



Examiners' Report

June 2017

IAL Economics 4 WEC04 01

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June 2017

Publications Code WEC04_01_1706_ER

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Introduction

The number of candidates sitting Developments in the Global Economy has increased significantly this year and shows continued growth since 2014. On this paper, there are 40 marks in Section A, where candidates have a choice to complete one of three two-part essays and 40 marks in Section B, the data response section. Question two was most popular followed by question three and then question one. Candidates have a choice of two data response questions, with 35% attempting question four and 65% attempting question five. The quality of responses has once again improved.

Candidates that performed better offered depth in their answers and analysis of the causes or impacts. They were able to offer a detailed chain of reasoning and breadth in terms of looking at enough different causes or impacts. Candidates typically looked at three well developed and contextualised analysis points and two well developed and contextualised evaluative points for 15 mark essay questions. Similarly, they looked at four well developed and contextualised analysis points and three well developed and contextualised evaluative points for the 25 mark essays. Answering the precise question asked, integrating data with analysis and strong evaluation remain the key ways that A-grade candidates achieve higher marks. On the four and eight mark questions, stronger candidates explicitly selected relevant data from the information provided.

Candidates that performed less well often defined key points to access some marks and identified relevant causes or impacts but failed to apply to the data or offer the required level of analysis. Offering evaluation was the best way to enable candidates to achieve in the higher levels on essays and weaker candidates often identified evaluation points without developing these.

Question 1

Question 1 was the least popular of the three essay questions with just over 20% of candidates attempting it. The question looked in part (a) at causes of the fall in global commodity prices. In the stem candidates were given data that suggested commodity prices had fallen on average 45% and oil prices 55%.

A number of candidates mistakenly looked at the consequences of such an increase in commodity price, which was the focus on part (b), so they ended up looking at the effect of commodity and oil prices.

Most commonly, candidates focused on demand side or supply side factors. Demand side factors normally included reduced global economic growth or reduced growth in China or the EU and therefore lower demand for commodities. Other candidates considered the increased number of substitutes including those caused by fracking and renewable resources that might cause lower demand for commodities such as oil.

Supply side factors were also considered including the discovery of new supplies and improved technology enabling greater production.

Part (b) looked at the effects of the oil price fall. Stronger responses considered how oil exporters would suffer as revenues fell. They often linked to the impact on the current account of balance of payments and many linked to lower AD and the impact of this on economic indicators. Candidates then went on to look at oil importers and how they would benefit from lower costs of production for firms and how this would cause higher AS and then the lower price level and higher economic growth.

The candidate starts off by showing an awareness of commodities. They then look at falling demand from emerging economies. They looked at how, through industrialisation, the demand for oil and coal increased. They argue that China realised the importance of sustainable development and that they have started to diversify towards service industries thus reducing the demand for global commodities. Whilst not totally convinced by this argument there is a fair attempt to develop a line of argument as to why demand may have fallen.

On the second page of their response the candidate incorporates a diagram to show how price would fall. They do similarly for supply increasing and link to technological progress in terms of developing search methods and better machinery. Here the analysis could have been more detailed but there is certainly an attempt to explain how supply rising may happen and that prices fall.

The third cause considered is increased demand for the substitutes of oil, including solar, wind and biodiesel. If demand for these rises there will be less need for oil. The candidate tries to exemplify this by referring to the Chinese scheme to subsidise electric cars and how this would reduce the demand for non-renewable resources.

They offer evaluation in terms of the time lag before people would substitute to electric cars and also evaluate in referring to oil running out in the longer term so the price rising further.

The candidate was awarded 10/15 for part (a). They have looked at a range of supply and demand side factors. They have drawn relevant diagrams. They have also attempted to link to the real world. They have offered some good evaluation points. The clear development of evaluation enabled them to achieve level 4 but they achieved the bottom of this range as a little more analysis would be needed to develop the chain with which the factors cause the global commodity prices to fall.

Part (b) looked at the effect of a substantial fall in oil prices in developing economies. The best responses considered the impact on both oil exporting and oil importing countries. Weaker responses focused on one or the other. Those looking at oil importers linked to the fact costs to import would fall, lowering costs of production for firms and causing SRAS to shift right driving down the price level and leading to economic growth. Other candidates focused on oil exporters who would see export revenue fall, lowering AD, the price level and economic growth.

This particular response looks at the impact of oil exporters and related this to Saudi Arabia. Although the economy is relatively developed they were still rewarded for the analysis that followed. The work that gets most credit is the idea that through derived demand there will be loss of jobs. The candidate moves through to how this leads to poverty. There is some confusion within the paragraph, for example with the lower prices it is likely that the quantity demanded and $sols=d$ would be relatively high but just at a lower price.

They offer evaluation to this point considering the price elasticity of oil and how the quantity would not change much as demand is price inelastic. This links to how revenue would fall significantly.

They move on to look at the impact on the fiscal balance in terms of lower tax revenues linked to rising unemployment and lower profits leading to lower income and corporation tax revenue. They also link to more claiming unemployment benefits. They then start to link to more needing healthcare, less available to education, lower human capital and lower LRAS. This section of work is not focused on answering the question and is becoming quite distant from the question on the impact of an oil price fall. The evaluation point linked to this does not really help in answering the question.

The next section is better, looking at the impact of lower exports on lower aggregate demand and the likely recession. The candidate then starts to stretch this linking to LRAS but again this is not focussed on the question. The depreciation of the currency is better and how this might help with competitiveness.

In evaluating they then look at oil importing countries such as China. They look at how the lower price of oil will reduce transport costs. It would have been nice to see development on how this affects aggregate supply and the economy.

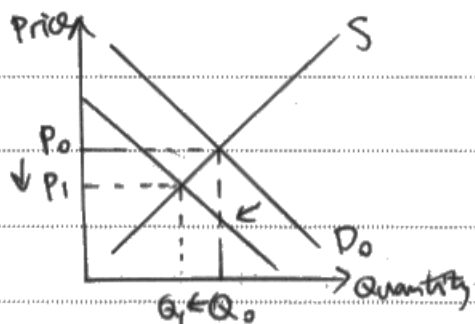
The evaluation point on the magnitude linked to the 55% change in price does add to the response.

Overall, the response shows some relevant points that are developed with an attempt to link to the real world. The candidate has made some development. They have also offered evaluative points which enables them to be moved to level 4. However, they only achieve 17 marks as some work is unfocussed and the analysis would need to be more detailed to achieve higher marks within the level.

Total for this candidate is $10+17=27/40$.

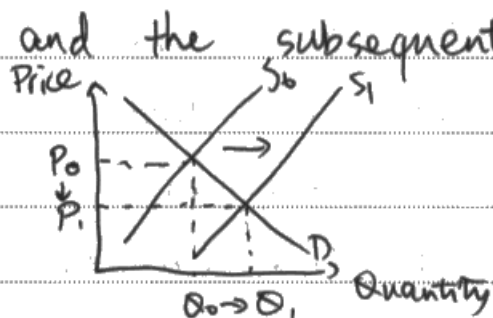
(a) global commodities include raw materials like coal, oil, etc. The causes of fall in global commodity prices are various.

Firstly, the fall in price may be due to the fall in demand for these commodities from emerging economies. Emerging economies like China and India are the largest consumers of oil. Through their process of industrialisation – the movement from low productivity primary sectors to manufacturing sectors with higher productivity, these emerging economies demand a huge amount of oil, coal, etc. to build up factories, to use for production and transportation, etc. So the prices of global commodities were pushed high due to high demand. However, in recent years, emerging economies like China have realized the importance of sustainable development, and have diversified the economy from manufacturing industries to service industries, ~~which~~ like software services, which exceed the physical limit (doesn't ~~need~~ ^{have} transport costs) and pose little externalities on the environment. Consequently, a fall in demand for ~~the~~ global commodities emerges.



As demand for oil shift leftward
price fall from P_0 to P_1
quantity ~~rise~~ fall from Q_0 to Q_1 .

Secondly, the fall in price may due to technological progress and the subsequent increase in supply.



As supply increases
price fall from P_0 to P_1
quantity rise from Q_0 to Q_1 .

There are two main reasons fall the increase in supply.

For one, it may due to the development in searching methods for these resources, for instance, the advancement in special detector to find oil, has led to an increase to the oil reserve and subsequent increase in supply. For another, higher productivity due to either gain from economies of scale or increase in skills of human capital or machinery also result in the increase in oil supply.

Thirdly, the fall in price may result from the wider consumption of the substitute of oil - renewable resources like solar, wind and biodiesel. Thus, there would be a fall in consumption of oil. As demand falls, oil's price falls subsequently as explained.

above. Like in China, there are a huge amount of subsidies paid to electricity cars, making electricity cars at least 20% cheaper than fuel-cars. — a measure posed by Chinese governments to reduce pollution from the burning of fossil fuels. As more consumers purchase electricity cars, the demand for fuel would fall dramatically.

However, this change may take place with a significant time lag, since there are many consumers owning traditional fuel-cars, they won't simply discard their car just to take advantage of the low-cost electricity cars, so there would be at least 5-10 years of fuel consumption. Also, ~~the~~ future consumers may not prefer electricity cars because of its inconvenience of charging frequently and relatively lower speed. Hence, the demand for oil won't fall significantly.

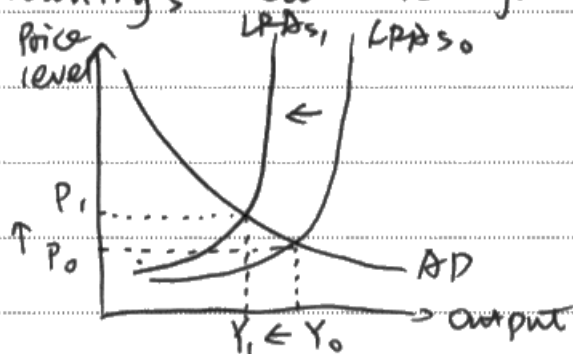
Furthermore, in the long run, the oil resource may eventually run low, and there would be a price rise as supply ~~contracted~~ contracted.

(b) Firstly, for oil exporting countries like ~~the~~ Saudi-Arabi, a fall by 55% in oil prices from Jan 2012 to Sep 2015 indicate insufficient demand, since price is the signal of demand & supply. Meaning a substantial fall in exports, as the demand for labor is a derived demand, a fall in exports would mean a significant loss in jobs. Those who lose their job would lose their source of income, couldn't purchase the daily necessities to maintain life, not to ~~mention~~ mention supporting their family members (as we know, Arabian women most ~~stay at~~ ~~home~~ are housewives and don't have income or income very low) As more people are falling into poverty, the long run productive potential of the economy decreases as the quality and quantity of labor decreases.

However, how the demand would change depends on the price elasticity for oil. Since oil is ~~an~~ price ~~inferior goods~~ inelastic, a fall in price would cause only a little increase in demand, and the overall export revenue would fall dramatically.

Secondly, a fall in exports would negatively impact the fiscal ~~of~~ balance. As a large number of people lose their jobs, and output of firms fall. The number of people paying income tax would fall,

so will the money paid in corporation tax, since firms receive lower revenue, hence lower profit. On the other hand, there's greater leakage from the government budget, as more people are eligible for mean-tested benefits and unemployment benefits. Government may also have to spend more on healthcare as ^{there's} more people in poverty. As a consequence, government budget spent on education may fall. In the long run, the level of human capital will fall. The low-productive labor force ~~may~~ will lead to a fall in LRAS, constraining the country's economic growth



The fall in LRAS lead to a fall in output from Y_0 to Y_1 and a rise in price level from P_0 to P_1 .

~~Furthermore, exports as a component of AD~~

However, government may decide not to cut spending on education or healthcare, they can finance their spending through borrowing from other countries. It can then adopt ~~inflationary~~ expansionary policies to stimulate aggregate demand and create jobs for those unemployed people, ~~through~~ for example, provide infrastructure construction projects. The people can be lift out of poverty and improve their living standard

and increase AD even further by increasing consumption

Thirdly, exports as a component of aggregate demand, a fall in exports ~~will~~ ^{may} lead to a fall in AD. The situation may become worse as unemployed people decrease their consumption. The huge leakage from the AD will lead to economic recession. Therefore, people get lower wages, in order to maintain their living standard, there will be lower level of saving. The low level of saving then may lead to a savings gap — actual saving is lower than the saving needed to finance the necessary investment in an economy. Insufficient investment would then cause a lower IRAS, leading to an even lower GDP, and the country can be trapped in recession.

Nonetheless, as oil price falls and exports falls, demand for domestic currency will decrease, causing it to depreciate, and the ^{exporting} country may regain its competitiveness in exports through price.

Finally, a substantial fall in oil price can be quite beneficial for ~~non-expo~~ non-oil-exporter countries like China. ~~The fall in oil price would mean lower transport costs for its exports, hence Chinese exports can gain more price competitiveness over~~ As the

price of oil falls, transport costs of commodities falls. Consumers in developing countries are able to get cheaper imports, leading to a increase in consumer surplus and higher living standard.

The magnitude of the change is quite great since there is a significant fall in oil price of 55%.

So consumers may gain a lot.



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Examiner Comments

Part (a) looks at a range of supply and demand side factors which could cause commodity price falls. Candidates supported their answer by integrating diagrams effectively.

This candidate has considered the impact on both oil exporters and oil importers although the latter is only considered briefly. They have been a little unfocused in places but there is a clear attempt to answer the question.



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Examiner Tip

In looking at the causes of the commodity price falls in part (a) candidates often drew supply and demand diagrams for specific commodities which was good. Candidates were not rewarded when these diagrams mistakenly had AD and AS on them. Part (b) normally saw candidates do well with including AD and AS diagrams to show the impact on oil exporters and oil importers.

Question 2

Question 2 was the most popular question attempted by 41% of candidates. The stem gave information on the fact the surplus on the current account of the balance of payments had fallen. Part (a) then required candidates to examine possible causes of the change on the current account surplus. The two key lines of arguments would be to look at why exports were falling. Many candidates attempted this and looked at reduced competitiveness of Chinese goods, inflationary pressure making them less price competitive and other emerging economies becoming more price competitive. Others focused on why imports may be rising. The vast majority of candidates looked at rising incomes in China leading to increased demand for imports. A number looked at the fact China relies on others to supply it with commodities and how this might see imports rise.

Part (b) asked candidates to discuss the possible effects of a reduction in China's rate of economic growth on the global economy. Whilst nearly all looked at the impact of slowing growth on China, many candidates did not link to the impact on the global economy. Far too often candidates focused on the impact of reduced growth in China on the Chinese economy. Those that performed best focused on how slow growth in China may limit the demand for imports affecting those that China imports from. There was some impressive work on how China will be less involved with FDI, providing less aid to economies and the increased likelihood of emigration from China. A common mistake was for candidates to consider the change in surplus as moving from a surplus to a deficit which would often weaken their overall performance.

The candidate shows an understanding of a surplus in the current account of the balance of payments. They appreciate that the fall in surplus means more money is still flowing in than out.

The first reason given links to the idea that trade may be less significant as GDP grows. Other reasons offered include Chinese exports becoming less competitive against other nations. The candidate also speculates that other nations may be raising protectionist barriers. Much of the work on the first page lacks analysis. On the second page they return to protectionist measures and how tariffs, quotas or subsidies may reduce demand for Chinese exports.

The candidate then looks at an appreciation and how this makes Chinese goods appear more expensive; decreasing demand for them. They then link to higher imports due to them being cheaper.

To evaluate, they look at why protectionism might not be the answer – looking at countries wanting to avoid trade wars and the role of the WTO in trying to reduce such measures. The candidate also evaluates by explaining that China has a managed exchange rate which they keep low so it is unlikely to be the explanation.

The response is level 4 overall. They have identified relevant reasons and in some cases offered some analysis. Some of the work on protectionist measures and appreciation is better analysed. They also offer evaluation which elevates to level 4. They achieve the middle of the level 11/15 marks.

Part (b) starts by considering that China contributes a lot to trade and therefore will have a severe effect on the global economy. The candidate considers that lower economic growth means lower output and links this to shortages of Chinese goods. Whilst not overly convincing, there is some credit with this. However they go on to focus on the impact on

China in terms of employment and living standards. The work on lower quantity leading to higher price has the basis in economics but the argument is not convincing.

The candidate looks at falling demand in China and how this may drive down prices which may improve demand for its exports.

In evaluation they look at time lags, and also consider the impact of the magnitude of the change of growth.

The response achieves Level 3. This is because the analysis is not well developed and some of the lines of argument are not convincing. However, what elevates the response to level 3 is the relevant evaluation points - although these are not well developed. They score 11/25 marks for this section.

a. The balance of payments is a record of all the financial transactions undertaken by an economy in a year. The current account is a component of this, being the component which is made up of the balance of trade, ^{being exports minus imports} incomes and transfer flows. For it to be in a surplus means that there is more money ~~coming~~ flowing into the economy than out of it. As China's surplus has fallen from 10% of its GDP in 2007 to 2% of GDP in 2014 it means that while money is still flowing into the economy, less of it is doing so.

The first possible reason is that since we are being told the value of the current account in terms of the economy's GDP, it is possible that a larger portion of the nation's income ~~comes~~ comes from a source other than its trade now.

Other more plausible reasons may be that consumers are switching away from Chinese exports due to cheaper or higher quality substitutes or that other nations may be employing protectionist measures. China is a large producer of manufactured goods, accounting for a large proportion of its exports. In addition to natural sources of raw materials the economy also has relatively cheap labour, allowing it to export manufactured goods at low prices. Due to this it

would have a large demand for its exports in the short term, however it is entirely possible that in the long run due to the previously high demand, prices have been pushed up; making exports seem unappealing and diminishing demand for them then. As exports fall and imports stay relatively the same, the current account will worsen or the surplus will fall. ~~Furthermore imports are likely to rise at the same time because in the short term~~

To decrease their own imports foreign economies like the UK or the US may employ protectionist measures, which may resultingly decrease Chinese exports. These measures may be in the form of; tariffs, which are a tax placed on imports, artificially increasing their price, quotas which are a physical limit on the number of goods which can be imported. As foreigners will now import fewer Chinese goods it will mean China's ^{exports} ~~imports~~ fall while its ^{imports} ~~exports~~ remain relatively the same, so once more its current account will worsen. Furthermore these protectionist policies may even be undertaken by subsidising domestic firms, providing foreigners with a cheaper domestic option and decreasing the incentive to import goods from China. Moreover Chinese locals or businesses may import from those foreign nations if the prices are cheaper. So Chinese exports will fall in addition to a possible rise in imports, ~~definitely~~ definitely worsening the current account.

A last possible cause may be an appreciation of China's currency as it results in Chinese exports appearing more expensive, making them less competitive and decreasing

demand for them. Similarly as their currency appears stronger it increases the local's ability to import so as exports fall and imports rise the current account will worsen.

However it should be noted that foreign economies are unlikely to use protectionist measures such as tariffs as it would lead to a ~~price~~^{trade} war with economies constantly driving up the other's prices, causing them all to lose out, and quotas in trade for manufactured goods ~~where~~ were largely abolished by the ^{World Trade Organisation} WTO in the Doha round. Furthermore it is unlikely that the currency appreciated as China has a managed exchange rate which it would keep low, and ~~or~~ effects of its own high demand is unlikely to be felt in the short run due to the time lag.

So while there are possible reasons for the fall in China's surplus in its current account they are not ~~likely~~^{entirely} plausible ones.

b. A country's rate of economic growth is indicative of its potential ^{and actual} growth over a period of time. Due to globalisation countries have become more interdependent so a fall in the growth rate of a country as large and as contributive to trade as China is likely to have severe effects on the global economy.

As China is responsible for a large percentage of trade in manufacture a fall in its growth can result in

shortages for its products in other economies. These shortages may have knock-on effects particularly for countries which may specialise in the tertiary sector in areas such as retail. Due to a shortage of goods far from China they themselves have fewer goods to sell and this can result in a fall in their profits and potentially GDP. Furthermore if firms have less output than it would mean that they would also need to cut-back on costs which they may do so by laying off more workers. This would increase unemployment and as consumers now have less income it can result in falling consumption. This will result in a downwards spiral with falling profits, employments and incomes resulting in a fall in the standards of living.

Additionally if output from China is restricted it may cause a rise in the price of their goods. While global demand is likely to fall economies would find it necessary to purchase at least some of these goods from China. As they purchase these manufactured products at a higher price, whether it ~~mean~~ affects prices directly or through higher costs of machinery the final product is likely to have a higher price meaning that globally prices may rise somewhat and consumer affordability would fall. In addition as either prices of Chinese goods rise or its output falls due to a decline in its economic growth, it could result in a change in global trade patterns. Other ^{nations} ~~firms~~ may find it easier to switch to importing

manufactured goods from other smaller nations where they may be cheaper or import raw materials, or use them even, and manufacture these goods for themselves, causing a definite change in trade patterns and the significance of economics in the global market as it provides smaller nations with who produce manufactured goods to attempt to draw consumers to them.

A fall in China's growth rates may also result in a fall in its ~~export~~ prices however ~~because~~ which may result in increased demand for its exports. This also allows other nations to enjoy lower costs and subsequently higher profits or lower prices if they pass this benefit onto consumers. Furthermore there would be a lower risk of ~~cost~~ imported inflation if China's prices are falling. In addition it is unlikely that China will face such a large shortage or such increased prices where competitors would end up finding an advantage. Global trade patterns are unlikely to change so quickly as there would be a significant time lag. Also any effect felt by China or the global economy would depend on the magnitude of the fall in the growth rate, and also the level of interdependence. It should also be noted while the growth rate is falling, economic growth still occurs so it is likely that current effects and trading patterns will continue, but at a more subdued ~~or~~ or possibly slower rate.



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Examiner Comments

The analysis and evaluation offered on part (a) enables the candidate to perform within level 4. However the quality of the analysis, focus on the question and evaluation is weaker on part (b), meaning they can only access level 3.



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Examiner Tip

When looking at the impact of slowing growth in one economy on the global economy it is important that candidates consider how demand for imports may change and how this would affect China's trading partners.

Question 3

Question 3 was attempted by 38% of candidates. The question gave a stem identifying the growth in the number of migrants in to the EU. Part (a) needed candidates to assess the impact of significant migration in to the EU. Whilst most looked at the impact of immigration only the stronger candidates really considered the impact of the immigration being significant and really considered the significant magnitude involved. The most common explanations looked at the impact on the labour market in terms of increasing supply and lowering the wages. Many candidates looked at higher consumption levels and therefore higher aggregate demand. It was also common for candidates to look at the pressure causes by migrants on public services such as health and education. Part (b) considered low economic growth in the EU and asked candidates to evaluate government led strategies that could be used by Eurozone countries to increase economic growth. The best work developed in detail how the policies would work and linked them to how they impacted growth. They also evaluated each policy. Candidates did less well when they looked at many policies superficially. They also struggled when they were identifying policies to achieve economic growth but that were more appropriate for less economically developed economies.

The candidate has achieved within Level 4 for both parts (a) and (b). Key was the inclusion and development of evaluation points. The analysis in places was weaker but in other areas was fairly well developed.

a) Migration is the movement of people from one country to another either to settle and find employment. According to the information provided, 250,000 migrants moved from Non EU countries to EU countries. The number rose to significant amount - 715000 between January and November 2015.

Firstly an increase in migration from the non EU countries into the EU will lead to a significant rise in the supply of labour. More and more people will now look for job opportunities and aim to get employed. This will lead to an increase in employment. This will lead to an increase in income for leading to increased consumption. The plus side of this is businesses will now witness an increase in demand. An increase in consumption will lead to an increase in aggregate demand as

leading to economic growth. Furthermore an increase in migration will also increase the tax base of EU countries leading to the government raising more finance government revenue which could be used in the funding of public expenditure such as schools, hospitals. This will further help the increase of the standards of living.

Furthermore an increase in the level of migration will ~~also~~ lead to an increase in the demand for public/government services. ~~Go this all lead~~ eg: More schools, more hospitals to treat the growing population. This will lead to an increase in government expenditure. Government expenditure is an injection into the circular flow of income which will lead to a positive multiplier effect. For example, In 2010/11 the UK government spent 1.87 billion on education and training. An increase in government expenditure will lead to an increase in aggregate demand thereby resulting in economic growth.

In addition, a significant migration in the EU may bring in new skills and new skilled and educated employees into the country. This will increase the number of EU skilled and trained workforce leading to an increase in productivity and efficiency - leading to an increase in GPP of EU countries as the productive capacity of ^{EU} economies will increase. ~~also~~

However, even though there are positive impacts of a migration into the EU, there are issues raised such as the reduction of employment opportunities for EU citizens. An increase in migration into the EU may take up most of the job opportunities leaving EU citizens with less job opportunities. Hence there is increase in the number of unemployed workers leading to a fall in the disposable income. This will result in the fall in the standards of living.

Furthermore an increase in the government expenditure such as building new schools, hospitals and other public services may also result in a budget deficit. An increasing budget deficit may result in the government looking for other methods to finance its deficit. - for example, take out more loans.

b) Government led strategies are strategies employed by the government (deliberate) in order to increase economic growth in a country.

Firstly, some government led strategies such as infrastructure and development may enable Eurozone countries in achieving economic growth. Infrastructure and dev is the physical capital in an country such as road networks, airports, telecommunications etc that help ensure the smooth running of an economy. By spending on infrastructure Eurozone economies can see an increase in the productive capacity of an economy and also attract foreign direct investment into an economy. For example, the UK's

cross rail project was one of the major infrastructure development of UK. By improving infrastructure, ease of doing business increase and with better roads, transport networks, firms may see a fall in the cost of production. ~~Also~~ Furthermore an increase in infrastructure development may attract FDI into the country leading to more money coming into the economy. eg: MNCs, TNCs setting up in Eurozone countries. This in turn will help create jobs leading to an increase in employment leading to an increase in the standard of living as disposable incomes will rise ~~as more people will increase their consumption of goods~~ Furthermore infrastructure development by the government may help increase business confidence leading to an increase in investment. This will lead to an increase in economic growth and as investment is an injection into the circular flow of income - this is likely to result in a positive multiplier effect.

Furthermore, other government led strategies may include improvements in the human capital. By spending on education and ~~health~~ training like the UK who spent ~~£87~~ billion on education in 2010/2011, Eurozone economies may improve the human capital leading to an increase in productivity and efficiency of the workforce. This will lead to an outward shift in the LRAS curve leading to economic growth. Further by improving the skill set of workers, ~~businesses~~ workers can now find more job opportunities as businesses

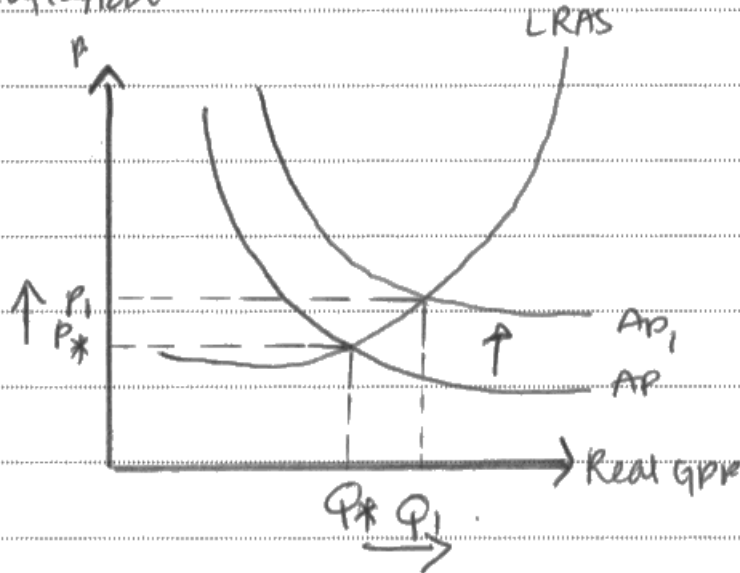
may look for skilled / educated workers.

In addition, the government can also use protectionism strategies such as increasing the ~~tariffs~~ tariffs on imported goods ~~coming from outside the eurozone~~. This will make domestic goods more attractive and cheaper leading to an increase in domestic consumption and a fall in ~~import~~ inputs. Also if domestic goods are competitive they can be exported leading to an increase in net exports leading to an increase in economic growth.

However even though government led strategies may help encourage economic growth, there may be negative impacts of some government led strategies. Spending on infrastructure and development will lead to an increase in government expenditure. If there are insufficient tax revenues to fund this government expenditure, eurozone economies can experience budget deficits. They may have to look for other sources of finance such as debt ~~base~~ such as borrowing loans. This may in the long term increase the debt for certain eurozone economies. and also according to the information provided economic growth rate in the eurozone is less than 1%. This may also be indicative that not much tax revenues are being raised as the economy is ~~not~~ ^{slow} growing slow.

Furthermore increasing government ^{economic growth} expenditure ~~which~~

through increases in government expenditure, investment may give rise to inflationary pressures. A rise in aggregate demand may also lead to a rise in prices leading to inflation.



An increase in AD from AP to AP₁ will lead to a price rise from P* to P₁. Inflationary pressures may ~~not~~ arise.

Furthermore, protectionism by eurozone economies may result in countries retaliatory actions by countries. For example, Germany increased the import tariffs on Chinese inputs when they thought China was dumping solar panels in Germany. Hence in retaliation China increased the tariffs ~~for~~ on wine from France. ~~How they see from the European:~~ Also in addition, import

~~In conclusion, there are both~~ increasing the tariffs on imported goods into eurozone economies may lead to an increase in cost push inflation if imported goods are raw materials ^{used} in production. This will lead to an increase in the cost of production of goods produced in Eurozone economies leading to a rise in price thus resulting in cost push inflation.



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Examiner Comments

For part (a) this response starts by relating to the labour market in terms of higher supply and employment. The candidate then links this to consumption and increased aggregate demand. They look at an increased tax base to fund public services. Whilst both are considered they would have done better to have talked about each in detail. As it is they lack analysis. There is some work on spending more on public services and they focus on how this is an injection rather than the pressure these services will be under. They then look at how skilled workers may enter the EU, improving productivity. In evaluation they consider problems such as the impact on EU national's job opportunities. Under evaluation they do look at the idea of building up a budget deficit in providing public services. The work achieves level 4. They have offered evaluation to put it in level 4 and had they further offered analysis they would have been able to achieve above the 10 marks they were awarded.

In part (b) the candidate talked about infrastructure, they eventually link to the UK's cross rail project and how such projects help lower costs of production and attract FDI and boost business confidence.

They then look at spending on human capital in terms of education and training and link this to the impact on long-run aggregate supply. Next they look at protectionism in terms of how it will increase domestic output and lower imports. In evaluation, they look at increased government expenditure and the impact of this on budget deficits. They link this to the low growth which already suggests a deficit is likely. They also use a diagram to consider the idea of inflation. They evaluate protectionism by considering the risk of retaliation. This response achieved Level 4. The candidate offered some relevant strategies and some good analysis. The evaluation offered enabled them to achieve within the middle of the level.



ResultsPlus

Examiner Tip

When analysing the impact on the labour market including a relevant diagram was useful in analysing the impact on employment and wages. Similarly when considering the added consumption generated, candidates might want to include an AS/AD diagram.

Question 4 (a)

Many candidates were able to define deflation with the most common answers referring to falling prices or to a negative rate of inflation.

When the candidates correctly defined deflation they could normally identify from the data the end of 2014 and 2015 where the economy experiences deflation.

Disinflation was normally defined as where prices are rising but at a slower rate or where inflation is positive but falling. Those candidates that did this accurately normally picked up the mark for the example.

A significant minority of candidates got the two concepts confused and more work needs to be done in centres to be able to distinguish between deflation and disinflation.

This is a perfect response achieving full marks. Both definitions are accurate and achieve the two knowledge marks available. The examples used from the data help the candidate access the two application marks.

(a) With reference to Figure 1, distinguish between disinflation and deflation.

(4)

Deflation is the persistent decrease in price levels over a period of time. It's caused by a fall in AD in a country. It ~~was~~ occurred at the end of 2014 when the inflation rate was negative with a value of about -0.7%.

Disinflation is the fall in the rate of inflation which means inflation is still occurring but at a lower rate. There was disinflation between 2011 and 2013. ~~at~~ The rate of inflation fell from ~~about~~ 3% to about 1.2%.



ResultsPlus Examiner Comments

The definition of deflation focused on the persistent decrease in the price level achieves one mark. The candidate then makes reference to deflation occurring at the end of 2014 and states that the level of inflation is -0.7% to achieve the application mark. They accurately define disinflation as where the rate of inflation falls for the final knowledge mark. They then achieve the final application mark by explaining that between 2011 and 2013 inflation fell from 3% to around 1.2%.



ResultsPlus Examiner Tip

When selecting data to use, it is useful to identify the date, to precisely use the number from the data and to include how it is measured, for examples the currency or percentage.

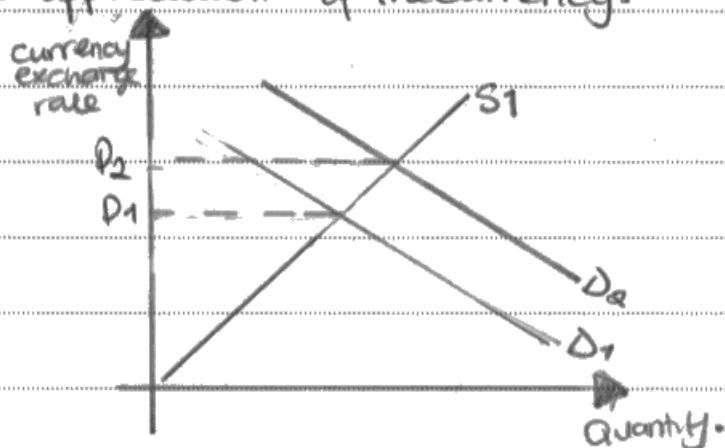
Question 4 (b)

It is important to remember that eight mark questions will have two application marks. Most candidates did include data selecting a lower and higher currency value to show the appreciation. Most candidates selected dates within 2010 to access two marks. However a significant number selected a date in 2011 or later. Most candidates could identify reasons for the appreciation from the data but some struggled to access the full three marks available for each reason. Most candidates focused on the Swiss currency being safe and therefore increasing demand for Swiss assets. Other responses related to higher interest rates in Switzerland than Eurozone or the current account surplus in Switzerland or deficit in the Eurozone.

This response achieves full marks. The candidate clearly uses the data and then offers clear, well analysed reasons for the appreciation.

(b) With reference to Figure 2 and Extract 1, analyse **two** possible reasons for the change in the value of the Swiss franc against the euro during 2010. (8)

In 2010, the Swiss franc appreciated in value against the Euro. Its exchange rate rose from about $\text{€}0.68$ to $\text{€}0.80$. This was most probably the outcome of rising demand for the Swiss franc. Investors ~~were~~ ^{considered} Swiss assets to be safe and therefore they purchase more of the assets (Extract 1 lines 3 and 4). This would cause a shift in the demand curve for Swiss francs and an appreciation of the currency.



After the eurozone crisis ~~the~~ ^{the} EU countries may have been experiencing capital flight. They could have transferred savings to a non-EU country with the belief that the savings are safer there than in the EU banks. This would

cause an increase in the demand for the ^{Swiss} franc, there-
fore causing an appreciation

Switzerland could also be a supplier of gold. The rise in
the demand for gold led to a rise in the price of gold.

This means that EU countries have to purchase more

Swiss francs in order to purchase gold. This will cause a rise
in the demand for Swiss francs and therefore an appreciation of
the currency.



ResultsPlus Examiner Comments

The candidate was awarded two marks for the explicit reference to the appreciating currency that are clearly taken from 2010 as per the question. They then gain a mark for investors considered Swiss assets to be safe. They then achieve two marks for the diagram showing increased demand for the currency and showing the currency value appreciating. The next paragraph seems to repeat much of the same arguments regarding the safety of Switzerland. They then identify that Switzerland is a supplier of gold and that there is a rise in the demand for gold so they need more Swiss francs and the rise in demand causes the appreciating. This work on gold achieves 3 marks - full marks achieved.



ResultsPlus Examiner Tip

Be careful to look at the time frame given. Many candidates looked at the appreciation up to mid-2011. If they had picked data from within 2010 they could normally gain one mark but by selecting a date in 2011 they were outside the time frame of the question.

Question 4 (c)

Most candidates started by defining a floating exchange rate and many linked to the 30% appreciation. From this they commonly looked at how this would affect the current account of the balance of payments. Candidates often linked this to lower net exports and lower aggregate demand and the knock on effects of this. Many candidates linked to lower profits for Swiss firms and linked the appreciation to deflationary pressure as imports prices fall. In evaluation, many candidates looked at the fact 55% of Swiss trade is with the EU to look at the likely significance. Other candidates considered the importance of the price elasticity of demand. A number of candidates also looked at the fact there is a later depreciation.

This is a response that has shown knowledge of a floating exchange rate and looked at one impact only. By only looking at one impact the candidate lacks the breadth to achieve much above the bottom of level 2.

(c) Evaluate the likely effects on the Swiss economy of the decision by the SNB to allow the Swiss franc 'to float freely' (Extract 1, line 10) against the euro.

(12)

Exchange rate markets can be floating, fixed or managed.

A floating exchange rate market leaves it entirely to a supply and demand. SNB allowed the Swiss franc to float freely in January 2015.

This might have lead to an appreciation of the Swiss franc. If it appreciates, then its exports will become less competitive on the global market and reduce exports. Swiss exporters' competitiveness accounts for 55% of all Swiss exports. So, an appreciation might be damaging greatly.

If it appreciates, there will be a deficit and AD will fall, along with employment, economic growth and standard of living.



ResultsPlus

Examiner Comments

This candidate, like many, has gained some credit for understanding how a floating exchange rate works. They then refer to an appreciation of the currency and how this may make exports less competitive. There is a brief attempt to evaluate a link to 55% but this is not well presented or explicitly linked to this being the size of trade with the EU. There is quite a sweeping statement at the end saying this will lead to a deficit, AD will fall, as will employment and the standard of living. This last section suggests an inevitability of this occurring but had Switzerland a surplus it may just reduce the size. The response achieves in level 2 for knowledge, application and analysis with no evaluation marks awarded. The lack of detail and analysis limits the candidate to the bottom of the level and 4 marks.



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Examiner Tip

When looking at the impact of appreciations or depreciations candidates often link to the current account or the balance of payments. It is better to talk about how an appreciation may lead to a worsening and a depreciation an improvement. This is better than statements that suggest that it will cause a deficit or surplus which will be dependent on the situation the economy starts with.

Question 4 (d)

The question explored the economic effects on the Swiss economy if it joined the European Union. The Extract referred to the fact Switzerland had already negotiated 120 treaties so there was likely to be little additional benefit. Given this, there is less likely to be trade creation, no lower prices, and no additional benefits of comparative advantage. Many candidates looked at costs if there is mass immigration and the pressure this may cause public services including health and education. Many candidates focused on how FDI may be attracted to Switzerland as a member of EU. They also looked at how, as a member of the EU, they could join the Eurozone but only picked up credit when explaining that this is a separate decision they could make.

This response fails to address the impacts of joining the EU. To some extent they have looked at the impact of joining the monetary union. The work lacks breadth as it does not look at enough benefits and depth as it does not explore benefits in detail.

(d) Examine the likely economic effects on the Swiss economy if Switzerland joined the European Union.

(16)

There will be a total lot of benefits
for Swiss economy if they joined the
European Union. First of all European Union
is a trade bloc in which many European
countries joined. So Switzerland can
enjoy free trade between these countries
& as there will not be trade barriers
such as tariffs and quotas. Moreover
when Switzerland joins EU then they will
have to change their currency to Euros.
which will have many benefits for
them such as they don't have to exchange
their currency in order to export import goods
from Eurozone. Moreover when Switzerland
joins EU they can enjoy a lot of
benefits.



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Examiner Comments

The candidate gains credit for knowledge that the EU is a trading bloc where there will not be tariffs or quotas. They then talk about having to change currencies and some of the benefits of this. There is nothing in the article saying they are joining the Eurozone, so joining the EU does not mean these will happen. The response achieves within level 1.

Question 5 (a)

This question was less well attempted compared to the corresponding four mark part of question nine. Most candidates could identify the two roles with the majority of candidates referring to ending absolute poverty and raising the incomes of the bottom 40% of the world population. However, many candidates failed to refer explicitly to data to access the application marks. The candidates could have referred to the fact global poverty is expected to fall below 10%. That absolute poverty fell from 12.8% to 9.6%. That the poverty line was at \$1.90. That global poverty was expected to fall from 902 million to 702 million.

Most candidates achieved the marks for identifying two roles of the World Bank. Very few candidates accessed the marks for application. This is an example where the candidate has accessed the full range of marks available.

(a) With reference to Extract 2, briefly outline the role of the World Bank.

(4)

World bank is a bank that provides finance and expertise to the developing countries in order to help these countries to achieve their goals. the goals of ending the absolute poverty by 2030 and to boost prosperity by raising the incomes of the bottom of the 40% of the world population. Depending on to the extract (c) it is expected that the absolute poverty around the world is projected to fall from 12.8% of the global population in 2012 to 9.6 in 2015 with the help of world bank.



ResultsPlus Examiner Comments

This candidate has achieved full marks. They have identified that the role of the World Bank is to end absolute poverty for one mark and to raise the income of the bottom 40% of the world population for one mark. The candidate would also have got a mark for identifying that they provide financial assistance to developing countries but they have already accessed the maximum available. The other two marks are awarded for application to data for reference to the fact it fell from 12.8% to 9.6. Although the 9.6 does not have the percentage sign the use of it on 12.8% meant they were rewarded.



ResultsPlus Examiner Tip

On the 4 mark questions there will be 2 marks available for application, normally for explicit use of data.

Question 5 (b)

Most candidates could make reference to the change in relative poverty in the EU for two marks. Many candidates could then identify from the extract reasons for changing relative poverty. Most commonly candidates talked about unemployment and lack of access to benefits. What was often lacking was the link to how these issues lead to relative poverty.

This candidate has clearly read the extract and picks out data for application marks and relevant points that explain the rise in relative poverty. What they needed to do is make the link to these issues, as to how this causes an increase in relative poverty.

(b) With reference to Extract 1, analyse **two** likely causes of relative poverty in the EU.

(8)

European Union is an ~~organisation~~ a group of countries joined together to reduce trade barriers. It is a trading bloc. In half of EU's 28 member states, at least one in three children live in relative ~~poor~~ poverty. In Spain and Greece there are concerns about the difficulties faced by their citizens in finding work as well as problems in ~~are~~ accessing welfare benefits. This shows that the ~~government is~~ instability of government in those two countries. Also health of Greek population is deteriorating which means it would lead to poverty.



ResultsPlus Examiner Comments

The points about defining what the EU is gains no credit. The candidate receives 2 marks for making reference to the fact that in the 28 member countries, one in three children live in relative poverty. They then gain a mark for identifying that in Spain and Greece citizens face difficulties in finding work. They gain another mark for making reference to the fact those unemployed face difficulty in accessing benefits. They then receive another mark for the fact the health of the population is deteriorating. The candidate receives 5/8 marks.



ResultsPlus Examiner Tip

It is worth making it clear that you are discussing two distinct causes. This could be done by saying firstly and secondly at appropriate points.

Question 5 (c)

Most candidates were able to identify reasons absolute poverty fell more rapidly in East Asia than in Sub-Saharan Africa. When looking at Sub-Saharan Africa most candidates talked about war/conflict and political instability, rapid population growth, primary product dependency and falling commodity prices. Stronger responses were able to analyse how these impact on absolute poverty and citizen's ability to meet their basic needs. In looking at East Asia, most candidates looked at the success of their education system and other supply side policies, industrialisation and political stability. Evaluation normally focussed on the fact that in the long-run, commodity prices may rise and how poverty in individual countries may in fact decline even within Sub-Saharan Africa.

This response picks out sensible reasons. Where it lacks is with the level of analysis where the candidate needs to give a chain of reasoning as to how it impacts absolute poverty.

yes - population growth
- strong growth rates

no - overly depends
on commodity
exports

(c) With reference to Extract 2, discuss possible reasons why absolute poverty has decreased more rapidly in East Asia than in Sub-Saharan Africa.

(12)

Absolute poverty is where basic necessities e.g. food, shelter and clothing are unaffordable. The World Bank uses a poverty line of US\$1.90 a day, anything received below that is absolute poverty.

Absolute poverty has decreased more rapidly in East Asia than Sub-Saharan Africa because of the strong growth rates in Asia. India and China globalisation benefits have helped improvements in ~~A South~~ ^{East} Asia; especially in education and healthcare. In 1990, East Asia accounted for half of the global poor, but by 2015 the forecast reversed saying ~~the~~ Sub-Saharan Africa would account for half of the global poor. This is because East Asia have

developed in industry/manufacturing whilst sub-Saharan Africa are still dependent on commodity exports.

Sub-Saharan African is primary product dependent therefore ~~economic development is a constrain~~ ^{constraining} economic development. Another constraint is the rapid population growth in Sub-Saharan Africa. The increasing in population rate, reduces income per capita as growth is not increasing as fast as the population.

Sub-Saharan Africa's absolute poverty only fell from an estimated 56% in 1990 to a projected 35% in 2015. It reduced by 21% in 25 years. It took a long period of time to show a decrease in absolute poverty in Sub-Saharan Africa because it is a conflict-ridden economy, with high corruption scandals, ~~and~~ compared to East Asia.

However, poverty is declining in all regions, ~~and~~ ^{but} there is a growing concern for the poverty levels in Sub-Saharan Africa. It took 25 years to reverse prediction/forecast of Sub-Saharan Africa and East Asia, suggesting the same period of time needed for Sub-Saharan Africa to reduce their poverty levels by 21%. Hence, reducing poverty in both these regions took/take the

same time.

In 1990 it was predicted/forecasted that 15% in Sub-Saharan Africa lived in poverty. This may have a period of strong economic growth and good governance, compared to East Asia, 50% of the global poor.

In 2015 it's predicted that only 12% ^{in East Asia} live in poverty, there is no significant reduction, 3% more lived in 1990 in Africa; therefore we cannot say that absolute poverty reduced more rapidly.

Both the regions have population problems: and rapid population growth remains a key factor for slow progress in A

In 2012 East Asia's absolute poverty may fall by 3.1% of its population, due to a rise in economic growth activities, employment and investment.

It depends on the magnitude, it took 25 years for ~~East Asia~~ ^{Africa} to reduce their absolute poverty. This is a long time, but we are told that in the same period of time Africa. Therefore there is a time lag, reducing absolute poverty is a long process and

cannot be done over a night.

The rapid population growth may help speed up the process. As there may be more job opportunities, increasing employment, increasing production; allocative efficiency. Having more innovations, specialisation and multiplier effects. It depends on the size of the multiplier and on the training + education levels.



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Examiner Comments

The candidate demonstrates an understanding of absolute poverty at the start. They gain credit for identifying strong growth in East Asia linked to development of industry and manufacturing whereas Sub-Saharan Africa relies on commodity exports. They then go on to identify primary product dependency as a constraint on growth. However, the candidate fails to explain how this creates absolute poverty. They then look at rapid population growth but do go on to talk about how this can reduce income per capita. They link to corruption and conflict and why absolute poverty fell slowly, without developing how this means absolute poverty remains in the region.

They offer evaluation, for example, looking at how population growth can help reduce absolute poverty. The candidate achieves level 2 for knowledge, application and analysis and level 2 for evaluation and secures 8/12 marks.



ResultsPlus

Examiner Tip

It is important when talking about a reason absolute poverty has not fallen in Sub-Saharan Africa and why it has fallen in East Asia that candidates offer analysis on how it impacts on absolute poverty.

Question 5 (d)

This was generally a well answered question. Many candidates were able to look at ways that foreign aid could help developing nations develop. It was common for candidates to look at how it could be used to spend on healthcare to help improve life expectancy. Aid could also be used to fund education spending to improve human capital and improve their employability. Other candidates looked at infrastructure and how this would improve economic growth. Many candidates looked at how the fund could be used to fill the savings gap and how this leads to growth. The very best responses really focused on the different aspects of development. Evaluation was generally strong. Many candidates looked at corruption levels and how this could mean the money is used inefficiently. Closely linked to this was the resources being wasted in prestige projects. Other candidates looked at how it might create dependency and the problem of tied aid was commonly discussed.

Here is an example of a candidate who clearly knows ways foreign aid could be used to achieve development. However they have clearly run low on time. They need to really look at a range of possible ways aid could bring about development. They would also benefit from looking at evaluating issues linked to foreign aid such as issues to do with tied aid, corruption and mismanagement.

(d) To what extent might foreign aid increase the level of economic development in developing countries?

(16)

Developing countries often needs aids from foreign countries, as they would be needing sources like finance in order to increase the level of economic development. Foreign aid could be used to create educational opportunities for the developing countries. This could create a better skilled workforce which can lead to lower costs of production and increase the competitive ability to compete in the international markets which would give them more opportunities to develop their economy. Moreover, foreign aid on new investments on infrastructure could increase the living standards in the long run and create many employment opportunities which would increase the income level of the people and lead to economic development.



ResultsPlus

Examiner Comments

The candidate identifies that spending on education will help improve the skilled workforce, helping to lower costs. They also link to spending on infrastructure by creating employment and income. The two ways aid could be used to lead to development enables them to access level 2 and the candidate scores 5/16 marks. No evaluation is offered.



ResultsPlus

Examiner Tip

Here it seems the candidate is running low on time. They have only looked at two impacts briefly and offered no evaluation. Ensuring sufficient time is left to complete the 16 mark questions will help improve the quality of responses.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Application is a key assessment objective, and a skill that candidates should aim to show throughout their responses, even when a question does not explicitly ask for it. Typically in response to essay questions in Section A, reference to particular countries and examples would help to improve the quality of responses and allow candidates to add depth and breadth to their points.
- In response to the 4 mark questions in Section B, candidates must be aware of the difference between a definition (knowledge) and an example (application). They have to make explicit data references and read/quote figures accurately to access full application marks.
- Whilst it is very positive that candidates are reading the data provided in Section B carefully and attempting to use it in their responses, they should be discouraged from copying out large volumes of the data, or writing answers which mostly contain quotations from various extracts. Where points are taken from data, candidates must provide their own economic analysis of them.
- In the 16 mark questions candidates should remember that half of the available 16 marks are awarded for evaluation. Currently many candidates are not placing enough weight upon this assessment objective in their responses. Additionally, to receive higher marks for evaluation, the key is the extent to which points are developed – the chains of economic reasoning which are built – rather than number of points which are identified.
- To access the highest level, the candidates must show sufficient depth and breadth to their analysis and evaluation points. These points must be consistently written in context of the question. Material also needs to be presented in a relevant and logical way.
- When looking at causes of global commodity prices it is helpful for candidates to include diagrams to look at the impact of changes in supply and demand on commodity prices.
- Be careful that the words in the question are read carefully. On 1(b) it asked the candidates to look at the impact of a substantial fall and on 3(a) significant migration - taking account of these words helps to deliver a better response.
- Similarly when asked to look at the impacts of slowing growth in China on the global economy it is important that candidates focus on the impact on the rest of the world and not on China.
- Time frames also need to be considered in 4(b), it focused on 2010 and many candidates picked data from a later year.
- Work still needs to be done on the difference between disinflation and deflation as many candidates were still confused by the two.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

Ofqual
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