GradeMax



Mark Scheme (Results)

Summer 2017

Pearson Edexcel International Advanced Subsidiary in Economics
(WEC02)
Paper 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 (rejected marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Answer	Mark
1	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of inflation: sustained increase in the average price level **(1)** • Definition of fiscal policy: use of government spending and taxation (to affect aggregate demand) **(1)** • Increasing income tax will reduce disposable income **/** consumer spending **(1)** • Lower consumer spending reduces AD **(1)** and demand-pull inflation **(1)** • Lower AD decreases average price level and real output **(1)** • For correct diagram award up to 2 marks showing decrease in AD impact on real output and average price level **Rejection marks** • **A** is incorrect because increasing interest rates in an example of monetary policy **(1)** • **C** is incorrect because increasing asset purchases is an example of monetary policy **(1)** • **D** is incorrect because an increase in government spending on pensions would increase AD and inflation **(1)**	**(4)**

Question	Answer	Mark

Number		
2	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of real (income): nominal values such as income minus inflation **(1) OR** • Definition of nominal (income): monetary value without taking inflation into account **(1)** • If inflation higher than increase in nominal income then real income falls **(1)** • Rising nominal and falling real incomes means inflation rate higher than increase in nominal income **(1)** • 2% increase in nominal and 2.4% decrease in real income suggest inflation at 4.4% **(1)** **Rejection marks** • B is incorrect because deflation would increase real incomes if nominal incomes remained constant or increased or decreased at a lower rate than the rate of inflation **(1)** • C is incorrect because if inflation rate was lower than increase in nominal incomes, real income would increase, not decrease **(1)** • D is incorrect because falling real incomes likely to reduce consumer spending rather than increase **(1)**	**(4)**

Question Number	Answer	Mark
3	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of investment: purchase of goods that are not consumed today but are used in the future to create wealth **(1) OR** • Purchase new machinery, equipment, or buildings in order to increase productive capacity/increase in capital stock in an economy **(1)** • Decreased confidence may result from increased risks**(1)** • If firms are not confident of a return on investment **(1)** they are likely to decrease investment**(1)** **Rejection marks** • A is incorrect because lower corporation tax may increase profits of firm who may invest some of these increased profits**(1)** • B is incorrect because increased consumer spending may lead to higher profits for firms. Firms may also increase investment to meet rising demand **(1)** • C is incorrect because lower interest rates make it less expensive for firms to borrow for investment/act as a disincentive for firms to leave capital unutilised**(1)**	**(4)**

Question Number	Answer	Mark
4	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of balance of payments on the current account: record of all money flows to and from a country arising from exports and imports **(1)** (of goods and services, transfers of income and other net transfers) • Data shows negative balance in each year/ therefore current account in deficit **(1)** • Value of withdrawals (leakages) greater than injections **(1)** • Withdrawals exceed injections means net withdrawals from circular flow of income **(1)** • For correct diagram award up to 2 marks showing decrease in AD impact on real output and price level **Rejection marks** • A is incorrect because data shows net withdrawal rather than net injection **(1)** • C is incorrect because the data suggests imports>exports thus likely to reduce AD OR net exports only one component of AD so cannot tell from this data alone **(1)** • D is incorrect because net exports is a component of aggregate demand/no causal link between net exports and AS **(1)**	**(4)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>5</td><td>
Answer D (1 mark)

Explanation (up to 3 marks)
• Definition or formula of per capita GDP as GDP/population (1)

<table>
<tr><th>Year</th><th>Total GDP (US$ billion)</th><th>Population (Million)</th><th>GDP per capita (US$)</th></tr>
<tr><td>2009</td><td>1 055</td><td>21.3</td><td>49530.5</td></tr>
<tr><td>2010</td><td>926</td><td>21.7</td><td>42672.8</td></tr>
<tr><td>2011</td><td>1 141</td><td>22.0</td><td>51863.6</td></tr>
<tr><td>2012</td><td>1 388</td><td>22.3</td><td>62242.2</td></tr>
<tr><td>2013</td><td>1 534</td><td>22.7</td><td>67577.1</td></tr>
</table>

3 marks for calculations which support the correct key.

Rejection marks
• A is incorrect because per capita GDP decreased between 2009 and 2010 (1)
• B is incorrect because per capita GDP was lowest in 2010 (1)
• C is incorrect because per capita GDP increased between 2012 and 2013 (1)

NB Each rejection mark may only be awarded if supported by a relevant calculation
</td><td>(4)</td></tr>
</table>

Question Number	Answer	Mark
6	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of CPI: CPI is a weighted price index/a weighted measure of the change in the average price of a basket of goods **(1)** • Definition of deflation: sustained decrease in the average price level **(1)** • CPI index falls from 103.8 in 2013 to 103.6 in 2014 indicating deflation **(1)** • Increase in CPI indicates increase in average price level/decrease in CPI indicates a fall in average price level **(1)** • Correct calculation of inflation rate in any year **(1)** **Rejection marks** • A is incorrect because the CPI falls from 2008-2009 and from 2012-2013 indicating deflation rather than inflation **(1)** • C is incorrect because the CPI was 103 in 2011 (up 3% since 2010) but was 103.9 in 2012 (index has increased by 0.9) **(1)** • D is incorrect because there was deflation in 2009 – CPI was lower in 2009 than in 2008 **(1)**	**(4)**

Question Number	Answer	Mark
7	**Answer A (1 mark)** **Explanation (up to 3 marks)** • AD components C+I+G+(X-M) **(1)** • Decrease in imports is a decrease in leakages/withdrawals **OR** Net exports will rise **(1)** • Therefore AD rises **(1)** • LRAS is independent of price level/shows potential output **(1)** **Rejection marks** • B is incorrect as decrease in investment likely to decrease AD and shift curve inwards/left **(1)** • C is incorrect as decrease in government spending (G) likely to decrease AD and shift curve inwards/left **(1)** • D is incorrect as advance in production technology likely to increase potential output and shift LRAS outward/right but not directly impact AD **(1)**	**(4)**

Question Number	Answer	Mark
8	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of multiplier: **Either:** an initial change in an injection can have a much greater final impact on the level of equilibrium national income **OR** 1/(1-MPC) **OR** ΔY / ΔJ **(1)** • Evidence of calculation: £3.2 billion/£1.5 billion = 2.1 **(2)** • 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 is incorrect as the outcome would have been £600 million - £1.5 billion x 0.4 **(1)** • B is incorrect as the outcome would have been £2.55 billion - £1.5 billion x 1.7 **(1)** • D is incorrect as the outcome would have been £7.05 billion - £1.5 billion x 4.7 **(1)**	**(4)**

Section B: Data response

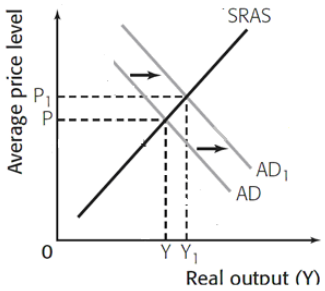
Question Number	Answer	Mark
9 (a)	**Knowledge and application (up to 6 marks):** Identifying possible causes/reasons for increased consumer spending • Falling value of peso against US$(Extract 1) increases value of remittances/money sent to Mexico from USA **(1+2)** • Effect of increased tourism on local population e.g. employment, income, consumption **(1+2)** • Rising real wages in Mexico, due to low inflation (Extract 1), increases consumer spending **(1+2)** • Economic growth implies an increasing standard of living leading to increased consumer spending **(1+2)** **EITHER** • Low interest rates (Extract 2) lowers cost of borrowing and consumers are encouraged to spend more **(1+2)** **OR** • Low interest rates reduce the reward for saving and consumers are encouraged to spend more **(1+2)** If only 1 reason given then maximum of 3 marks If more than 2 reasons given, reward the best 2	**(6)**

Question Number		Mark
9 (b)		**(14)**
Knowledge, application and analysis – indicative content		

- Consumer spending is a component of AD
- Increase in AD may increase real output and price level
- Increased economic growth
- Increased employment related to retail sector
- Increase in MPC would cause an increase in the value of the multiplier
- Extract 2 suggests domestic firms competitive due to value of peso thus increasing value of multiplier

Candidates should produce diagram(s) showing outward shift in AD

EG



One positive view may be presented as KAA and the other viewpoint may be accepted as evaluation or vice versa

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible impacts or identification of one or more points. Definition/understanding **or** data references. 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 impacts identified along with some development of analysis **or** some identification of possible effects and data references. 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 economic impact **and** data references 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		
	• Magnitude of increase in consumer spending • Time period – short-term then impact will be less whereas long-term impact may be greater • If consumer spending financed through borrowing this may create problems in the long-term • Growth may be inflationary (although inflation relatively low) • Trend since 2012 (Figure 1) is low growth thus impact on economic growth not significant • Impact on rate of inflation depends on the elasticity of the AS curve • Impact on AD depends on other components of AD	

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	Answer	Mark
9 (c)	**Knowledge (2 marks):** • Helps to meet objective macroeconomic stability **(1)** • Low and stable inflation rate may facilitate real wage growth / consumer spending **(1)**, economic growth **(1)**, international competitiveness **(1)** may make income inequality redress measures easier **(1)** • Helps to avoid uncertainty created by high inflation/deflation in the economy **(1)** encouraging investment as firms can make appraisal on the basis of clear expectations **(1)** • Uncertainty might create a collapse in investment **(1)** • Target can be used as a tool to guide interest rate decisions made by Central Bank **(1)** • If inflation judged too high, CB can increase interest rates, and vice versa **(1)** • Improves the accountability and transparency of monetary decisions by Central Bank **(1)** • Reduced inflationary expectations if people believe a low inflation target will be met **(1)** • This will then reflect in the wage demands of people in work **(1)** • If employees expect low inflation they may be prepared to accept a slower growth of pay **(1)** **Application (2 marks):** • The 3% target gives monetary policy clarity **(1)** • "Low inflation helped to increase real wages and consumer spending" **(1)** • Rate of inflation fell from 4.1% in December 2014 **(1)** to record low of 2.5% in August 2015 **(1)**	**(4)**

Question Number		Mark
9 (d)		**(10)**
Knowledge, application and analysis – indicative content		
	• Peso value against US$ fell 2013-2014 (Figure 1) • Peso at record low 2015 (Extract 1) • Price of exports falls causing increase in demand for Mexico's exports • Price of imports rises causing decrease in demand for imports • Net effect is an improvement in a current account • More USA tourists (invisible export) boosting AD • Higher value of income transfers from workers in USA, increasing consumer spending and AD • Domestic firms' price competitiveness increased One positive view may be presented as KAA and the other viewpoint may be accepted as evaluation or vice versa	
Level	Marks	Descriptor

0	0	A completely inaccurate response.
1	1-2	Shows some awareness of impacts **or** data references
2	3-4	Understanding of impacts **or** some awareness of impacts and data references
3	5-6	Clear understanding of impacts **and** linking to data
Evaluation – indicative content		
		• Impact will depend upon time period – peso may increase in value again • Impact will depend upon PED for imports and exports • Other factors might affect the current account such as real incomes, state of the world economy, protectionism, non-price factors • Commodity prices (oil) may increase again, increasing value of exports and currency • Value of imports as % of GDP greater than value of exports as % of GDP in all years 2008-2014 (Figure 2) • Falling value of peso increasing costs of (essential) imports leading to fall in competitiveness of Mexico's goods
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 relevant reasoning

Question Number		Mark
9 (e)		**(14)**
Knowledge, application and analysis – indicative content		

	• Objectives may include:
	  ○ stable low inflation
	  ○ economic growth
	  ○ low unemployment
	  ○ maintenance of balance of payments
	  ○ redistribution of income (reduction in poverty)
	  ○ environmental protection
	• Examples of potential conflicts:
	  ○ Strong economic growth and low inflation
	  ○ Low inflation and low unemployment
	  ○ Economic growth and protection of environment
	  ○ Economic growth and stable balance of payments
	• Analysis of how/why Mexico is/is not successful in avoiding the conflict
	• Use of appropriate AD/AS diagrams to explain impact on various indicators
	
	Analysis that Mexico has avoided conflicts may be presented as KAA and the other viewpoint may be accepted as evaluation or vice versa	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of how policies may impact/have impacted upon macroeconomic objectives or identification of one or more points **or** data references 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 how policies may impact/have impacted upon macroeconomic objectives along with some development of analysis **or** some identification of possible impacts and data references. 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 how policies may impact/have impacted upon macroeconomic objectives 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		
	If candidate has asserted that Mexico avoided conflicts then evaluation should focus on areas where they have been unsuccessful, for example: • Mexico may have avoided some conflicts but not others • The long term situation may change • Avoidance of some conflicts/failure to avoid may be due to other factors (e.g. strength of US dollar) rather than Mexican government intervention	
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	Answer	Mark
10 (a)	**Knowledge (2 marks):** • The Human Development Index (HDI) is a composite measure **(1)** consisting of components of education, income and life expectancy **(1)** • The education component of the HDI is measured by mean of years of schooling for adults aged 25 years and expected years of schooling for children of school entering age **(1)** • The standard of living dimension is measured by gross national income (GNI) per capita **(1)** **Application (2 marks):** • HDI values range from 0 to 1 – the higher the value, the more developed the country **(1)** • Finland's GNI per capita has fallen since 2008, particularly in 2012 to 2014 **(1)** • Finland's HDI measure has remained steady at 0.88 throughout 2008 to 2014 **(1)** • Finland's place in the world ranking of HDI has moved from 17th to 24th **(1)**	**(4)**

Question Number		Mark
10 (b)	**Knowledge and application (up to 6 marks):** • Definition of recession: 2 consecutive quarters of negative GDP growth/recession 2008/2012-2014 **(1)** • Recession in Russia (biggest trading partner) reducing demand for exports **(1+2)** • Net exports component of AD falls, thus AD falls **(1)** • Failure of Nokia, large firm contributing to GDP, falling real output **(1+2)** • Rising unemployment/ falling incomes, reduced consumer spending as component of AD leads to falling economic growth **(1+2)** • Current account deficit, resulting from falling net exports, falling AD/ leakage from circular flow of income, reducing economic growth **(1+2)** If only one cause award up to 3 marks If more than 2 causes given, reward the best 2	**(6)**

Question Number		Mark
10 (c)		**(14)**

Knowledge, application and analysis – indicative content

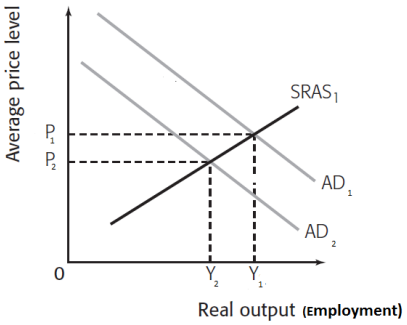
- Nokia used to contribute significantly to economic growth (25% up to 2007)
- Falling growth from loss of contribution of Nokia to AD (falling exports and investment)
- Falling SRAS (possibly LRAS) as Nokia output falls
- Negative impact upon incomes and consumer spending
- Rising current account deficit, decreasing net exports leading to falling AD
- Impact upon currency value – falling value of currency makes imports more expensive, increasing inflation
- Accurate diagram showing fall in AD annotated and explained in relation to lower real output and falling average price level
  And/Or
  Accurate diagram showing fall in SRAS/LRAS and explained in relation to lower real output and rising average price level

Costs of decline of Nokia can be used as KAA and possible benefits of decline can used as evaluation or vice versa

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible impacts or identification of one or more points. Understanding of impact on growth and unemployment **or** data references 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 the impact on growth and unemployment along with some development of analysis **or** some identification of possible effects and data references 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 of impact on growth and unemployment **and** data references 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		
	• Economy may become less reliant upon one firm • Impact will depend upon how long it takes for other sectors to replace Nokia • Diversification of economy away from mobile 'phones • Lower growth may reduce inflation, increasing price competitiveness of other export industries • Reduction in crowding-out by one large firm • Other sectors of the economy may see less competition for labour, lower costs and increased international competitiveness • Investment in sectors other than telecommunications	
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 (d)		**(10)**
Knowledge, application and analysis – indicative content		
	• Waste of resources • Rising poverty and inequality • Rising government budget deficit through decreased tax receipts (direct and indirect) and increased government spending on benefits • Social effects (e.g. increased crime) • Net outward migration as workers seek employment overseas • Emigration of skilled workers • Emigration of younger workers (decreasing potential labour force and potential output) • Lower AD and lower trend growth • Possible deflationary spiral • Reference to data – falling GNI per capita, lower HDI ranking (Figure 2) – low growth and rising unemployment (Figure 1) • Diagram(s) - AD falling, lower real output and falling average price level lined to unemployment/employment •  • AS falling, lower real output and higher average price level • Phillips curve – lower inflation and higher unemployment Costs of unemployment can be used as KAA and benefits of unemployment used as evaluation or vice versa	

Level	Marks	Descriptor
0	0	A completely inaccurate response
1	1-2	Shows some awareness of effects **or** data references
2	3-4	Understanding of effects **or** some awareness of effects and data references
3	5-6	Clear understanding of effects **and** linking to data

Evaluation – indicative content		
	Requires evidence of awareness of possible benefits of unemployment (answer is **not** one sided) • Higher unemployment may reduce inflation thus make Finnish economy more competitive internationally • Higher unemployment may reduce wages and costs for business improving efficiency and international competitiveness • Contraction of inefficient sectors may make economic growth more balanced (less reliant upon Nokia) • Time scales - risk of deflation and stagflation may only be short term and growth may return in long-term • As Russian economy returns to growth, Finland economy may also see renewed growth and falling unemployment	

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 relevant reasoning

<table>
<tr><td>Question Number</td><td colspan="2"></td><td>Mark</td></tr>
<tr><td>10 (e)</td><td colspan="2"></td><td>(14)</td></tr>
<tr><td colspan="4">Knowledge, Application and Analysis – Indicative content</td></tr>
<tr><td></td><td colspan="2">High costs of new benefit system (minimum income guarantee) may result in reduced government spending in other areas increasing unemployment and reducing growth
Budget imbalance as spending exceeds tax receipts may mean higher direct and indirect tax reducing growth and increasing unemployment
Increased government borrowing may crowd-out private borrowing for investment
Disincentive to work from minimum income guarantee may result in higher unemployment
Higher taxation required may decrease disposable income for those in work, reducing consumer spending and AD, real output and average price level, thus reducing HDI
Higher taxation for firms may decrease SRAS as costs rise, decreasing real output and increasing average price level
Negative impact of minimum income guarantee on growth and unemployment can be used as KAA and possible positives can used as evaluation or vice versa</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">A completely inaccurate response.</td></tr>
<tr><td>1</td><td>1-3</td><td colspan="2">Shows some awareness of possible effects or identification of one or more points. Understanding of impact on growth and unemployment <u>or</u> data references
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.</td></tr>
<tr><td>2</td><td>4-6</td><td colspan="2">Identification and some explanation of the impact on growth and unemployment along with some development of analysis <u>or</u> some identification of possible effects and data references
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.</td></tr>
<tr><td>3</td><td>7-8</td><td colspan="2">Clear understanding and analysis of the of impact on growth and unemployment <u>and</u> data references
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.</td></tr>
</table>

Evaluation – indicative content		
	• Maintain or increase living standards for low income groups and/or unemployed • Redistribute income/reduce income inequality • Reduce gap between high and low income groups • Significant saving in administration costs of benefits system may be used by government in other areas • May increase HDI ranking if increases GNI per capita • Alternatively, may be no impact on HDI ranking or GNI per capita as guaranteed income scheme is a redistribution of income rather than a net increase • No net effect on government revenue or spending, since taxation system changes increase revenue to offset any additional expenditure on guaranteed income scheme • Reduce some of the wider costs of unemployment e.g. crime • Is 800 Euros the correct level? If too much, acts as disincentive to work. If too little, may not improve crime levels/social issues • May boost AD as low income groups have higher MPC than higher income groups – i.e. increase value of multiplier • May increase creativity and enterprise in economy as more small businesses are started as risk is offset by minimum income guarantee	
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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