GradeMax



Mark Scheme (Results)

October 2018

Pearson Edexcel IAS
In Economics (WEC02)
Paper 01 Macroeconomic Performance and Policy

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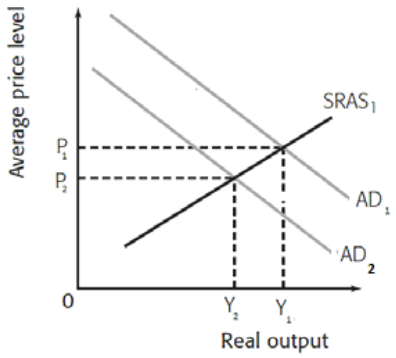
General Marking Guidance

- 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 (rejection 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 fiscal policy: use of taxation and/or government expenditure to influence the level of economic activity **OR** • Definition of inflation: sustained rise in the general /average price level **OR** • Identification of contractionary or deflationary fiscal policy **(1)** • Mechanism by which higher income taxes would reduce the rate of inflation e.g. Higher income tax reduces household disposable income **(1)** leading to reduced consumption **(1)** and to lower AD/ inflation **(1)** Up to 2 marks for diagram showing inward shift in AD, falling real output and average price level  **Rejection marks** **Do not double award** • Option A: incorrect as interest rate is an example of monetary policy not fiscal policy **(1)** • Option C: incorrect as an increase in government spending (G) more likely to increase AD and inflation **(1)** • Option D: incorrect as price controls are an example of direct controls **(1)**	**(4)**

Question Number	Answer	Mark
2	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of fiscal/budget surplus: tax receipts exceed government spending **(1)** • Taxation is a withdrawal/leakage from the circular flow of income **OR** government spending is an injection into the circular flow of income **(1)** • Net withdrawal occurs when taxation exceeds government spending **(1)** • Net withdrawal/budget surplus of $43 million in 2015 **(1)** **Rejection marks** **Do not double award** • Option A: incorrect the value of the multiplier more likely to decrease if tax reduces consumption **(1)** • Option B: incorrect as fiscal/budget surplus is a net withdrawal and not an injection **OR** government spending would have to be greater than tax revenues **(1)** • Option C: incorrect as government expenditure would not necessarily increase in the next year/a fiscal surplus does not have to be followed by increasing government expenditure **(1)**	**(4)**

Question Number	Answer	Mark
3	**Answer C (1 mark)** **Explanation (up to 3 marks)** • CPI defined as a weighted basket of goods and services used to measure changes in average price level **(1)** • Award marks for use of data to support correct answer / conclusion: In 2011 CPI 2.6%, 2012 1.7%, 2013 0.5 % **(1)** • CPI increased in each year between 2011 and 2013/inflation in each year **(1)** • 2011-2013 disinflation/average prices rising but more slowly **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as deflation would mean average prices were falling **OR** there was disinflation in 2011-2013 **(1)** • Option B: incorrect as there was deflation in both years/average prices were falling **(1)** • Option D: incorrect as while average prices fell in 2015 this fall was less than the increase between 2011 and 2014 **(1)**	**(4)**

Question Number	Answer	Mark
4	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Exchange rate is one currency expressed in terms of another **(1)** • The increase in the value of the currency causes exports to be less price competitive **and** imports to be cheaper **(1)** • Therefore decrease in net exports (x-m) reducing AD/shifting AD curve left **(1)** • Cheaper imports may decrease costs (inputs) for firms increasing SRAS/shifting SRAS right **(1)** Award up to 2 marks for correctly annotated diagram showing inward shift in AD **and** outward shift in SRAS **(1)**, new equilibrium real output **and** price level **(1)** **Rejection marks** **Do not double award** • Option B: incorrect as SRAS likely to shift right due to falling costs for firms (do not reward if already awarded) **OR** for AD likely to shift left due to falling net exports **(1)** • Option C: incorrect as SRAS likely to shift right due to falling costs for firms **(1)** • Option D: incorrect as AD and SRAS would change as a result of a currency appreciation **(1)**	**(4)**

Question Number	Answer	Mark
5	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of multiplier: either taken from specification 1/(1-MPC) **(1) OR** 1/MPS+MPT+MPM **OR** • 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)** • Evidence of calculation: £56.32bn/£17.6bn **(1)** Value of multiplier = 3.2 **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as final value would be £17.6bn x 0.3 which would be £5.28/£5.3bn **(1)** • Option B: incorrect as final value would be £17.6bn x 1.0 which would be £17.6bn **(1)** • Option D: incorrect as final value would be £17.6bn x 4.0 which would be £70.4bn **(1)**	**(4)**

Question Number	Answer	Mark
6	**Answer B (1 mark)** **Explanation (up to 3 marks)** • The shape of the Keynesian LRAS shows three possible phases **(1)** • First phase: the LRAS is perfectly elastic **(1)** producers in the economy can raise their level of output without higher average costs, because of 'spare capacity' in the economy. **(1)** • Second phase: as the economy approaches its potential output and the spare capacity is used up **(1)** average prices begin to rise **(1)** • In region 3, when the economy is at full capacity, all factors are being used and so output cannot increase **(1)** thus, LRAS is perfectly inelastic **(1)** **Award up to 2 marks for a correctly annotated diagram showing 3 phases** **Rejection marks** **Do not double award** • Option A: incorrect as it represents an upward sloping SRAS **(1)** • Option C: incorrect as it represents a downward sloping AD curve **(1)** • Option D: incorrect as it represents a classical LRAS curve **(1)**	**(4)**

Question Number	Answer	Mark
7	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of real GDP per capita growth: Increase/change in the ratio of real GDP to population **(1)** • Real GDP growth 9.0%-6.5%=2.5% **(1)** • Increase in population 2.5% and in real GDP growth 2.5% means that value remains the same **OR** • As the value is the same there has been no/zero/0% real GDP per capita growth **OR** • % increase in real GDP is cancelled out by % increase in the population **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as if this was the case real GDP growth would have been 7.5% **OR** population growth would have been -2.5% **(1)** • Option B: incorrect as if this was the case real GDP growth would have been 5.0% **OR** population growth would have been 0.0% **(1)** • Option D: incorrect as if this was the case real GDP growth would have been 0.0% **OR** population growth would have been 5.0% **(1)**	**(4)**

Question Number	Answer	Mark
8	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of balance of trade: value of goods and services exported minus value of goods and services imported **(1)** • Cyprus's balance of trade was negative throughout the period **(1)** • This implies that the value of imports was greater than the value of exports **(1)** which implies a balance of trade deficit/negative net exports **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as if exports were greater than imports there would be a balance of trade surplus and positive number on graph **(1)** • Option B: incorrect as data relates to trade rather than government revenue and expenditure/budget balance **(1)** • Option C: incorrect as the relationship between savings and investment is not indicated by the balance of trade **(1)**	**(4)**

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	Answer	Mark
9 (a)	**Knowledge and application (up to 4 marks):** **Up to 2 marks for knowledge:** • Budget balance refers to changes in/relationship between tax revenues **(1)** and government expenditure **(1)** • If government expenditure exceeds tax revenues then there is a budget deficit **(1)** • If tax revenues exceed government expenditure then there is a budget surplus **(1)** **Up to 2 marks for application:** Any explicit reference to budget balance data in any two years e.g. • In 2010 the deficit was -9.8% **(1)** which reduced in each year to -0.1% in 2014 **(1)** • In 2015 the deficit increased to -0.5% **(1)** • Budget balance negative in all years **(1)**	**(4)**

<table>
<tr><td>Question Number</td><td colspan="2"></td><td>Mark</td></tr>
<tr><td>9 (b)</td><td colspan="2"></td><td>(10)</td></tr>
<tr><td colspan="4">Knowledge, application and analysis – indicative content</td></tr>
<tr><td></td><td colspan="2">Data shows falling unemployment between 2010 (7.9%) and 2015 (2.9%)

• Unemployment defined as where people of working age are actively seeking work but unable to find suitable unemployment

Positive impact of falling unemployment include:
• Falling government budget deficit, increased tax receipts (direct and indirect) and decreased government spending
• Social effects (e.g. decreased crime, decreased suicide, lower net outward migration) with explanation of their positive impact on the economy; Less risk of deflation and stagflation
• Investment in skills/human capital
• Higher investment, AD and growth
• Higher consumption, AD and growth

Positive impacts of falling unemployment can be used for KAA and negative impacts for evaluation or vice versa</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td>Descriptor</td><td></td></tr>
<tr><td>0</td><td>0</td><td>A completely inaccurate response.</td><td></td></tr>
<tr><td>1</td><td>1-2</td><td>Shows some awareness of reasons or data references.</td><td></td></tr>
<tr><td>2</td><td>3-4</td><td>Understanding of reasons or some awareness of reasons and data references.</td><td></td></tr>
<tr><td>3</td><td>5-6</td><td>Clear understanding of reasons and linking to data.</td><td></td></tr>
</table>

<table>
<tr><td colspan="3">Evaluation – indicative content</td></tr>
<tr><td></td><td colspan="2">Negative impact of falling unemployment include:
• Inflationary pressures from higher consumption and investment
• Impact will depend upon spare capacity/elasticity of AS
• Higher imports from consumption and investment
• Impact will depend upon MPC and MPM
• Low unemployment rate in 2015 suggests that there may be labour shortages and this may constrain growth in the future
• Wages may be forced upwards, increasing costs and inflation

Other evaluative points
• Comment on magnitude in unemployment rate</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td>Descriptor</td></tr>
<tr><td>0</td><td>0</td><td>No evaluative comments.</td></tr>
<tr><td>1</td><td>1-2</td><td>For identifying evaluative comments without explanation.</td></tr>
<tr><td>2</td><td>3-4</td><td>For evaluative comments supported by relevant reasoning.</td></tr>
</table>

Question Number	Answer	Mark
9 (c)	**Knowledge and application (up to 6 marks)** **Up to 3 marks for knowledge:** • Definition of current account: net trade in goods; net trade in services; net primary income (interest, profits, dividends, remittances); net secondary income (net transfers) **(1)** • Tourists visiting Iceland is an invisible export **(1)** • Tourists visiting Iceland appears as a credit item on the current account **(1)** • Increasing net exports reduces current account deficit/creates surplus **(1)** **Up to 3 marks for Application:** • Current account in surplus between 2013 and 2015 (Figure 1) **(1)** • Tourism accounts for more than a quarter of Iceland's trade balance (Extract 1) **(1)** • Tourism expected to increase (Extract 1) **(1)** • Depreciation of krona (Extract 1) makes Iceland's tourist industry more attractive (cheaper) increasing net exports **(1)**	**(6)**

Question Number		Mark
9 (d)		**(14)**
Knowledge, application and analysis – indicative content		
	Data shows economic growth as: • 1.8% (2014) 4.0% (2015) • Growth since 2013 Main causes might include: • Rising consumption, investment, improved current account (exports) • Falling unemployment, higher disposable incomes • Increasing AD, growth and inflation • Multiplier effect of rising investment • Depreciating currency makes exports more price competitive • Increasing importance of tourism and tourist spending • Improvements in the supply side of the economy Causes of increasing growth can be used for KAA and constraints on growth for evaluation or vice versa	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible causes or identification of one or more causes. Understanding of causes **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 causes identified along with some development of analysis **or** some identification of possible causes 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 causes **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		
	Constraints on growth may include: • Capacity constraints, including labour shortages as unemployment falls • Lack of finance for business • Negative wealth effect of shortage of mortgage finance • Rising household debt (as Government debt has decreased) reducing consumption • Imports rising at a much faster rate than exports in 2014/5	

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
9(e)		**(14)**
Knowledge, application and analysis – indicative content		
	Funds for investment: • Capital is one of the 4 factors of production, lack of capital reduces productive potential/LRAS (e.g. impact on economic growth/inflation) • Difficulty in acquiring loans for investment and house purchasing (Extract 2) constrains growth (e.g. impact on economic growth/employment) • Negative multiplier effect (e.g. impact on economic growth/employment) (Extract 2) • Lack of investment reduces productivity and LRAS (e.g. impact on economic growth/employment/balance of payments/balanced budgets) • High cost of loans increases costs for firms and reduces SRAS (e.g. impact economic growth/inflation/employment) Funds for consumption: • Difficulty in acquiring finance reduces the ability to obtain assets • Reduction in consumption, AD, lower economic growth and employment • Demand deficient unemployment Negative impact can be used for KAA and positive impact for evaluation or vice versa	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible costs or identification of one or more impacts. Understanding of costs **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 costs identified along with some development of analysis **or** some identification of possible costs 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 costs **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		
	Positive impact may include: • Shortage of funds may decrease inflationary pressures by reducing investment and AD • Impact if lack of investment will depend upon the amount of existing spare capacity in the economy • Impact will depend upon how sustained the shortage of funds is – impact will be greater if long-term • Impact will depend upon the size of the multiplier • Shortage of funds for housing decreases inflationary pressures by reducing consumption (negative wealth effect) • Negative wealth effect and lower consumption may reduce demand for imports (depends upon MPM), increase net exports, AD and growth • The impact will depend upon the availability of other sources of finance for investment e.g. retained profit	
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 and application (up to 6 marks)** **Up to 3 marks for knowledge:** • Reflationary fiscal policy includes the use of government spending and taxation to increase the level of economic activity **(1)** • Government spending is a component of AD, so increased government spending may increase AD and growth **(1)** • Government spending is an injection into the circular flow of income **(1)** • If government spending exceeds tax receipts then there is a net injection **(1)** • Government spending on infrastructure and education can increase LRAS and growth **(1)** **Up to 3 marks for application:** • High Government spending in Namibia (Extracts 1 and 2) **(1)** • Sustained economic growth throughout 2008-2015 (Figure 1) **(1)** • Government investment in education can increase LRAS and growth (Extract 1) **(1)** • Government investment in infrastructure increasing AD/LRAS and growth (Extract 2) **(1)** **Up to 2 marks (1 K and 1 App) for accurate diagram showing increase in AD and/or LRAS**	**(6)**

Question Number		Mark
10 (b)		**(10)**
Knowledge, application and analysis – indicative content		
	Positive impacts on living standards may include: • Development of tourist industry may increase employment and improve living standards through higher incomes • Investment by Government in education may help to diversify the economy, increase employment and improve living standards • Resulting higher growth may increase incomes and living standards • Diversification may reduce reliance on export prices, make employment more secure and improvement in living standards more sustained • Diversification may reduce environmental damage and improve living standards Positive impacts may be used for KAA and these may be qualified for Evaluation or vice versa	

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

Evaluation – indicative content		
	The impact of growth will depend upon how the benefits of growth are distributed: • Namibia is one of the most unequal countries in the world. • Relatively strong economic growth has not greatly reduced poverty, inequality and unemployment. • Unemployment means living standards for many people have not been improved with growth • Real GDP per capita is lower than Botswana • HDI of 0.64 also suggests life expectancy is relatively low and access to education limited • Environmental impact of mining may reduce living standards though environmental damage/pollution • Little impact on living standards in Namibia if work force is mainly migrant labour or firms use a lot of capital	

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	Answer	Mark
10 (c)	**Knowledge and application (up to 4 marks)** **Up to 2 marks for knowledge:** • Definition of HDI: a composite statistic of life expectancy, education, and income indices **(1)** • HDI used to rank countries into four tiers of human development **(1)** the higher the ranking the higher the level of development **(1)** **Up to 2 marks for Application:** • Lower real GDP per capita in Namibia $6 000 compared to Botswana $7 080 **(1)** may have a negative impact upon Namibia's HDI **(1)** • High unemployment and inequality (Extract 1) **(1)** may have a negative impact on all 3 HDI indices **(1)** • Seasonal employment in tourism (Extract 2) **(1)** mean that incomes in Namibia fluctuate and this may negatively affect income indices **(1)**	**(4)**

Question Number		Mark
10(d)		**(14)**
Knowledge, application and analysis – indicative content		
	Constraints on growth include: Availability and quality of factors of production: • Improving access to and the quality of education (Extract 1) Inadequate investment: • Lack of electricity generation capacity (Extract 1) • Lack of investment in roads/infrastructure (Extract 2) Inappropriate regulation: • Lack of labour market flexibility (Extract 1) Depletion of natural resources from mining and tourism Fluctuations in demand for exports – linked to tourism Relatively high inflation Current account deficit Instability of government Constraints can be used for KAA and ways in which these may be overcome for evaluation or vice versa	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible constraints or identification of one or more constraints. Understanding of constraints **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 constraints identified along with some development of analysis **or** some identification of possible constraints 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 constraints **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		
	Ways in which constraints on growth may be overcome include: • Investment in education/training and human capital • Invest in new electricity generation capacity • De-regulate/change existing labour market regulation to create more flexibility Other evaluative points • Strong growth in tourism • New investment in infrastructure • Time lag	

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(e)		**(14)**
Knowledge, application and analysis - indicative content		
	• Supply-side policies are policies intended to increase the productive potential of the economy/increase LRAS • Intended to create sustainable economic growth without creating inflationary pressures • Macroeconomic objectives include: increased economic growth, control of inflation, a reduction in unemployment, equilibrium of the Balance of Payments, balanced budgets, redistribution of income, protection of the environment • Supply-side policies may be interventionist or market-oriented Interventionist policies may include: • Education and training (Extract 1) to raise levels of human capital/make labour more flexible to cope with changing structure of economy • Research and development (R&D) to develop new technologies/industries or production techniques in existing industries improve efficiencies (e.g. Investment in mining, Extract 1) • Improved infrastructure (e.g. road, railways and airports, Extract 2) to allow for better transportation linkages in the economy; better telecommunications linkages in the economy. Infrastructure is what enables economic activity to take place Market-oriented policies may include: • Reduction in direct taxes (income tax) • Reduction in direct taxes on firms (corporation tax) • Labour market reform may including reduction in trade union power/reduction in minimum wages/reduction in unemployment benefits • Deregulation of labour market (Extract 1) • Privatisation and competition policy	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible impact or identification of one or more effects. Understanding of costs **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 impact identified 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 the 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		
	Evaluation might include conflicts between objectives and/or evaluation of supply-side policies Basic conflicts between objectives might include: • inflation and unemployment (including the short-run Phillips curve) • economic growth and environmental sustainability/degradation • inflation and equilibrium on the current account of the Balance of Payments • balanced budgets and short-run growth Evaluation of supply-side policies might include: • Interventionist supply-side policies are costly so there is an opportunity cost for the government • May only be effective over the longer term. • Tax incentives - may be less income for governments • A lower level of trade union power is likely to result in less job security and worsening conditions for workers • May be a reduction in living standards for workers on the minimum wage and for the unemployed • Deregulation negative effects on labour or the environment • Some firms are nationalised so that they can provide an essential service, e.g. water, electricity or railways, at lower prices/sectors where there might not be sufficient demand for private firms to operate.	
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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