GradeMax



Mark Scheme (Results)

October 2019

Pearson Edexcel Internation Advanced Subsidiary

In Economics (WEC12)
Paper 01 Macroeconomic Performance and Policy

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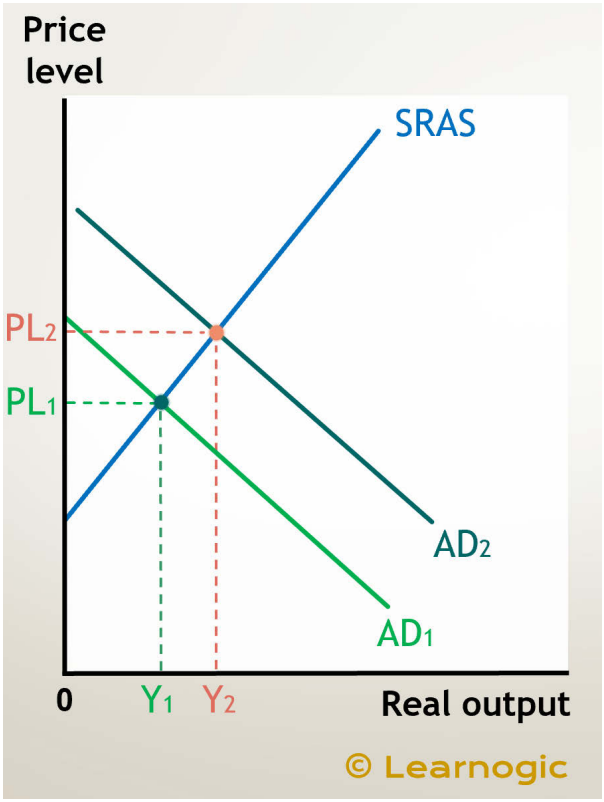
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Question	Quantitative skills assessed	Answer	Mark
1		B	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	C	**(1)**
3		B	**(1)**
4		A	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	D	**(1)**
6	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	A	**(1)**

Question	Explain **one** possible effect of high rates of unemployment on the public finances of Bosnia and Herzegovina. Answer	Mark
7	**Knowledge 1, Application 1, Analysis 2** **Knowledge & Analysis** 1 mark for knowledge and a further 2 marks for linked analysis • Defining unemployment; the total number of individuals that are willing and able to work and actively seeking work **(1)** • Increase in unemployment leads to a higher demand for unemployment benefits **(1)** increasing government spending possibly leading to deterioration in public finance **(1)** • Increase in unemployment leads to a fall in tax revenues **(1)** and a deterioration in public finance **(1)** **Application** 1 mark for applying to Bosnia and Herzegovina, e.g.: • Bosnia and Herzegovina's unemployment level has decreased by 9 percentage points / decreased from 46% to 37% between 2013-2018 **(1)**	**(4)**

Question	With reference to the chart, explain the difference between a current account deficit and a current account surplus. Answer	Mark
8	**Knowledge 2, Application 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** Up to 2 marks for defining a current account surplus and current account deficit e.g. • Current account surplus is when the value of exports of goods services, transfers and investment income is greater than the value of imports of goods services, transfers and investment income **(1)** • Current account deficit is when the value of imports of goods services, transfers and investment income is greater than the value of exports of goods services, transfers and investment income **(1)** **Application** Up to 2 marks for use of the data, e.g.: • There was a current account surplus between 2010 and 2011/ 2014 to 2017 **(1)** • There was a current account deficit in 2012 and 2013 **(1)** • The current account surplus was at its highest at 11.7% of GDP in 2016 **(1)** • The current account surplus rose in value from 2014 to 2017 **(1)**	**(4)**

Question	Explain one possible impact of increased business confidence on the economy of the UAE. Answer	Mark
9	**Knowledge 1, Application 1, Analysis 2** **Knowledge & Analysis** 1 mark for identification of one possible **impact** of increased business confidence on the United Arab Emirates and Up to 2 marks for development of identified factor e.g. increase in aggregate supply • Increased business confidence increases incentives to invest **(1)** this increases AD and real output, reducing the output gap **(1)** • Businesses will increase investment **(1)** which will have multiplier effects **(1)** leading to a more than proportionate increase in GDP **(1)** Reward an accurate outward shift in LRAS/AD if shown on a diagram **(1)** **Application** 1 mark for applying to UAE e.g.: • The increase in business confidence is due to high rates of economic growth **(1)** • Sustained growth since 2012 **(1)**	**(4)**

Question	Draw a SRAS and AD diagram to show the possible impact of this increase in consumption on the price level and real output. Answer	Mark
10	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS4:**Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.  **Knowledge** 1 mark for drawing original AD and SRAS curves showing the equilibrium price level and real output **(1)** **Application** 1 mark for correct shift in AD 1 mark for labelling new higher price level 1 mark for labelling new real GDP/output level	**(4)**

Question	Using the information above, calculate the change in GDP per capita between 2016 and 2017. Show your workings. Answer	Mark
11	**Knowledge 1, Application 3** **QS1:** calculate, use and understand ratios and fractions. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** **EITHER** 1 mark for GDP per capita formula GDP/population **(1)** **OR** GDP per capita is a measure of a country's economic output that accounts for its number of people **(1)** **Application** **Up to three marks from the following** 2017: $19390.6 billion /0.3257 billion **(1)** = $59 535.16 **(1)** $59 535.16 - $57 589.70 = $1 945.46 **(1)** **OR** ($59 535.16 - $57 589.70) / $57 589.70 = 3.38% **(1)** **NB: if correct answer ($1 945.46 / 3.38%) is given, award full marks regardless of working**	**(4)**

Question	Define the term 'base rate of interest' (Figure 1). Answer	Mark
12(a)	**Knowledge 2** Up to 2 marks for defining base rate of interest • Cost of borrowing / Return received for saving money **(1)** that the central bank charges / pays commercial banks **(1)** • Set by the central bank **(1)** to commercial banks **(1)**	**(2)**

Question	With reference to Figure 2, explain the term 'recession'. Answer	Mark
12(b)	**Knowledge 2, Application 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for offering a definition of recession • Two consecutive quarters **(1)** of negative economic growth / negative real GDP growth **(1)** **Application** Up to 2 marks for reference to Figure 2 for example: • Recession starts Q4 2015 -1.2% to -0.2% Q1 2016 **(1)** • Growth fell from -0.2% Q1 2016 to -2.1% Q2 2016 **(1)** • Growth fell from -1.2% Q4 2015 to -2.1% Q2 2016 **(1)** • Argentina was in recession between Q4 2015 and Q2 2016/ Q4 2015 and Q1 2016/ Q1 2016 and Q2 2016 **(1+1)**	**(4)**

Question	With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments. Answer	Mark
12(c)	**Knowledge 2, Application 2, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge & Analysis** Up to 2 marks for knowledge and up to 2 marks for analysis • The exchange rate is the external value of a currency **(1K)** the current account measures the total value of exports minus the total value imports **(1K)** • The current account records the payments for goods and services, plus investment income and transfers, between an economy and the rest of the world **(1K)** • Reward identification/definition of depreciation: a fall in the value of one currency against another currency **(1K)** • The fall in the value of the peso make imports more expensive **(1K)** this may lead to fall in consumption of imports **(1An)** improving the current account balance **(1An)** • The fall in the value of the peso causes a decrease in the price of commodity exports **(1K)** this may lead to an increase in the consumption of exports **(1An)** improving the current account balance **(1An)** • Argentinian exports become more price competitive **(1K)** increasing demand for Argentinian exports **(1An)** leading to an improvement in the current account **(1An)** • Demand for certain exports is inelastic **(1An)** causing a decrease in the current account **(1An)** **Application** Up to 2 marks for reference to the data. • The current account balance has fallen into deficit **(1)** • Importing goods from America is very expensive **(1)** • The peso fell by 12 percentage (points) against the dollar **(1)** • Decrease in the value of commodity exports from Argentina **(1)** **Reward the use of relevant diagram**	**(6)**

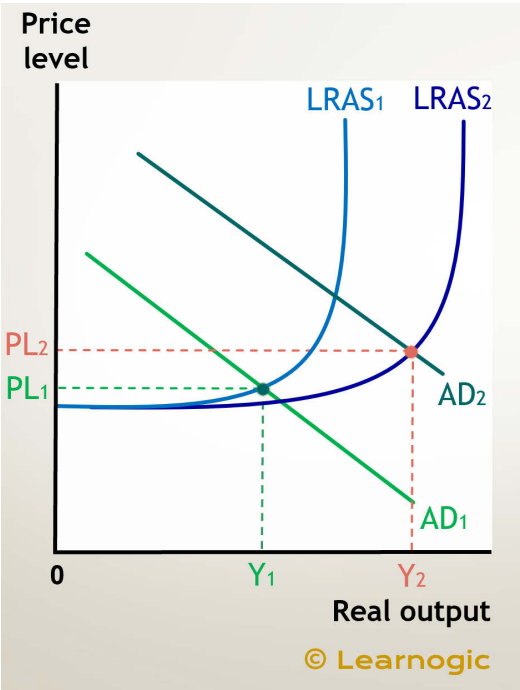
Question	With reference to the information provided, examine the likely impact of inflation on the economy of Argentina. Indicative content	Mark
12(d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge 2** Up to 2 marks for knowledge of inflation; • The rise **(1)** in the average price level **(1)** • Inflation increases firms' costs/ increases the prices for consumers **(1)** can be measured using the CPI **(1)** **Application 2** Up to 2 marks for reference to the given sources, e.g.: • Inflation remains a significant issue for Argentina **(1)** • Inflation was between 30%-40% per year **(1)** • In 2017 inflation was 25% **(1)** • Inflation is damaging to firms and reduces investment **(1)** **Analysis 2** Up to 2 marks for linked explanations • High inflation reduces investment **(1)** firms are unsure of future prices reducing the incentive to invest reducing AD **(1)** • Negatively impacts those on a fixed income as incomes don't rise with inflation **(1)** reducing standards of living **(1)** • Labour demands higher wages to maintain real incomes **(1);** increase cost-push inflation **(1)** • Fall in competitiveness of Argentinian goods **(1)** leading to a fall in exports and deterioration in the current account **(1)** • Increase in unemployment **(1)** due to the fall in competitiveness/ rising wage costs **(1)** • In an attempt to reduce the rate of inflation the base rate of interest was increased to 40% **(1)** likely to reduce borrowing and consumption **(1)** **Evaluation 2** Up to 2 marks for evaluative comments, e.g.: • It depends if incomes increase **(1)** if incomes increase at the same rate as inflation then standards of living will remain constant **(1)** • If business confidence is high firms will invest **(1**) increasing the level of AD in Argentina **(1)** • High levels of imported inflation may reduce the demand for foreign goods **(1)** improving the balance of payments on current account **(1)** • Demand-pull inflation may stimulate more aggregate supply **(1)** increasing economic growth **(1)** • The negative impact on the standards of living is likely to be significant **(1)** as real wages have decreased **(1)**	**(8)**

	• The central bank is raising the base rate of interest **(1)** which is likely to reduce the negative impact of inflation **(1)** • The government has cut spending reducing AD **(1)** which is likely to reduce the negative impact of inflation **(1)**	

Question	Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption. Indicative content
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (8) – indicative content** • Consumption is the total household expenditure in the economy • Identification of supply and demand side policies • Subsidies to businesses to lower prices • Reduce tax, such as income tax to increase disposable income leading to higher consumption • Further increasing government spending would increase consumer confidence, encouraging more consumption • Government spending on infrastructure may increase employment, increasing incomes and consumption • Government could stop cutting spending, and increase welfare payments. Those on a fixed income would be able to purchase more goods and services

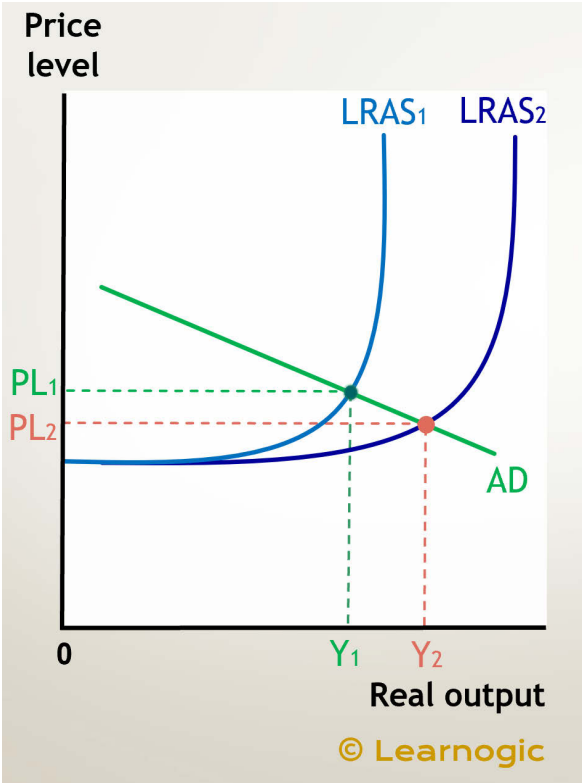
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach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

	Evaluation (6 marks) – indicative content • Consumer confidence may remain low due to high inflation • If interest rates don't change, consumers may choose to save their income • Increased government spending will further increase the government budget deficit • More demand will further increase inflationary pressure • Spending on infrastructure may only increase employment levels by a small amount • Magnitude of changes in tax/spending • Time lags of changing tax/spending	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the importance of productivity for the rate of economic growth in a country. Indicative content
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Productivity measures the efficiency of production. Usually measured as output per worker/output per hour worked • Economic growth is the increase in GDP of the economy • High productivity increases the productive potential of the economy, causing economic growth • High levels of productivity cause increased incentives for businesses to invest • An increase in productivity could lead to an increase in LRAS and to a rise in real output and to a fall in the price level A highly productive workforce may increase the demand for labour and real wages, increasing consumption and AD • Higher productivity is likely to increase company profits and increase tax revenue leading to more government spending and potential multiplier effect on GDP • High productivity may increase demand for exports improving the current account of the balance of payments **Students may take alternative perspective** Diagrammatic analysis may be rewarded. 

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Investment by businesses is based upon confidence not productivity • Potential growth is influence by productivity whereas actual growth occurs as a result of an increase in AD • Increased productivity may only occur in the long run • Magnitude of productivity/ depends on relative productivity • Other methods may be better in achieving economic growth • High consumption through demand-side policies • May conflict with sustainability objectives	
Level	**Mark**	**Descriptor**
	0	No rewardable material.

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

Question	Evaluate the use of supply-side policies as a means of reducing unemployment. Indicative content
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Definition of supply-side policies; policies used by the government to increase LRAS • Explanation of how specific supply-side policies may reduce unemployment e.g. spending on education and training may reduce structural unemployment • Housing subsidies or increased provision of low-cost housing • Improved information on job availability • Encouraging business start-ups will increase demand for labour, if start-ups are non-seasonal it may reduce seasonal unemployment • Expenditure on infrastructure may increase the employment of construction workers • Deregulation of labour markets • Reduction in welfare payments • Reduction in income tax rates to increase incentives to work Diagrammatic analysis may be rewarded. 

Level	Mark	Descriptor
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Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
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Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Increasing aggregate demand may reduce cyclical unemployment • Supply-side policies ineffective if AD is very low • Government spending may cause a multiplier effect increasing demand for labour • Reducing income tax or VAT will boost consumption encouraging more firm investment to increase supply reducing unemployment • If confidence is low firms will not expand and not employ more labour • Depends if the policy fits the nature of unemployment • Firms may invest in capital intensive production which may reduce employment	

	• Government ability to spend maybe limited by income/deficit • If incomes are rising, individuals might able to save and still consume reducing potential for multiplier • Magnitude of intervention • Education may not lead to skills to fill job shortages/ increase underemployment • Opportunity cost of government expenditure on education and infrastructure • Crowding out from government spending	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.