

Mark Scheme (Results)

January 2016

Pearson Edexcel International Advanced Level in Economics (WEC02) Paper 01 Macroeconomic Performance and Policy



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January 2016
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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	Indicative Content	Mark
1	Answer D Explanation Unemployment where person actively seeking work but unable to find suitable employment(1) Budget deficit where government expenditure greater than tax receipts(1) Reducing budget deficit either involves cutting spending(1) Reducing deficit involves raising tax(1) Reduced spending may reduce public/private sector jobs raising unemployment(1) Increased income tax reduces incentive to work this raises unemployment (1) Accurate diagram showing inward shift in AD up to 2 marks OR explanation that reduced government spending, falling AD will reduce real output and employment Rejection marks: A incorrect because reducing net immigration may reduce supply of labour and reduce level of unemployment (1) B incorrect as lower income tax increases incentive to work and may reduce unemployment/increases aggregate demand(1) C incorrect as depreciation may increase demand for exports, raise AD and thus increase real output and employment (1)	
		(4)



Question Indicative Content Number	Mark
Answer: A Explanation Example of asset purchases EG government bonds from commercial banks (1) Definition of Monetary Policy (1) Raises commercial bank reserves (1) Definition of deflation as a sustained decrease in the average price level (1) Likely to make more funds available for lending by the commercial banks(1) Likely to result in lower interest rates from commercial banks(1) Likely to result in lower interest rates from commercial banks(1) Torceased borrowing and spending may increase AD (1) and raise average price level (1) OR For correct diagram award up to 2 marks showing increase in AD and impact on price level Rejection marks: B example of fiscal policy (1) C increase in interest rates likely to reduce AD, average price level and real output (1) D increase in regulation is a direct policy not monetary policy (1)	(4)



Question Number	Indicative Content	Mark
3	Answer: C Explanation Identification of increased competition as a supply-side policy/examples of policies to increase competition deregulation and privatisation (1) Explanation of why a supply side policy might cause shift in LRAS e.g. easier market entry (1) Increased competition likely to increase efficiency producing rise in real output (1) Increased efficiency likely to shift LRAS right/outwards shown on diagram(1) Explanation that lead to outward shift in LRAS (1) lower average price level and rise in real output (1) OR Correctly annotated diagram or own diagram (outward shift in LRAS with increased real output and lower average price level labels) (2) Rejection marks: A Increased efficiency likely to reduce average price level not increase it (1) B Increased efficiency likely to reduce average price level not increase it (1) OR increase real output (1) D Increased efficiency likely to increase real output not decrease it (1)	(4)



Question Number	Indicative Content	Mark
4	 Answer: B Explanation Appreciation is a rise in value in relation to other currencies(1) OR Exchange rate is one currency expressed in terms of another (1) Exports less price competitive and imports cheaper (1) Therefore decrease in net exports (x-m) reducing AD (1) Imports cheaper may decrease costs (inputs) for firms increasing SRAS (1) Combined effect of these changes is to lower the average price level and increase real output (1) Rejection marks: A is incorrect as AD likely to shift left due to falling net exports (1) C is incorrect as SRAS likely to shift right due to falling costs for firms (1) D is 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) 	
		(4)



Question Number	Indicative Content	Mark
5	Answer: A Explanation Identification of government spending as an injection and taxation as a withdrawal (1) Definition of net injection: When government spending exceeds revenue(1) OR when injections exceed withdrawals from circular flow (1) Definition of budget deficit: Where government spending exceeds tax revenues then there is a budget deficit (1) Reference to Italy's 44 billion euro budget deficit (1) Reference to Italy's 44 billion euro budget deficit (1) Comment that deficit could be analysed as a % of GDP (1) Deficit usually financed through government borrowing (1) Deficit can only be reduced through lower spending and/or higher taxes to reduce net injection (1) Rejection marks: B this does not necessarily follow as will	
	depend upon borrowing, spending and tax receipts(1)C the value of the multiplier does not	
	depend upon the injection/depend upon value if withdrawal/leakages (it is determined independently of the injection) (1) Reward reference to MPS, MPC, MPM • D not a withdrawal as this would be the case	
	if revenues exceeded expenditure (1)	(4)



Question Number		
6	Answer: B Explanation Definition of balance of trade in goods (I.E.value of goods exported-value of goods imported) (1) OR value of visible exports-value of visible imports DO NOT ACCEPT X-M as Question is about trade in goods Negative trade balance is a trade deficit in goods (1) Each year the chart shows a deficit/negative balance(1) Reward any calculations on the data EG % increase or decrease in the balance for a year or series of years (1) Reward any specific data references to the size of the balance – must include unit of measurement (US\$ billion (1) Likely to reduce AD and real output (1) Likely to depreciate currency (1) Rejection marks: A incorrect because the chart does not show tax revenue or government expenditure it shows balance of trade in goods(1) C is incorrect as the chart does not show investment (1) D is incorrect because the balance of payments will always be in equilibrium/includes other items such as capital account/allow reference to other	(4)
	components of balance of payments (1)	(4)



Question Number	Indicative Content	Mark
7	 Answer: C Explanation Definition of commodity EG raw material used in manufacturing(1) OR Goods traded on international commodity exchange/traded at a global price (1) Definition of average price level OR real output (1) Increased costs of production (1) Example: oil, copper, iron, primary agricultural product (1) Explanation that lead to inward shift in SRAS (1) higher average price level and fall in real output (1) OR Accurate diagram showing left shift of SRAS (must be SRAS not LRAS) correctly labelled (up to 2 marks) Rejection marks: 	
	 A is incorrect as increase in labour productivity likely to shift SRAS right/increasing real output/fall in price level (1) B is incorrect as decrease in indirect tax likely to shift SRAS right/increasing real output/fall in price (1) D is incorrect as an increase in investment shifts AD right raising average price level and real output (1) 	(4)



Answer: C Explanation Definition of inflation: sustained increase in the average price level (1) Disinflation defined: a slowing of the rate of	
increase in average prices (1) Inflation in 2011-2013 means average prices were rising in each year (1) Data reference to specific inflation figure or figures for the years 2011-2013 (1) Average prices were rising throughout the entire period 2000-2013 (1) Prices were always rising even though the rate of increase varies (1) Lower rates of inflation does not mean deflation (falling prices) just a slower rate of inflation(1) 2011-2012/2008-2009/2012-2013 disinflation occurred (1) Rejection marks: A incorrect because average prices were rising throughout the entire period 2000-2013 (1) B incorrect because although % increase in CPI remained the same (or fell slightly) average prices still increased(1) D incorrect because although inflation fell average prices still increased but at a slower rate(1)	(4)



Question		Mark
Number	Indicative content	
9a		
	Knowledge and application:	
	 definition of economic growth: annual increase in real GDP (1) Increase in total value of output produced within the boundaries of a country(1) Increase in productive potential (1) Growth outward shift in PPF/PPC (1) Negative growth inward shift in PPF/PPC (1) PPF diagram showing outward/inward shift (1) Measurement may be real or nominal (1) Real growth takes into account inflation (1) Nominal growth is monetary value and does not take into account inflation (1) Includes output from foreign owned factors(1) Excludes overseas output of domestic owned factors (1) Explanation should include reference to the data/case study E.G. UK growth at 1.7% highest rate of growth (1) Spain experiencing negative economic growth - 1.2% (1) Negative economic growth may indicate recession (1) France and Germany experiencing very low levels of growth(1) NB Examples do not have to relate to Western European countries to be rewarded 	
		(4)



Question Number 9b		Mark 10	
Knowledge	e, Applica	tion and Analysis – Indicative content	
	h o O O O O O O O O O O O O O O O O O O	IK has higher economic growth thus likely to lave higher inflation as higher growth in real output. IK has lowest savings ratio compared to other ountries implies that higher economic growth may be sue to consumer expenditure forcing up AD and average prices. IK has largest current account deficit as % of EDP which may imply inflation is imported current account deficit may mean weaker urrency therefore more expensive imported inputs accurate diagram showing increase in AD or ecrease in SRAS causing increase in average orice level	
Level	Marks	Descriptor A completely inaccurate response	
0	0 1-2	A completely inaccurate response. Shows some awareness of reasons or data reference	
2	3-4	Understanding of reasons or some awareness of	: 5
		reasons and data references	
3	5-6	Clear understanding of reasons and linking to data	

Evaluation – Indicative content		
	Here we are looking for development and evidence of judgement as to the most significant factors	
	 Lower investment may mean lower productivity reduces AS and, real output and causing rising average prices Lower investment may offset rising consumption but will depend relative value of GDP components Lower saving may mean less funds for investment Inflation still relatively low at 1.7% (less than Bank of England target 2.0%) Short-term higher inflation a trade-off for higher economic growth Long-term higher inflation might reduce competitiveness and worsen current account deficit which mat reduce long term growth 	



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
Number	Indicative Content	
9c	Thateauve content	
96	 Knowledge and application: An injection is an inflow into the circular flow of income (1). Injections include investment, government expenditure and exports. (1) (1 mark for any one of these) A withdrawal is an outflow from the circular flow of income (1). Withdrawals include savings, taxes and imports. (1) (1 mark for any one of these) The above 4 points could be illustrated by a circular flow diagram. (up to 4 marks) Savings defined as postponed consumption or investment (1) Investment defined as spending on capital goods (1) Withdrawals have contractionary effective/injections have expansionary effect (1) Then maximum 2 marks for data references (1 + 1): Specific data references from Figure 2 for savings (up to 2 marks) Specific data references from Figure 2 for investment (up to 2 marks) UK has lowest investment (13.9% of GDP) (1) UK has lowest savings (12.8% of GDP) (1) France has highest investment (19.5% of GDP) (1) 	
	Germany has highest savings (23.1% of GDP) (1) NB Examples do not have to relate to Western European countries to be rewarded	(6)





Question			Mark
Number			14
	Knowled	lge, Application and Analysis – Indicative	
9d	 Saving decision by people to postpone their consumption The savings ratio is the % of disposable income saved rather than spent - high savings ratio lowers consumption and aggregate demand Factors influencing savings include: real interest rate on savings deposits expectations of future income and job security consumer confidence availability of credit taxation of saving the need to save to repay debts to save to build up a deposit for a mortgage, pay school and university fees saving for retirement. Extract 2 refers to fall in real incomes in the UK meaning lower disposable income and less savings Data reference from Figure 2 such as 12.8% of GDP in UK 23.1% in Germany 		
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. Definition/understanding or data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or graerrors are likely to be present and the writing generally unclear.	mmar
2	4-6	Identification and some explanation of factors along with some development of analysis or sidentification of possible effects and data refer Material is presented with some relevance but likely to be passages which lack proper organis Punctuation and/or grammar errors are likely present which affect the clarity and coherence	ome ences. there are sation. to be
3	7-8	Clear understanding and analysis of the econorimpact and data references Material is presented in a relevant and logical some punctuation and/or grammar errors may found, but the writing is clear and coherent over the coherent of the c	way. y be



Evaluation	- Indica	tive content	
	Here we are looking for development and evidence of judgement as to the most significant factors		
	d S S S fi S C I R O R C R O R O R O R O R O R O R O R O	Short-term versus long-term causes of ifferences short-term saving may mean higher future pending by consumers and investment by rms structural differences in economies of the ountries EG Germany and UK ligher saving may mean more funds for nvestment seference to paradox of thrift – too high level f saving may reduce demand and cause fall in eal output and average prices although saving as % of GDP may be relatively by, if GDP is high the value of saving may be relatively high cossible causes of spending rather than saving EG income and age)	
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 (14)
	Annlica	tion and Analysis – Indicative content	(17)
	• Constitution of the cons	current account: A measure of the flow of unds from trade in goods and services, plus ther net income flows (net investment income nd net transfers) Current account surplus means deficit for other ountries If the current account is in surplus for a ustained period then: Germany can have a deficit on capital account by building up reserves or purchasing assets in ther eurozone countries or internationally (Extract 1) The German surplus usually leads to an appreciation of the euro, which makes imports the heaper, reducing inflation, but exports more expensive, which may have a negative impact in other eurozone countries (1) German real exchange rate is strongly indervalued compared to the rest of the furozone - making its goods artificially cheap, rowding out those of other eurozone countries on both eurozone and world markets there may be increased protectionism from ther countries/trade disputes within and utside of the European Union	
		r benefits can be used for KAA and the	
Lovel		es for Evaluation	
Level	Marks	Descriptor A completely inaccurate response	
1	1-3	A completely inaccurate response. Shows some awareness of possible effects or identification of one or more points. Definition/understanding or data references. Material presented is often irrelevant and lack organisation. Frequent punctuation and/or graerors are likely to be present and the writing generally unclear.	ammar is
2	4-6	Identification and some explanation of factors along with some development of analysis or sidentification of possible effects and data refer Material is presented with some relevance but likely to be passages which lack proper organi Punctuation and/or grammar errors are likely present which affect the clarity and coherence	ome rences. there are sation. to be
3	7-8	Clear understanding and analysis of the economic impact and data references Material is presented in a relevant and logical Some punctuation and/or grammar errors ma found, but the writing is clear and coherent or	way. y be



English Co.	T	15 or annih mil
Evaluation	– Indica	tive content
	a A ir fi h e E E E E E E E E E E E E E E E E E E	current account surplus can be an indication of successful economy with high productivity although German surplus is negatively impacting other eurozone countries the HDI gure would suggest living standards are very igh in France and Spain serman surplus is having an impact on other urozone countries such as Spain and France igure 1 ow inflation would also suggest stable conomy however the danger of deflation is estabilising ligh levels of savings suggest growth could be xport driven thus reliant upon demand for xports – thus vulnerable to low growth in arget markets ligh reliance upon exports can create imbalanced growth in the long-term impact upon rest of the eurozone can be egative and may cause rising inequality etween members olitical pressures within eurozone and otential break-up of currency zone
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		Mark
Number	Indicative Content	
10a	 Real wages: nominal wages minus the inflation rate (1) 	
	 Calculation 2012: -3.6% (wages) - 1.9% (inflation) (2) Therefore, change in real wages is -5.5% (1) If answer of between -5.38% and -5.5% (including or not including working) then award 3 marks 	
		(4)



Question Number	Mark 10

Knowledge, Application and Analysis – Indicative content				
10b	• F (• II • T • V a • H • tl • T C • A T	or some years, real wages rising 2007 0.3%), 2010 (4.3%), 2011 (1.3%) In 2013 real wages rose by 2.2% Itherefore, consumption is likely to increase Ithis will cause aggregate demand to increase With a subsequent rise in real output and the Iverage price level. This may be illustrated With an AD/AS diagram Iligher nominal and real wages would increase The costs of firms Ithis would cause a leftwards shift of the SRAS Inve It is in the price level and a fall in real output. Ithis may be illustrated with AD/AS diagram It is approach is offered as KAA, the AS In proach could be evaluation and vice versa		
Level	Marks	Descriptor		
0	0	A completely inaccurate response.		
1	1-2	Shows some awareness of reasons or data references		
2	3-4	Understanding of reasons or some awareness of reasons and data references		
3	5-6	Clear understanding of reasons and linking to data		

Evaluation – Indicative content				
	• R • S • M • M tl • I • a f	deference to gradients of AD and/or AS curves significance of size of multiplier dagnitude of wage increase (nominal and real) will determine the impact/effect day be relatively temporary rise in wages thus the impact short-term and wages may fall in the long-term n total over the period 2007-2013 real wages are falling-for some years, real wages are falling EG 2008 (-3.5%), 2009 (-4.2%), 2012 -5.5%)		
Level	Marks	Descriptor		
0	0	No evaluative comments.		
1	1-2	For identifying evaluative comments without ex	planation.	
2	3-4	For evaluative comments supported by relevant	t reasoning.	



Question Number	Indicative Content	Mark
10c	 Knowledge and application Two costs identified (1 + 1) and for each explanation award up to 2 marks (2 + 2 marks) Costs may include: greater uncertainty (1) and fall in business confidence (1) leading to lower investment (1) redistribution of income (1) borrowers benefit and savers suffer (1) if the inflation rate is greater than the rate of interest (1) (Extract 2 impact on savers) loss of competitiveness (1) of the country's exports (1) if its inflation rate is higher than that of its major competitors (1) (Extract 1 falling exports and Extract 2 impact on competitiveness) real burden of debt (1) both public and private (1) would fall (1) (Extract 2 possible rising interest rates) inflation may increase firms costs (1) causing profits to fall/profit margins to fall (1) if they cannot increase revenue (1) (Extract 2 weakening of currency and rising costs for firms) real incomes could fall (1) if wage rises do not keep pace with inflation (1) thus falling living standards (1) Inflationary spiral (1) rising prices (1) lead to rising wage demands (1) 	(6)



Question Number			Mark (14)
Knowledge	. Applica	ation and Analysis – Indicative content	
10(d)	Factors In ir control	might include: nterest rates are increased to reduce AD by ncreasing costs of borrowing and nterest rates are used by central banks as a component of monetary policy expected rate of economic growth and nflation: suggestion that this is relatively high Extract 2) so case for increasing interest rates MI suggest growth rate likely to increase extract 2 suggest that inflation has risen from 1.75% to 2.07% July-August Extract 2 unemployment falling Thai dollar depreciating/decreasing in value ncreasing inflationary pressures Hominal wages increased 3% in 2013 May be an AD/AS diagram showing likely mpact of rising interest rates on average price evel and real output – decrease in AD with over C + I arguments for may be used as KAA and against as Evaluation or vice versa	
Level	Marks	Descriptor	
		Descriptor A completely in a country was a second	
1	1-3	A completely inaccurate response. Shows some awareness of the arguments for increase in interest rates or identification of or points. Definition/understanding or data refer Material presented is often irrelevant and lack organisation. Frequent punctuation and/or graerrors are likely to be present and the writing generally unclear.	ne or more ences. s immar
2	4-6	Identification and some explanation of argume identified along with some development of and some identification of possible arguments and references. Material is presented with some relevance but likely to be passages which lack proper organi Punctuation and/or grammar errors are likely present which affect the clarity and coherence	alysis <u>or</u> data there are sation.
3	7-8	Clear understanding and analysis of the econorarguments and data references Material is presented in a relevant and logical Some punctuation and/or grammar errors material, but the writing is clear and coherent or	way. y be



Evaluation	- Indica	tive content			
75.5.	Evaluation might include:				
		ifficulty of making accurate forecasts			
	• F	all in inflation might be short-term (real			
	w	ages increased in 2013)			
	• Ir	nflation rate still relatively low in 2013 but			
	e	xtract 2 suggest inflation is rising in 2014			
		ifficulty of determining impact on the			
		xchange rate of a change in interest rates			
		xternal factors might change suddenly e.g. oil rices			
		ow or negative growth in wages suggest			
		alling incomes/living standards			
		ow or negative growth in wages suggests that			
		ost-push pressures are declining thus inflation			
		nay fall			
	• Ir				
	tr	trend - reference to data in figure 1			
		Magnitude of interest rate change important			
	(i	mpact depends upon size of multiplier)			
		hort run or long run impact of interest rate			
		se EG lower investment reducing LRAS			
	currency appreciation – Extract 1				
	Exports already declined (Extract 1)				
	Time lag between rate changes and				
		nacroeconomic effects			
		mpact of interest rate changes may depend			
		pon elasticity of AS curve			
Level	Marks	Descriptor			
0	0	No evaluative comments.			
1	1-2	For identifying evaluative comments without			
	2.4	explanation.			
2	3-4	For evaluative comments supported by some reasoning			
	F.6	and relevant examples.			
3	5-6	For evaluative comments supported by relevant			
		reasoning and relevant examples.			



Question Number			Mark (14)
Knowledge, 10(e)	•	decline in net exports will reduce AD resulting in falling average prices and real output downward multiplier effect upon AD increased unemployment falling nominal wages (and real wages depending upon inflation rate) falling living standards higher government spending on welfare depreciation of currency and thus higher import prices sustained fall may have negative long term impact upon investment potential deflation (as inflation is already relatively low) continued falls in nominal and real wages reducing domestic demand growing inequality diagram showing fall in AD as result of lower exports, lower average price level and real output AND/OR fall in AS due to higher import costs as result of depreciation Positive effect can be used as KAA and negative	
Level	Mark	effects as Evaluation or vice versa Descriptor	
0	s 0	A completely inaccurate response.	
1	1-3	Shows some awareness of possible effects or identification of one or more points. Definition/understanding <u>or</u> data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammerrors are likely to be present and the writing is generally unclear.	
2	4-6	Identification and some explanation of factors identification of possible effects and data reference Material is presented with some relevance but the likely to be passages which lack proper organisation present which affect the clarity and coherence.	es. re are on.
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 overal	



Evaluation – Indicative content					
Evaluati	 Potential benefits include: depreciation of currency – meaning most successful export industries benefit from increased price competitiveness impact will depend upon the size of the multiplier depreciation may lead to increased domestic demand for cheaper domestically produced goods and services Low inflation reduces uncertainty for firms which may increase investment rebalancing of the economy towards domestic consumption less reliant upon uncertain export markets increased efficiency in domestic firms as they have to compete to maintain or increase global market share decrease in exports may be offset by decrease in imports effect may be greater in some sectors EG smartphone and petrochemicals 				
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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