Pearson Edexcel

Examiners' Report
Principal Examiner Feedback

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Pearson Edexcel International Advanced Subsidiary
In Economics (WEC12)
Paper 2: Macroeconomic performance and policy

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Introduction

This is the fifth series where this unit, Macroeconomic performance and policy (WEC12), has been assessed and it is the second October series. There were significantly more entries this October than in the previous October.

In Section A, the multiple-choice section, the opening question required a calculation involving the multiplier ratio. The most common error was to divide the increase in government spending by the multiplier ratio, rather than multiplying the two, which gave the answer B.

On Q2, most students were able to identify that the inflation rate had been a 3%, although a good number of students did not realise that they needed to calculate the percentage change in the data, rather than just finding the difference between the two values. Students who did the latter incorrectly chose B or D.

Q3 tested students' knowledge of the injections into (and withdrawals from) the circular flow of income. This proved to be an accessible question which most answered correctly.

For Q4, the most common incorrect answer was A: frictional unemployment. This seems to indicate a confusion among some students as to the difference between working, but wanting to work more, and being temporarily unemployed while searching for a job.

Q5 tested students' understanding of negative output gaps. Most students were able to identify that a fall in unemployment was likely to be associated with a reduction in the size of the negative output gap. The common incorrect answer was D. Whilst it is possible that a reduction in unemployment could be a corollary of an increase in economic inactivity, given the size of the fall in unemployment (21% to 15%), option A is clearly the 'most likely' option.

For Q6, students had to interpret a chart showing the value of 1 Canadian dollar in US dollars. A good number of students did find this challenging and thought incorrectly that as the y-axis was labelled 'US $', a downward trend in the data must mean that the US dollar had depreciated over the period shown.

Section B, the short answer section, saw students able to access marks on most questions.

Most students were able to attain at least two marks for Q7 and Q9. The most commonly missed marks for both questions were for knowledge and for application.

Q8 required students to explain the meaning of 'deflation' and 'disinflation' and to identify periods in which Greece had experienced both phenomena. Definitions were generally well done, although some lacked precision. A number of students struggled to interpret the x-axis of the chart and/or to understand that the chart showed annual data, calculated on a monthly basis.

Q10 asked students to draw an AD/SRAS diagram. The curves themselves tended to be well done, although there are still some issues with the labelling of the axes, particularly the y-axis, where a significant number of students used 'price' or 'price of oil'.

Q11 required students to calculate the change in GDP (gross domestic product) per capita between 2012 and 2017, in US dollars. Almost all students could calculate the GDP per capita in 2017, but a significant number then went on to work out the percentage change in the values, rather than expressing this change in US dollars, as the question asked.

Section C, the data response section is based on information provided in the Source Booklet. The Extracts focused on the Australian economy.

Q12a asked for a definition of 'real wage growth'. Most students could define 'real' but struggled to gain the second mark.

On Q12b, most students had a sense of the meaning of a 'trade surplus', but only better students could offer a sufficiently precise definition to gain both available knowledge marks. Application was done well.

Q12c showed that students had a good understanding of the terms 'net migration', 'employment' and 'unemployment' and were also able to make very good use of data in the extracts on migration.

In response to Q12d, many students offered a generic analysis of the impact of a cut in the base rate of interest in an economy, rather than answering the question asked, which required them to 'examine the case for a reduction'. This meant that they struggled to achieve application and analysis marks.

Q12e required a discussion of the various factors that had contributed to economic growth in Australia. Generally, students were able to make very good use of the data provided; the better students were able to use their knowledge of economic theory to explain how identified factors had led to growth.

Section D, the essay section offered students the opportunity to choose between two questions. These were equally popular, although students tended to perform slightly better on Q14 on interventionist supply-side policies than on Q13 on the extent to which fiscal policies lead to conflicts between macroeconomic objectives.

In both questions, students' knowledge and analysis was generally sound but application tended to be lacking.

Most students were able to complete the paper in the time available.

Students' performance on individual questions is considered in the next section of the report.

Question Level Feedback

The feedback on each question shows how they were well answered and also how to improve further.

Section B

Question 7:

The general point that an increase in real incomes would be likely to lead to an increase in subjective happiness, given that individuals would be able to buy more/higher quality goods and services was well understood by most students. A minority of students made the opposite argument, that there may not be a direct link between the two variables, either because subjective happiness depends on other things, or because beyond a certain level of income, the relationship tends to break down. Such responses were awarded analysis marks and could receive full marks for the question overall.

A significant number of students began their answers by explaining the meaning of 'real GDP per capita', an economic term used in the stem of the question. As shown on the mark scheme, this was not rewarded, as knowledge marks are reserved for showing understanding of economic terms within the question itself. In this case, students could have defined either 'real income' or 'subjective happiness' to earn the one available knowledge mark.

The final mark was awarded for application to the context of Laos. A good proportion of students made no reference at all to the given context and were therefore limited to a maximum score of three.

Question 8:

Definitions of deflation and disinflation were generally well done. A small minority of students confused 'inflation rate' and 'average price level' in their definitions (eg writing 'disinflation is when the average price level is falling'), although it seemed from their application that they did in fact understand what was meant by these terms. A slightly more prevalent issue was the use of 'prices', as in 'deflation is a fall in **prices**' rather than the average or general price level. Students were not awarded the relevant knowledge mark if their definitions did not make it sufficiently clear that these terms refer to changes in the average price of all goods and services.

Students were mostly able to identify relevant periods from the chart, most commonly citing the -0.2% inflation rate in January 2018 as an example of deflation, and the fall in the inflation rate from 1.8% in October 2018, to 1.0% in November 2018, to 0.6% in December 2018, as a time of disinflation. Either the labelling of the x-axis, or the idea that this is annual data produced on a monthly basis, did cause a problem for a good number of students. A good number of students thought that each bar in the chart represented one quarter, or otherwise struggled to understand what time period it referred to. We were relevantly lenient when marking such responses, but it would be useful for centres to ensure that students are familiar with the concept of annual data published on a monthly basis, and have been exposed to a wide range of styles of bar, line and pie charts.

Question 9:

As with Q7, we were looking for students to show understanding of either 'the availability of credit' or 'investment' in their responses, rather than 'the money supply'. Definitions of these terms tended to be rather vague or omitted all together. Notwithstanding this, most students were able to identify that investment would be expected to increase, and to give some explanation for this.

It is important to note that this question asked about the impact on investment of an increase in the availability of credit, not about the effects of an increase in investment. A good number of students analysed the likely impact of an increase in investment on the Serbian economy, often using AD/AS analysis to support their work. Although this was economically correct, it went far beyond what the question was asking students to do, and hence no marks were awarded for such a consideration. Particularly for the lower mark questions, it is important that students do not waste their time by going beyond the demands of the question in this way.

Question 10:

In response to this question which asked about the possible impact on the German economy of a fall in oil prices, students could either draw a diagram showing either an increase in AD, or an increase in SRAS, or both. This made this a relatively straightforward question for better students. There were, however, some issues with the labelling of axes, with a fairly significant minority of students using 'price' for the y-axis, and a smaller minority using 'quantity' for the x-axis.

In terms of using their time in the most productive manner, students should note that in questions asking them to 'draw', there are no marks awarded for accompanying written explanations. In such questions, we are only looking for an accurately drawn and labelled diagram.

Question 11:

Almost all students were able to calculate the GDP (gross domestic product) per capita for India in 2017, which earned them 2 marks. The question then required students to calculate the change in GDP per capita between the two years **in US$**. A significant proportion of students did not realise this and instead calculated the percentage change in GDP per capita; such responses were awarded three marks only. Students should be encouraged to read questions carefully and ensure that they are doing precisely what is asked of them.

Section C

Question 12(a):

Students should note that if they are asked to define a term, they will not receive any marks for using the precise words found in the term in their responses. For example, this question asked for a definition of 'real wage growth'; students who defined this as 'the growth in real wages' received no marks, and those who defined it as 'the growth in wages adjusted for inflation' only received 1 mark.

Although the term to be defined is one that is used in the data, there are no application marks awarded for 2 mark, 'define' questions. A good number of students did make reference to the data on real wage growth in Australia in their responses, either alone, or as an extension to their definition. They did not receive any marks for this.

Question 12(b):

This question asked students to explain what is meant by 'a surplus on the balance of trade in goods and services'. While most students were able to attain 1 knowledge mark for this, better students were explicit in their answers that this refers to the **value** of exports of goods and services exceeding the **value** of imports of goods and services. Weaker responses simply referred to there being 'more' exports than imports in a country.

Application was well done in response to this question, with almost all students able to pick out two relevant data points, or to otherwise make two relevant references to the data.

Question 12(c):

In response to this question, better students were able to accurately define 'net migration' and/or 'unemployment'. In weaker responses, where a definition of 'net migration' was attempted, this was either confused (eg 'net migration is emigration minus immigration') or showed that students did not really understand the meaning of 'net', as net migration was simply defined as the number of people coming into a country.

Application was generally well done in response to this question, with students showing a pleasing ability to make use of the data provided and to link this to a possible impact on employment or unemployment.

Students should note that this question asked for 'the possible impact' (singular) on 'employment **or** unemployment' and hence we were only expecting them to analyse either one impact on employment or one impact on unemployment. A significant number of students analysed an impact on both variables. While they were able to gain marks for both of two impacts (eg 1 knowledge mark awarded for each of the two impacts identified etc), in most cases, this resulted in students over-writing.

Some of the best responses made links to specific kinds of unemployment which might be affected by net migration (eg frictional or structural unemployment), or considered the role of migrants as consumers, explaining that their demand for goods and services may create jobs in Australia, and hence reduce unemployment.

Question 12(d):

This was perhaps the most poorly answered question on the exam paper because, many students presented a generic analysis of the likely effects of a reduction in the base rate of interest, rather than answering the question set. This question asked students to **examine the case for** a reduction in the base rate in Australia, ie to analyse why a reduction might or might not be justified, given the state of the Australian economy. To be rewarded, therefore, analysis had to be done in the context of the Australian economy.

Good responses tended to focus on:
- How the fall in house prices in Australia might lead to negative wealth effects and hence a fall in consumption, implying that a cut in the base rate might be justified in order to support consumer spending and reduce any downward pressure on AD generated by the downturn in the housing market.
- How the fall in exports to China would be likely to slow economic growth and possibly cause an increase in unemployment in Australia, implying that a cut in the base rate might be justified in order to either weaken the Australian dollar and increase the competitiveness of Australian exports in China, or to incentivise consumption and investment within Australia, and hence support AD.

Examine questions do require an evaluation which can either be achieved through the development of an evaluation point or the identification of two evaluative comments. A significant number of students did not attempt an evaluation. Of those that did, better students tended to focus on the possibility of demand-pull inflationary pressures generated by a cut in the base rate leading the Australian central bank to overshoot its inflation target; weaker responses made generic evaluative comments such as identifying that a small cut in the base rate would likely only have a small effect on the Australian economy etc.

Question 12(e):

This question asked students to discuss factors, other than net migration, which had contributed to economic growth in Australia. The vast majority of students avoided writing about net migration's role in generating economic growth as instructed, and certainly there was a wealth of content as to alternative factors in the data on which students could draw in their responses. Weaker responses tended to be very descriptive and did little more than copy out relevant statistics and passages from the Source Booklet, without explaining why or how the identified factors would generate economic growth. Better students were able to ground their responses in an AD/AS framework, successfully showing how the factors they identified would cause increases in either AD and/or AS and hence lead to increases in Australia's real GDP.

Most students attempted to evaluate their responses, but it seems that most are struggling to develop their evaluation sufficiently to receive a Level 3 mark. In order to rectify this, students should perhaps be advised to focus on writing longer chains of reasoning to develop two evaluative points, rather than identifying and partially developing three points.

Students who received higher marks for evaluation tended to use information in the extract (eg the slowdown of the Chinese economy, or the fall in house prices in Australia) as the starting point for their evaluation, going on to use their economic knowledge to explain the relevance of the data to Australian economic growth, rather than beginning with a generic evaluative point.

Section D

Question 13:

This question asked students to evaluate the view that fiscal policies always result in conflicts between macroeconomic objectives. Arguing that this is the case required a three-step process; students needed to:

- identify a fiscal policy
- analyse how implementing this policy may cause one objective to be met
- analyse how implementing this policy may cause another objective to be sacrificed

Better students understood what was required of them and were able to do this, either by explaining how the expansionary fiscal policy identified in the stem might cause conflicts between several pairs of objectives, or by identifying several different fiscal policies and explaining how each of these might cause a conflict between a different pair of objectives. Such responses almost always received a Level 3 score for Knowledge, Application and Analysis. Beyond this, the main discriminator was students' ability to use application in their answers; many responses were purely theoretical and not applied to any country or context, meaning that they were unable to access Level 4 scores.

In evaluation, the better responses picked up on the word 'always' in the question and managed to explain why an identified conflict might not always occur, or what its occurrence depended on; or why fiscal policies might allow other pairs of objectives to be achieved simultaneously.

Weaker responses to this question did not fully appreciate its demands. They tended to either not include any evaluation, as students thought that explaining how a second objective was not met was evaluation, rather than it being part of the required analysis; or to not identify any policies, and just explain why macroeconomic objectives might conflict (eg achieving economic growth might require sacrificing protection of the environment etc).

Question 14:

The term 'interventionist supply-side policies' appears to be very well understood, with only a small minority of students writing about free market supply-side policies. Students were able to explain the meaning of supply-side policies and to illustrate their impact on an AS/AD diagram effectively.

As with Q13, the main discriminator between Level 3 and Level 4 scores for Knowledge, Application and Analysis was students' ability to integrate application into their points throughout their responses. It would seem that there is still work to be done in terms of students understanding this requirement. Where application was done, responses were most commonly applied to Portugal, the country mentioned in the stem. While this is fine and such responses could earn full marks, students are not limited to this context. Indeed, some of the most successful responses involved students bringing in knowledge of, for example, infrastructure or education programmes in their own countries. Whilst this kind of knowledge is not required, it is certainly to be encouraged.

Some weaker responses did not make explicit links between the policies being discussed and achieving economic growth, rather seeming to fall back into answering a more generic question as to the overall strengths and weaknesses of interventionist supply-side policies. As always, it is crucial that students answer the precise question asked and it is suggested that students re-read the question frequently while writing their responses to ensure that they do not wander away from it.

A small but significant number of students did not put an 'x' next to the question they had selected. It is helpful if students remember to put an 'x' in the box of the question they select. It is also helpful if they change their mind to change the selected question by putting a line through the incorrect question number and replacing the question attempted.

Paper Summary

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

Section A:
Multiple Choice Questions

- Students need to ensure that they are confident with their use of relevant formulae. In Q1, a significant number of students divided the increase in government spending by the multiplier ratio, rather than multiplying the two, and hence opted for answer B.

- Students need to ensure that they are confident with their use of quantitative skills. In Q2, this meant dealing with index data and calculating a percentage change. In Q6, this meant interpreting data presented in a line chart.

Section B:
Short Answer Questions

- Students are reminded that, where appropriate, knowledge marks can be earned for defining economic terms used in the question, but not in the stem. Conversely, students are reminded to make good use of the stem in applying their responses. There is at least one application mark available in each question in this section, and these tend to be the most frequently missed marks.

- When asked to a draw a diagram all marks can be achieved through the diagram and no written explanation is required. The majority of students supported their response with a written explanation but earned no marks for this.

- Students are reminded of the need to read questions carefully in order to avoid losing marks. This was particular the case in Q11, where students calculated the percentage change in GDP per capita, rather than the change in US$ as requested.

Section C:
Data Response

- On Q12(a), students are reminded that they cannot use the precise words in an economic term when defining it. Their attention is also drawn to the fact that there are no marks for application to context in 'define' questions.

- On Q12(b), students are reminded of the need for precision in their definitions of 'trade surplus'. Here, we are considering the value of exports and imports, not the quantity.

- On Q12(d), students are reminded of the need to read the question carefully and to ensure that they are answering the precise question asked, and not a more generic one. Students are advised to re-read the question frequently, particularly while answering longer questions.

- In Q12(e), there were many possible factors described in the data. Some students lifted many from the Extract. It is better to analyse fewer factors in detail, offering a chain of reasoning that links the factor to economic growth.

Section D:
Essay

- Students that did best were able to apply their responses to a context, either from the stem or from their own knowledge.