GradeMax

Mark Scheme (Results)

January 2015

Pearson Edexcel IAL Economics
WEC02 01
Macroeconomic Performance and Policy

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Supported multiple choice

NB: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

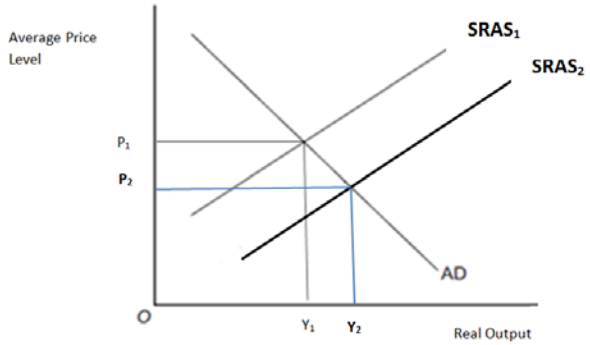
NB: Candidates may achieve up to 3 marks for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number		Mark
1	**Answer D** • Distinguish GDP growth from GDP **(1)** **OR** Define GDP growth as: increase in the real level of national output measured by the annual percentage change in real GDP **(1)** **OR** a long-term expansion of the productive potential of the economy **(1)** • Identify negative GDP growth in Italy in 2009-2011 **(1)** • **Application** for explaining (with data) how negative GDP growth means a fall in total GDP and positive GDP growth means a rise in total GDP in Italy **and/or** France **(1)** • Correct percentage decrease in Italy GDP as -3.51 (allow -3.4 to -3.6) **(1)** **Rejection marks:** • A incorrect because negative GDP growth in Italy was greater than in France **(1)** **OR** • identifying that there was no growth as data is negative **(1)** • B incorrect as GDP growth was the same not Total GDP – we are not given total GDP **(1)** • C incorrect as Total GDP was higher in France in 2011 than it was in 2009 as there has been positive GDP growth **(1)**	**(4)**

Question Number		Mark
2	**Answer A** • Definition of inflation: sustained increase in the average price level **(1)** • Application: increase in labour productivity shifts AS right (outwards) **(1)** • With AD remaining the same **(1)** • Increase in real output **(1)** and fall in average price level **(1)** • For correctly labelled diagram award **2 marks** **Rejection marks:** • B incorrect - Fall in value of currency likely to increase demand for exports in an open economy shifting AD right (outwards) and/or rising costs for firm shifting AS left **(1)** • C incorrect - Positive output gap – upward pressure on inflation if actual GDP is greater than potential GDP **(1)** • D incorrect - decreased interest rates likely to shift AD right (outwards) creating inflationary pressure **(1)**	**(4)**

Question Number		Mark
3	**Answer C** • Definition of macroeconomic objective(s) e.g. The main aims or goals of macroeconomic policy **(1)** • Examples of macroeconomic objectives which may include economic growth and environmental sustainability **(1)** • **Application**: Exports of copper would increase economic growth of Peru **(1)** **OR** example of environmental impact (e.g. noise, air pollution) **(1)** **OR** example of impact upon way of life (e.g. loss of farming employment) **(1)** • **Analysis:** clash (or trade off) between economic growth and environmental sustainability/way of life **(1)** **Rejection marks:** • A incorrect because this is not a choice of policy instruments (monetary and fiscal policy) which are methods used to reach objectives**(1)** • B incorrect because the LRAS curve is independent of the price level and this is not directly relevant in this case **(1)** • D incorrect because there is no evidence that the Peru government is using policy to promote current consumption**(1)**	**(4)**

Question Number		Mark
4	**Answer B** • Investment is a component of GDP/AD measure C + I + G + (x-m)/injection into circular flow **(1)** **OR** Capital goods purchased by businesses and/or government to raise productivity **(1)** **OR** Increase in the capital stock of an economy **(1)** **OR** increase in productive capacity (LRAS) **(1)** • **Application**: Up to 2 marks for 2 relevant examples e.g. new factories, other buildings, machinery, vehicles road, airports (**1)** • **Analysis**: falling investment likely to reduce AD and/or LRAS **(1)** **OR** Up to 2 marks for diagram showing inward shift of AD and/or of LRAS • Lower productive potential **(1)** • Investment may have fallen due to lower economic growth, lower competitiveness, higher interest rates **(1)** **Rejection marks:** • A is incorrect as a flow of money into stock and savings by firms may cause a fall in business investment but is not a definition of investment – withdrawal from circular flow **(1)** • C is incorrect as the profit retained by firms which may be used e.g. to pay off debt **(1)** • D is incorrect as an increase in wages may boost consumer spending (on goods and services) increasing AD or decreasing SRAS but is not investment in capital goods **(1)**	**(4)**

Question Number		Mark
5	**Answer A** **Fall in Average Price Level & Rise real Output** • SRAS is the relationship between real GDP (real output) and the average price level **(1)** • SRAS shows how much output the economy can generate in the short term at each price level (1) • Annotation of diagram to show rightward shift of SRAS curve **(1)**; causing a fall in the price level and rise in real output **(1)** • Commodities production costs in most industries – for raw materials and/or components and/or transport costs **(1)** **NB:** up to 2 marks for correct annotation on given diagram or their own diagram (showing rightward shift of SRAS and impact on price and real output.  **Rejection marks:** • B incorrect - Rise & No change unlikely that average prices would rise as commodities a production cost **(1)** • C incorrect - Rise & Fall unlikely that average prices would rise as costs lower and more likely output would rise due to these lower costs **(1)** • D incorrect - Fall & No change unlikely real output would fall as lower costs mean firms may be able to supply more at all price levels **(1)**	**(4)**

Question Number		Mark
6	**Answer C** • Definition of multiplier: either taken from specification 1/(1-MPC) **(1) OR** 1/(1-MPS+Tax+MPM) • Evidence of calculation: 200*1.5 (value of multiplier) = 300 **(1)** **OR** 300/200 = 1.5 **(1)** • Explanation of multiplier process such as: An initial change in aggregate demand can have a much greater final impact on the level of equilibrium national income **(1)** This can lead to a bigger eventual effect on output and employment **(1)** **OR** Injections of new demand for goods and services into the circular flow of income stimulate further rounds of spending **(1)** This can lead to a bigger eventual effect on output and employment **(1)** **Rejection marks:** • A incorrect as the outcome would have been 240 million yen 200*1.2 **(1)** • B incorrect as the outcome would have been 200 million yen 200*1.0 which means there would have been no multiplier effect **(1)** • D is incorrect as incorrect as the outcome would have been 400 million yen 200*2.0 **(1)**	**(4)**

Question Number		Mark
7	**Answer C** • immigration will increase the size of the labour force **OR** increase potential output at all price levels **(1)** • Immigration likely to lead to an LRAS curve will shift outwards/right because productive potential of economy increases **(1)** • Correctly annotated/labelled diagram showing rightward shift in *vertical* LRAS **(1)** • Impact will depend upon the labour productivity, the skills of the migrant workers **(1)** **Rejection marks:** • A is incorrect as increase in income tax is more likely to reduce AD as less disposable income **(1)** **OR** it would decrease LRAS because of disincentives to work **(1)** • B is incorrect as increase in childcare costs likely to reduce AD as less disposable income **(1)** • D is incorrect as increase in regulation more likely to shift LRAS inwards due to rising costs of firms **(1)**	**(4)**

Question Number		Mark
8	**Answer D** • Consumption is spending on consumer goods and services **(1)** **OR** Consumption (C) is a component of AD **(1)** • Consumption falling likely to reduce AD and cause movement along SRAS curve reducing **(1)** • **Application:** reduced AD causes movement along SRAS curve reducing average price level and real output **(1)** • Netherlands developed economy with high contribution of consumption to AD **(1)** • **Analysis:** Impact likely to reduce inflation (fall in average price level) **(1)** and real output in response to falling AD **(1)** **OR** Up to 2 marks for an AD/AS diagram (axes and curves labelled correctly) with a leftward shift in the AD curve. Award only 1 mark if not labelled correctly or if AS curve is also shifted. **Rejection marks:** • A incorrect because reduced household consumption likely to reduce imports **(1)** • B incorrect because decrease average price level as reduced AD **(1)** • C incorrect because likely to be a fall in real output as reduced AD **(1)**	**(4)**

Section B Mark scheme starts on the next page.

Section B: Data response

NB: KAA marks relates to those awarded for AO1, AO2 and AO3
NB: Evaluation marks relates to those awarded for AO4

Question Number		Mark
9(a)	**Knowledge 2, Application 2** Up to 2 marks from the following: • It refers to those of working age who are not working **(1)** • Actively looking for a job and out of work in last four weeks **(1)** • Ready to work in two **(1)** • Questionnaire/sample/survey/interview/Labour Force Survey **(1)** • Conducted quarterly **(1)** • Internationally recognised **(1)** • Working population e.g. age 16-64 **(1)** **Application -** Up to 2 marks from: • Use of 2 specific data references from Figure 2 e.g. unemployment 8.5% in 2006 and 26.2% in 2012 **(2)** • unemployment rate in Spain more than doubled in years 2006-2012 **(2)** • unemployment has increased (significantly) **(1)**	**(4)**

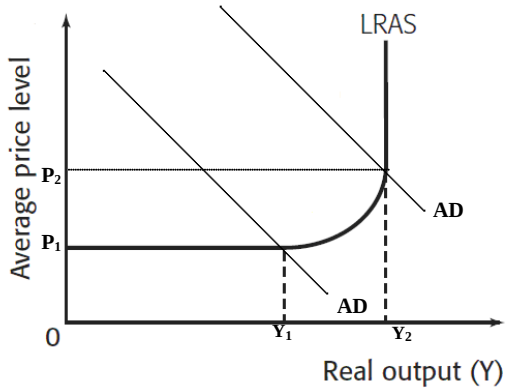
Question Number		Mark
9(b)		**(14)**
Knowledge, Application and Analysis		

Indicative Content

- Economic growth (high rate) was caused mainly by construction industry growth.
- Rising employment.
- Increased consumer spending.
- High levels of investment in housing.

NB: Alternatively candidates may consider the impact of a slump in the construction industry for KAA and the reverse for evaluation.

Diagram: Relevant diagram may also be included as part of analysis if explained in context e.g. Right (outward) shift of AD curve:



Application:

- Link rise in real output to lower unemployment figures (Figure 1)
- Link to lower budget surplus (Figure 1)

If no reference to context then max 6/8marks

(8)

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of reasons and/or data references to Spain such as link rise in real output to lower levels of unemployment, consumer spending or investment in construction
2	4-6	Some understanding of impact of construction industry without detailed chains of reasoning.
3	7-8	Clear understanding and analysis of the effects of construction boom (or slump) on Spanish economy Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation on next page

Evaluation		
	Indicative content Here we are looking for development and evidence of judgement as to the most significant effects • economic growth was unbalanced depending upon construction industry and rising property prices • unsustainable growth resulted in boom and bust • economy and employment and incomes grow up until mid-2007 and then the construction industry contributed to the reverse after this period • significance of multiplier effect for construction industry • diagram showing fall in AD, average price level and real output (perhaps linked to structural unemployment)	**(6)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation – such as construction is labour intensive creating employment
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number		Mark
9(c)		**(10)**
Knowledge, Application and Analysis		
	Indicative Content • Waste of resources • Poverty • Rising government budget deficit, decreased tax receipts (direct and indirect) and increased government spending • Social effects (e.g. increased crime, increased suicide, net migration) with explanation of their negative impact on the economy. • Risk of deflation and stagflation • Loss of potential output • Loss of skills or human capital **NB: Maximum 4/6 marks if no reference to context**	**(6)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible economic effects of unemployment. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of economic effects. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.

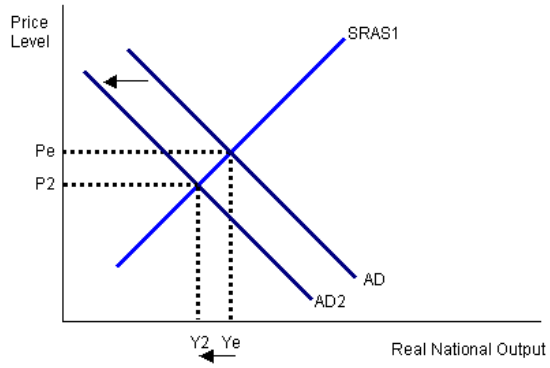
Evaluation on next page

Evaluation		
	Indicative content Requires evidence of awareness of possible benefits of unemployment (answer is **not** one sided) • Higher unemployment may reduce inflation thus make Spanish economy more competitive internationally • Higher unemployment may reduce wages and costs for business • Contraction of construction industry may make economic growth more balanced • Natural rate of unemployment • Impact upon AD may depend upon size of (negative) multiplier • Reference to the magnitude of unemployment - particularly the threefold increase between 2006 and 2012.	**(4)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.

Question Number		Mark
9(d)	**Knowledge 2, Application 4** • Data references to both changes in unemployment and budget balance **(1 + 1)** • Explanation of relationship in terms of: o Changes in tax revenue **(1)** o Changes in government expenditure **(1)** • **Up to 2 marks for** Conclusion relating to inverse relationship between unemployment and budget balance **(2)** (May be illustrated on a diagram). **NB:** General answer which attempts to summarise relationship – e.g. inverse relationship between unemployment and budget balance award up to 2 marks	**(6)**

Question 9e is on the next page

Question Number		Mark
9(e)		**(14)**
Knowledge, Application and Analysis		
	Indicative Content • Government spending an injection into the circular flow • Reduced spending (and higher tax) withdrawal from circular flow • Rising unemployment lower tax receipts higher benefit payments • Reduced spending with higher unemployment may increase relative and absolute poverty • Increased crime and social unrest • Fall in AD leads to lower SRAS – lower real output and fall in average price level • Fall in SRAS • Lack of investment from government may decrease LRAS, reducing output potential of Spanish economy Candidates should produce an AD/SRAS showing fall in AD or LRAS diagram showing fall in LRAS  **NB:** Candidates may consider positive impact for KAA and the reverse for evaluation. **If no reference to context then max 6/8marks**	**(8)**

KAA Level descriptors and Evaluation on next page

KAA

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects or identification of one or more points related to reduced spending or higher tax. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of effects of reduced government spending or higher tax on Spanish economy. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the effects of effects of reduced government spending and higher tax on Spanish economy. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation		
	Indicative content • In the long-run may reduce wages (increasing supply of labour) and make Spanish economy more competitive internationally • EURO membership means such increased competitiveness cannot come from currency devaluation • Economy may become less reliant upon government spending and therefore economy (and growth) more balanced in the future • size of government spending or taxation multipliers	**(6)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number		Mark
10(a)	**Knowledge 2, Application 4** **Up to 3 marks** from the following: • Definition of inflation: sustained increase in the average/general price level **(1)** • Reference to base year **(1)** • Reference to weights as used in the CPI **(1)** **Up to 3 further marks** from the following: • Basket of goods **(1)** • price survey **(1)** • excludes housing costs **(1)** • food and expenditure survey (or equivalent) **(1)** • 650 items (allow in range 600 to 700) **(1)** • Further development such as basket updated annually/example of updating **(1)**	**(6)**

Question Number		Mark
10(b)		**(10)**

Knowledge, Application and Analysis		
	Indicative content • Inflation has been relatively high in UK – Extract 1 suggests imported inflation therefore • Analysis relating to increased costs for business e.g. cost of raw materials. May be illustrated by AD/AS diagram with leftward shift in SRAS curve. • Analysis relating to increased demand for exports which may be illustrated by outward shift in AD as demand for exports increases (exports more competitive following depreciation) **NB: Maximum 4/6 marks if no reference to context**	**(6)**

Level	Marks	Descriptor
0	0	A completely inaccurate response
1	1-3	Some awareness of reasons and/or data references
2	4-6	Understanding of effects of depreciation upon UK inflation

Evaluation		
	Indicative content Evaluation should include possible impact of depreciation upon UK exports, balance of trade on current account and possible appreciation of the currency as a result Evaluation may also include attempt to explain food price inflation (Extract 1) in terms of rising energy costs for agriculture, transportation and imported food costs • Depends on magnitude of depreciation of sterling • Depends on the time period involved - so far it is 6 years - but what about the future • Depends on how many imports of goods and services are in the CPI basket • Depends on level of spare capacity in UK • Evidence suggests that there has been no significant increase in exports. Indeed, the opposite has been true	**(4)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	Identifying evaluative comments without explanation.
2	3-4	Evaluative comments supported by relevant reasoning.

Question Number		Mark
10(c)		**(14)**
Knowledge, Application and Analysis		
	Indicative content • Relatively higher inflation rate means that prices increase at a faster rate in UK than in other (competitor or trading partners) countries • Higher inflation creates uncertainty in the economy this may discourage firms from investing and lead to lower economic growth in the long term • higher inflation in the UK can make UK goods less competitive leading to lower demand for exports and therefore a deterioration in the current account • if the Pound does depreciate because of higher inflation, then it will make imports more expensive and reduce standards of living higher spending on imported goods and raw materials • If the inflation is cost-push, e.g. due to rising commodity prices, then this causes SRAS to shift to the left. This increase in prices leads to higher prices and lower output • Cost-push inflation should not cause a decline in competitiveness – if all countries are seeing an increase in price of raw materials (but data suggest this is not the case) • Higher inflation can make savers worse off. This is because inflation erodes the value of money. This will be particularly a problem if interest rates are lower than inflation Diagram: Relevant diagram may also be included as part of analysis if explained in context. **If no reference to context then max 6/8marks**	**(8)**

KAA Level descriptors and Evaluation on next page

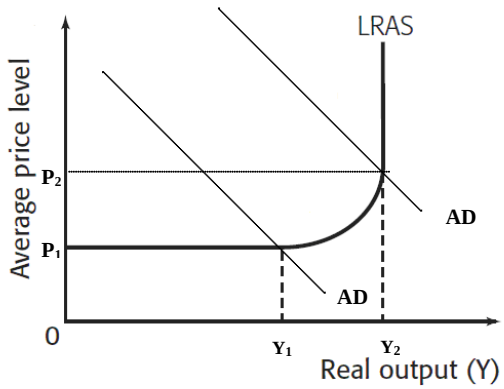
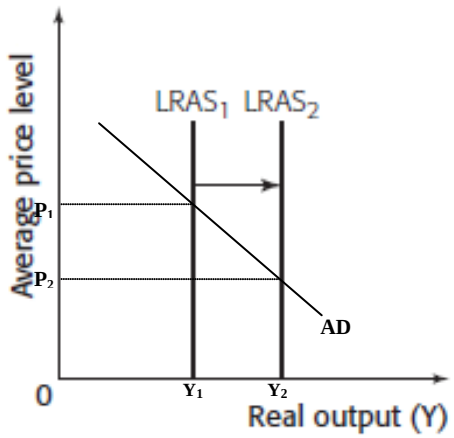
KAA

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects or identification of one or more points. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of effects of inflation on the UK economy. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the effects of inflation on the UK economy Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation		
	Indicative content • uncertainty may be worse if the high inflation is unexpected • if inflation in the UK is higher than elsewhere it might cause a depreciation in the exchange rate which restores competitiveness • impact depends how much inflation increases by. If inflation increases from 1 to 3% this is not a problem. But, if inflation increases over 10%, then the economy will face significant costs of uncertainty and confusion • If interest rates are higher than inflation, then savers can protect the value of their savings because the interest rate is higher than the inflation rate • The depreciation in sterling could restore UK competitiveness	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number		Mark
10d	**Knowledge 2, Application 2** • Supply side policies are designed to increase long-run aggregate supply (LRAS)/potential output/potential capacity **(1)** • also known as the full employment level of output **(1)** • policies intended to increase quantity and quality of input **(1)** • Example would be de-regulation of business (to promote enterprise)/supply of and cost of finance for business investment/tax incentives for training or capital investment • Accurate diagram showing outward shift in LRAS award up to 2 marks • Link to data/extract needs to be clear for application marks e.g. Measures to encourage enterprise **(1)** and investment **(1)**	**(4)**

Question 10e is on the next page

Question Number		Mark
10(e)		**(14)**
Knowledge, Application and Analysis		
	Indicative content • Investment includes spending on improving human capital of the workforce through training & education to improve the skills & competences of workers • Infrastructure is spending on new sewers, roads, wind farms, telecommunications networks and ports (by the private and/or the public sector) • Low investment in the UK leads to lower economic growth and competitiveness • Explanation of effect upon AD • Explanation of impact on LRAS • Diagram: Up to 4 marks for appropriate diagram e.g.   **If no reference to context (low investment in UK) then max 6/8marks** **NB:** Alternatively candidates may consider the costs of low/falling investment as KAA and the benefits as evaluation. (contd…)	**(8)**

KAA Level descriptors and Evaluation on next page

KAA

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects or identification of one or more points. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of effects of investment **or** lack of investment in the UK economy Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the importance of investment **and** lack of investment in the UK economy Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation		
	Indicative content • Candidates may look at benefits of investment and evaluate by looking at the costs of a lack of investment • Investment impact upon AD and SRAS and LRAS • Impact upon average price level and real output • Short-term and long-term impact • Impact upon international competitiveness • Balance of payments on current account • Capital investment and impact upon current consumption (trade-off) • Investment on its own may not be sufficient to create an increase in LRAS since workers may need training to work the new machinery • Time lags between new capital spending and the effects on output and productivity. • Insufficient demand, a growing capital stock may lead to excess capacity putting downward pressure on prices and real output • Capital investment may increase unemployment in the long-term	**(6)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

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