic growth.

Moreover, economic growth depends on the size of net exports. May not be significant enough to influence AD of Indonesia. Other factors may have downward pressure, such as fall in government spending or fall in consumption.



**ResultsPlus**  
Examiner Comments

This response gets two L3's (on page 1) for the two strategies explained. Evaluation is not fully developed (last paragraphs on page 2) and hence only attains bottom of L2.

(e) With reference to Extract A and your own knowledge, discuss market-orientated strategies that the Indonesian Government might use to increase its rate of economic growth.

(14)

In order to increase the rate of economic growth, Indonesian government might use market-orientated strategies. Firstly, promoting foreign direct investment (FDI) in the market. As FDI been imposed, there will be more inflow of money which create investment. Transnational company may be also into the market, locals can have access to share technology and ideas with transnational company. As extracted given, the government relaxed its previously strict employment regulations to create more jobs, fill vacancies and promote innovation. This encouraged more FDI. Also, it promotes ~~floating~~ privatisation which creates incentive ~~to~~ domestic firms working harder due to high competition. The productivity will increase with low cost of production leading to high economic growth. Meanwhile, Indonesia imposing ~~for~~ floating exchange rate. The rupiah depreciated less than currencies of Vietnam of China, its main trading partners. The export price is more internationally competitive so export rise improving balance of payment. Furthermore, government may build roads and airports to reducing the transportation costs. Government may also provide education and training to increase the skill of labour rising employment.

However, if the firm is monopoly, then it will charge for higher price in order to maximise its price. For floating exchange rate, price ~~if~~ for imported raw material may be higher so it may worsen balance of payment. Also, government may be wrong to the

market creating government failure. Furthermore, it takes times to do education, training or build infrastructure. It depends on the quality of infrastructure.



**ResultsPlus**  
Examiner Comments

This response gets two L2's (on page 1) for strategies explained. Evaluation is very limited and lacks any development (bottom of the page) and hence only attains L1.



**ResultsPlus**  
Examiner Tip

Ensure there is a clear understanding of the difference between market-orientated and interventionist strategies. Those who explained the latter, attained no marks e.g. end of paragraph 1 on roads and airports.

## Question 8 (x)

This question asked candidates to evaluate policies that can be used to prevent a country's exchange rate from depreciating. In addition, to access high Level 4 for KAA, candidates are required to refer to a developed country of their choice in their answer.

Many explained policies. They discussed sale of foreign currency and an increase in the interest rates in Japan. Most of the answers only carried a two-stage chain of reasoning, and therefore, they were not able to access Level 3 KAA. Some focussed on effects of depreciation, and this meant that did not access any marks as their analysis was not accurate given they were not answering the question. Those who identified a range of policies without linked development were only able to access Level 1 KAA.

Evaluation included an attempt to discuss the short-run versus long-run considerations. Some candidates explained conflicts with other macroeconomic objectives/policies. This was credited. Many were only able to explain one point with the other points often just being identified. Those who listed evaluation points achieved Level 1.

Write the answer to your FIRST chosen question here.

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box  and then indicate your new question with a cross .

Write the answer to your SECOND chosen question on page 20.

Chosen question number: Question 8  Question 9  Question 10

Exchange rate refers to the ~~value~~ ~~external value of currency~~ value of foreign currency ~~variable for the~~ as a return of the domestic currency.

One policy to be used is the buying of domestic currency. This refers to when the central bank sell its foreign currency reserves ~~in~~ in exchange for their domestic currency. This can prevent depreciation as throughout the buying of domestic currency, demand for domestic currencies rise, which ~~in~~ in turns lead to an increase in the external value of domestic currencies. Taking <sup>con</sup> Japan as an example, In 2022 the value of Japan's currency, the yen fell by 36% against the US dollar. Japan's central bank intervened in the currency market to increase the external value of the yen. This intervention cost the central bank \$20.8 billion. This can be the result of ~~the~~ Japan selling its foreign currency reserves. <sup>cost</sup>

Another policy to be used is an ~~increased~~ increased interest rate. This is because as interest rates increases, ~~people will~~ more people will choose to save money ~~from~~ inside the country, leading to an increased inflow of hot money, which can lead to a higher demand for the currency and eventually increase the external value of the domestic currency. For Japan, ~~the~~ their central bank tried to reduce the interest rate to 0% ~~to~~ to stimulate their economy, however, this results in people borrowing from Japan and save the money in the US, which had a relatively high interest rate. ~~to~~ This results in a further depreciation in Japanese yen. Such problems could be solved if central bank of Japan decided to increase its

interest rate.

Also, countries can choose to add on some trade restrictions to prevent depreciation. This is because with ~~to~~ certain amounts of trade restrictions, there will be a reduced amount of imported goods into the country. This can lead to less supply of the domestic currency and thus a reduced depreciation. Taking Japan as an example, if trade restrictions were to be placed, Japan will ~~experience~~ experience a ~~to~~ fall in imported goods, and therefore the supply of Japanese yen will fall.

However, policy of ~~to~~ selling its foreign currency reserves should be practised. This is because this is the most direct way to control the exchange rate of domestic currency and the effects will ~~be~~ and effective be rather obvious even in a short period of time.

Also, it depends on the ~~market~~ relative ~~to~~ interest rate. This is because other countries can have a higher interest rate even after ~~is~~ ~~in~~ ~~the~~ increase in interest rate by the domestic central bank. If this happens, it means there will be little hot money flowing in to the country even with this new, higher interest rate, rather making this policy less effective.

One other evaluation point is that ~~the~~ trade restriction may lead to retaliations from other countries. This will lead to less ~~exp~~ goods being exported and thus a fall in the demand for domestic currency. Resulting in depreciation.

~~Lastly~~ Lastly, it depends on the PED for imported goods. If demand for imported goods is inelastic, it means ~~is~~ that import will not fall by a big proportion, leading to the policy of trade restriction being less effective.



This response gets two top L3's (on page 1) for the two policies explained. Evaluation is not fully developed (page 2 – each paragraph from however onwards) and hence only attains L2 for each argument made.



Centres should ensure candidates focus 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.

Write the answer to your FIRST chosen question here.

Indicate which question you are answering by marking a cross . If you change your mind, put a line through the box  and then indicate your new question with a cross .

Write the answer to your SECOND chosen question on page 20.

Chosen question number: Question 8  Question 9  Question 10

To prevent the exchange rate of a country from depreciating a government could artificially appreciate its value. This is done by the government of the USA for example by buying dollars and selling euros. The exchange rate is the current value of one currency against another. So by buying one currency the demand for it is increased, causing a rise in price and by selling the other currency the demand for it decreases causing a decrease in price. This appreciates the dollar and depreciates the euro.

However the problem with this method is <sup>it is</sup> quite expensive for the central bank of a country to do this. For example in 2022 Japan did this to protect the yen and it ended up costing Japan \$20.8 billion.

The government of a country like USA can also increase interest rates. This will encourage people to keep their money in the bank. Can even attract foreigners to keep their money in the bank. This means more people keep their savings in that currency and you have foreigners buying your currency to keep their money in your bank. This protects a currency from ~~deftation~~ depreciation. The citizens also will have less money to spend on foreign goods <sup>reducing</sup> ~~the~~ depreciation.

However this can hurt the economy as less people borrow money and spending reduced.



**ResultsPlus**  
Examiner Comments

This response gets two low L3's (first and third paragraphs on page 1) for the two policies explained. Evaluation points are not developed and hence only attains top of L1.

## Question 9 (x)

This question asked candidates to evaluate the costs to a country of becoming a member of an economic and monetary union. In addition, to access Level 4 for KAA, candidates are required to refer to a country of their choice in their answer.

The most common costs mentioned were linked to loss of independent monetary policy and costs of being part of a trading bloc. Most answers demonstrated some chains of reasoning, but they were not always fully developed or had some stages omitted. These candidates were not able to access more than Level 3 KAA. Some candidates were quite confused about economic and monetary union and did not answer the question directly.

Evaluative comments were not well written. Many offered some points that often went tangential and did not answer the question. Those who made an attempt were not always able to explain their arguments in good depth. The rest of their points were again quite generic and did not have any chains of reasoning and did not achieve more than Level 1.

Write the answer to your FIRST chosen question here.

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box  and then indicate your new question with a cross .

Write the answer to your SECOND chosen question on page 20.

Chosen question number: Question 8  Question 9  Question 10

An economic and monetary union is a type of trading blocs that does not only oblige countries to share a single currency, but also to have common monetary policy within the union, regulated by a single Central bank.

EU's ~~to~~ economic monetary policies are regulated by ECB, meaning that each <sup>member</sup> country is unable to decide on monetary policies autonomously, which leads to inflexibility of ~~the~~ the European market in times of shocks: for example, quantitative easing in times of recession may work for some countries but be ineffective for others.

Common monetary policy also means that member countries ~~are~~ cannot manipulate the exchange rate of their currency as they have a single ~~a~~ currency. The inability to manipulate the exchange rates in order to regulate the trade balance was one of the main reasons for

the UK to leave the EU (Brexit).

For the countries within the union, a strong and stable currency sometimes is a significant problem: as euro stays strong and expensive, export prices ~~for~~ of the goods produced within the union can be high leading ~~to a~~ ~~do a~~ current account deficit due ~~current account~~ surplus to incompativeness on the international market and decreasing exports revenue  $\Rightarrow$  growth of GDP  $\downarrow$ . ~~For~~ ~~example, Germany has~~

An economic and monetary union is also an example of a trading bloc that ~~is~~ creates a strong economic integration between the member states, increasing the exposure to shocks/recessions in other member countries. For example, if there is an under supply of agricultural goods produced in Spain or Portugal due to weather conditions, more northern EU countries who ~~usually~~ <sup>usually</sup> easily import their goods in big volumes can experience shortages and ~~rising~~ cost-push inflation.

However, the mentioned costs of

being a member of a monetary union are just the other side of the likely benefits.

A strong currency ~~can be~~ can be beneficial for countries as it is a sign of a stable economy and promotes FDI, increasing output levels, ~~dynamic~~ and dynamic efficiency of the economies in the long term. A stable currency is also ~~be~~ good for the stability of the TOT, meaning that, ceteris paribus, import & export prices do not fluctuate much and the markets remain stable. ~~Therefore, for goods produced in countries~~ High export prices are not always significant if compared to non-price competitiveness of the goods; ~~as they seem to~~ thus, goods that are produced in Germany, ~~are to have~~ are high-quality (especially machinery, in which Germany has a comp. advantage & specialisation), and are internationally competitive due to non-price factors. ~~Finally, the significance of being exposed to external shocks within the~~  
⇒ Germany exports successfully &

runs a CA surplus. ~~It is not used to~~  
~~reduce~~ ~~Finally,~~ ~~exposure to shocks,~~ ~~national~~  
is ~~not~~ ~~always~~ ~~dest~~ ~~on~~ ~~for~~ ~~invested~~  
~~in~~ ~~public~~ ~~services~~

Finally, the exposure to internal shocks (within the union) can also be insignificant as the monetary union is huge and due to <sup>absence</sup> ~~lack~~ of tariffs & other free trade restrictions, countries can easily find substitutes for imports or substitute markets for export within the union. ~~lack~~ ~~Absence~~ ~~of~~ ~~tariffs~~ ~~also~~ ~~contributes~~

Therefore, being a member of economic and monetary union ~~makes~~ ~~the~~ ~~can~~ benefit an economy ~~with~~ due to high levels of trade liberalisation ~~and~~ economic integration despite the costs that a member ~~can~~ country can face during crisis.



This response gets two L3's (on page 2) for the two points explained. The points on page 1 were not developed and attained low levels. Examiners take the best two points.

There are four evaluative comments made but only the last two which get top of L2. It is very important to remember to only have two points and explain them in detail.



not be stagnant which is mainly due to all<sup>19</sup> countries in EU are responsible for the fluctuations due to the imports and exports into the country. This makes planning much more difficult for firms since the value of the currency fluctuates.

Moreover it may be difficult for countries to encourage firms to conduct business activities into a country. They may choose a country within the Eurozone and conduct business activities due to the low costs. This may as a result lead to greater ~~exports~~<sup>imports</sup> for the countries such as the UK since firms may not produce within the UK leading to fall in the BOP.

However when in a monetary union the UK will be able to purchase goods easily from the members within the Eurozone hence due to there being no exchange rate between the countries allowing them to pay with the Euro and avoid having extra cost trying to convert to the currency.

Moreover when in a monetary union there will only be one central bank governing 19 countries that's in the Eurozone. This will be much more easier to place a policies and interest rates which can be beneficial to the all

countries and this may help keep the Euro in a safe place in the exchange rate.

Furthermore when in a monetary union firms may move between countries and send back profit back into their home country which may not entirely worsen the BOP for countries such as the UK where UK firms can move to other countries in the Eurozone and gain all profits possible in a market and move on to another



This response gets one L2 for KAA (page 1 paragraph 2) and one L2 for evaluation (page 2 paragraph 3). These are not well developed to attain higher levels.

## Question 10 (y)

This question asked the candidates to evaluate possible causes of an increase in public expenditure as a proportion of GDP. To access Level 4 for KAA candidates are required to refer to a country of their choice in their answer.

Most were able to identify the causes. The most common points being focused on fiscal policy and to increase the level of GDP. Some answers carried a two-stage chain of reasoning without application to terminology and concepts, and therefore, candidates were not able to access Level KAA. Those who linked it to the capital expenditure and current expenditure effectively, attained the higher-level marks.

Candidates struggled to evaluate effectively. The majority offered effects of an increase in public expenditure and this got no credit. The other points were quite generic and not very well developed; they did not achieve more than Level 1.

Write the answer to your SECOND chosen question here.

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box  and then indicate your new question with a cross .

Chosen question number: Question 8  Question 9  Question 10

GDP is the gross domestic product or output of a country. Public expenditure is a fiscal tool used by governments to increase or reduce AD.

A major cause for increase in public expenditure for a developing country like Sri Lanka could be to reduce inequality in the country. With increased gov. spending on infrastructure, education and healthcare, the living standards of people would rise. Sri Lanka has free education and healthcare; for all. With more infrastructure development, people would have better sanitation facilities, better transport systems that will increase productivity, education will improve the literacy and healthcare will improve the life expectancy which is high in Sri Lanka - 76% in 2022 due to the free healthcare facilities. These factors will improve the standard of living and help to reduce the inequality gap by allowing access to all resources equally.

However, Sri Lanka's offering of free healthcare, education are universal benefits as everyone can access it regardless of their economic state. This ~~offers~~ means the door

and the ones who cannot afford the services aren't the only ones benefiting from it. Therefore only forgotten schemes such as Samwathi or Mahapda that focus on the low income earners will create a significant change in equality.

Another reason for the increase in public expenditure as a proportion of GDP is to create export competitiveness by investing in infrastructure that attracts FDI's. Sri Lanka has seen the investment ~~of~~ in ports, airports, road networks and economic cities such as the Port city that is expected to become the largest commercial hub in South Asia. This will increase investment of FDI and relocation of MNCs due to the high infrastructure that reduces COG for firms. With road networks and transportation systems, perishable goods can be transported faster and easily. They would also locate ~~to~~ due to the availability of ports to transport goods easily to other trading partners. With low cost of production, the price of goods will fall and Sri Lankan products in the global markets will gain a competitive advantage, and it leads to export led growth. This will create better incomes and increase the

However, Sri Lanka has a high <sup>international</sup> ~~net~~ debt to institutions like IMF and countries like China and Bangladesh. Therefore this expenditure will worsen the debt as there will be no funds to repay the debt and will result in the credit rating to fall, due to the country's inability to pay back debt making future borrowing difficult. This would create an opportunity cost as the funds could have been used to pay off debt and improve the fiscal deficit.

Moreover, Sri Lanka could ~~be~~ have increased its public expenditure to create a comparative advantage for its workforce by training them ~~as~~ through vocational training centres. This will ~~also~~ increase the skills and knowledge of the workforce attracting more MNCs to locate in Sri Lanka for ~~their~~ resources and cheap and skilled workforce. More job opportunities will be created with ~~the~~ low unemployment resulting in higher incomes, therefore higher tax revenue for the government which means the government can reduce its fiscal deficit.

However, gov-spending could also have the risk of being invested in the wrong areas due to inaccurate information or the

provision of quality services. Sri Lanka's Free Education System is outdated and lacks quality. Therefore the gov. expenditure needs to be accurate and it needs to be invested in the right area with perfect information for it to give returns.

In conclusion, the gov. expenditure as a proportion of GDP will be determined by the spending area of the government, as capital expenditure will be increased only in the long run.



**ResultsPlus**  
Examiner Comments

There are three KAA points attaining L3 (page 1), L4 (page 2) and L3 (page 3). So gets L4 overall. However, this answer gets no evaluation marks as it does not answer the question.



**ResultsPlus**  
Examiner Tip

Remember that evaluation of a question on causes is not explaining the effects. You have to evaluate the causes. Key consideration needs to be given to these questions.

Write the answer to your SECOND chosen question here.

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box  and then indicate your new question with a cross .

Chosen question number: Question 8  Question 9  Question 10

10) Public expenditure is when the government spends money into improving public goods and public merit goods of an economy.

A cause of an increase in public expenditure would be that the government now gains more money from taxes. If the government of India increases taxes through contractionary fiscal policy it means that people will now have to spend more money in taxes.

Increasing taxes means that the government will gain more revenue and thus have more money available to spend. For example in India the public expenditure as a proportion to GDP rose to 15.9% from 12.5%. This shows that Indian government spend money into the Indian economy. So a cause for that was the increase in government's revenue from taxes.

However, India has high levels of corruption thus the extra money gained from taxes may not be used to increase public expenditure. So due to corruption the level of public expenditure may not increase.

Another cause of an increase in public expenditure could be from ~~an increase in government revenue~~ through an increase in exports. For example, from IMF.

For example, India could have gotten a loan from IMF in order to cover some of India's debt. Using this money to cover debt means that now India has more money available to spend on other sectors of the ~~extra~~ economy. Therefore,

if IMF provided India with a loan in order to help with its debt, then all government's revenue will ~~not~~ not have to be spent on covering the debt. Thus, now with the extra money that it has left, India could increase its public expenditure.

However, the loan from IMF at some point has to be paid back. Therefore, again, the public expenditure might not increase as the Indian government ~~can~~ would have to save money to repay the loan, and also the loan could stay as a burden on future generations.

Overall, the public expenditure in India could be the cause from government's extra revenue. So when government increases its revenue through higher taxes or from loans,

then there is a chance of an increase in  
the public expenditure of the ~~own~~ country.



**ResultsPlus**  
Examiner Comments

This answer only has two weak analysis points which are not developed (hence L2) and no relevant evaluation points. So it gets a low level overall.

## Paper Summary

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

- Ensure that 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: 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 B 14-mark question and Section C 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 B), appropriate examples (Sections B and C) or context at the start of Section C 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 C 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.
- Encourage candidates to make full use of the specimen papers, previous examination papers, mark schemes and principal examiner reports.

## **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>

