



Examiners' Report/ Principal Examiner Feedback

Summer 2016

Pearson Edexcel International GCSE
in Economics (4EC0) Paper 01R

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

Summer 2016

Publications Code 4EC0_01R_1606_ER

All the material in this publication is copyright

© Pearson Education Ltd 2016

General Comments

The majority of students taking this exam found the paper accessible, and the questions elicited a wide range of responses. There was evidence of thorough preparation for the exam, in terms of knowledge of the key aspects of the curriculum and in the structure of answers for the 6 mark questions. In these questions however, the attempts at judgement (carrying the final 2 marks) were often a repetition of previous points made, rather than adding a judgemental element to the information provided.

Some areas of the specification that caused difficulties for many were

Constructing and using Demand and Supply diagrams

The term 'productivity'

A decrease in the rate of inflation, whilst prices can still increase

Comments on specific questions.

Q1aii - The majority of students were able to identify and then develop two supply factors that could cause a rise in tea prices, such as drought and other natural factors and a reason for increasing business costs. Development was usually included, whilst a minority used demand factors rather than supply factors.

Q1bi - Clear correct answers were the norm, showing understanding of P.E.D.

Q1v - Many students gave a clear explanation of the factors influencing the PED for tea and for fuel, encompassing availability of substitutes and income levels. To gain the final two marks required judgement; here for instance is a clear example of the final two marks.

Overall, in the short run, both demand for tea and fuel may be inelastic as tea is addictive and takes a small proportion of income, whereas fuel may be the only option for necessary journeys by car. However in the long run the demand for both may become more price elastic as people can change their habits to, say, coffee ,if prices change by a large margin. People may also sell their cars or change to an alternative fuel and possibly use public transport if the routes cover their requirements.

Q1ci - Demand for tea workers was usually correctly identified as a ‘derived’ demand from tea. Many used this term and fully explained the link. Others linked their response to various costs of employment and some to the availability and cost of substitutes such as machinery.

Q1cii - Many gained full marks here. With the correct Demand and Supply curves drawn (with equilibrium price and quantity illustrated) then a shift in the demand curve to the right. This was combined with a clear explanation such as,

Labour is a derived demand from Tea. As demand for tea increases more workers are required to produce the tea. So the demand curve shifts to the right [D1], causing an increase in employment [Q2] and firms are willing to pay higher wages [W2].

Weaker students lacked clarity often employing a second S curve and muddled the end result, often gaining a mark for the original equilibrium and some point of explanation.

Q1d - Most students gave clear evidence of an understanding of the roles of public and private sectors in a mixed economy, employing relevant examples. Few were able to access the final two marks, having given a full description of the two sectors. One example shows from where such a point could be developed for two marks.

In recent years many governments have attempted to privatise the public sector to increase efficiency, reduce political interference and serve citizens better.

Q2ai - Productivity of labour was often vaguely described, where a straightforward ‘the average amount of output produced by each worker’ would gain full marks.

Q2aii - Well answered with most giving two distinct ways that a firm could increase labour productivity with a perceptive and often detailed development.

Q2aiii - A majority gave the two correct missing factors.

Q2bi - Many students gained full marks. Shortcomings often suggesting that economies of scale were the ‘benefits’ of a firm growing in size, without mentioning what the benefits might be....decreasing average costs.

Q2bii - Here students could usually apply their knowledge to the example used in the question. Benefits were usually well covered, e.g. lower costs therefore lower prices, increased efficiency, more routes etc. The drawbacks often centred on the possibilities of diseconomies of scale, hence higher prices. Judgement was frequent here, for instance.

The government could regulate the merger and the new company, especially if an oligopoly was formed as there are now fewer airlines, ensuring that they do not set higher prices. They could subsidise other airlines to create competition making it harder for IAG to exploit consumers so that the merger would benefit consumers.

Q2ci - It was sufficient to answer ‘sugar’, and most students gave a suitable example.

Q2cii - Again many correct answers, but some did suggest that costs increased as the price of raw materials increased.

Q2ciii/iv/v - Mainly students correctly calculated.

Q2cvi - A majority of students gave correct answers, although some omitted the pound sign (£), missing a mark.

Q2d - Related to past exams a slightly different aspect of unemployment was examined here. Many students could offer reasons for decreasing regional unemployment and some gave succinct accounts of potential methods. The alternative reasons for influencing the location of firms were often mentioned, notably relieving congestion and decreasing congestion. Few achieved judgement marks, such as.

It depends on the objectives of the government, the main aim may be to increase employment or it may be to increase economic growth. With the significant cost to government in incentivising firms a number of reasons may be responsible, and the government may have to choose carefully which to pursue.

Q3ai - Many realised that this was due to a recession in the economic cycle (various terms used e.g. downturn/slump) but the link to a fall in demand was not always made.

Q3aii - The movement from one job to another was clearly understood by most, while many of these also realised that this has a short term or temporary element.

Q3aiii - Fiscal policy was usually understood and the mechanism whereby unemployment falls was usually adequately or well explained. Many gave possible shortcomings, such as increased spending on imports, and that some forms of unemployment e.g. structural or seasonal, would not readily be solved. A frequent approach was to mention spending on armaments as a disadvantage, but the sources of the armaments was not explained. Judgement marks were often accessed.

The effectiveness of the policy depends on the type of unemployment. Expansionary fiscal policy may be ineffective at reducing cyclical unemployment, but supply side may be needed to reduce structural unemployment.

Or, *It depends on the magnitude of the policy as well as confidence. A small reduction in taxes may not have much effect.* Both of these concluding comments could with some development access both judgement marks.

Q3bi - A similar question has been set recently and there was an increase in the number of students showing an appreciation that the rate of inflation had declined, even though prices were still increasing [with reference to the data for a third mark]. A significant number however still showed confusion by stating clearly that prices were falling, even if they had stated that the rate had declined. This approach was not credited with any marks.

Q3bii - A majority of students stated that CPI would increase, but a limited number showed any explicit or implicit notion of what CPI is, or how food prices actually influence CPI.

Q3biii - Many correct and full explanations, the extent of the development of the answers determining whether 2 or 3 marks were awarded.

Q3ci - Many students demonstrated knowledge of this reason and were able to offer an explanation.

Q3cii - Many demonstrated a sound knowledge of technical methods e.g. pollution permits and carbon credits. Most employed two suitable methods with subsidies, taxation and regulation being most frequently used.

Q3ciii - Many demonstrated that they were aware of how protection of the environment could have a negative impact on economic growth. The positive effects were explored rather more weakly. When approached it was usually through the potential growth of 'green' business.

Judgement could be accessed by approaches such as.

Overall the effect on economic growth depends on the regulation of the firms. If governments provide the firms with incentives and at the same time regulate them well to help switch to greener methods, both the environment and economic growth can be positively impacted.

Q4ai - Most students were able to calculate the correct answer, and of those most employed the \$/USD/Dollar denominator to achieve both marks.

Q4av - This question had a similar diagrammatic response to 1cii. With an explanation such as,

As people feel that US\$ will rise, they would invest in it because when prices rise they could sell it to earn a profit. As a result people buy more US\$, increasing demand to D1 and causing the price [exchange rate] of the US\$ to rise to ER2.

Q4bi - The development gap was not well understood. Some notion of the gap between developed and developing (or rich and poor) was often mentioned, but specifying what the gap expressed was frequently missing.

Q4bi - This was generally well answered, with many disadvantages of globalisation identified and usually developed. These were often linked to the growth of MNCs and their effects on the domestic economies of the developing countries.

Q4biii - This question allowed students to demonstrate a wide appreciation of the links between development aid and economic growth, usually referencing the improvements in infrastructure and in human capital. Disadvantages included spending on imports and money going to corrupt or unstable governments.

Some very perceptive judgements were offered, as below, even allowing for the possibility that aid may come with ties.

Overall whether development aid can lead to increased economic growth depends on what the government decides to spend it on. If on imports of weapons to strengthen the military or if it ends in corrupt hands, economic growth decreases. Alternatively if used to invest in infrastructure or to improve human capital there will be long term economic benefits to the country which creates revenue, and the ability to pay any money back with interest. This would decrease the burden for future generations.

Q4ci - Free trade was understood and competently explained by the majority of students.

Q4cii - Tariffs seem to be well understood as were their ramifications. Most students explained the effect on domestic prices and then the effects on US tyre manufacturers and the balance of payments. The min disadvantages noted were the possibility of retaliation by the Chinese and of increased prices in the US. Many students followed any of the themes developed here by one of the students to achieve judgement marks.

The success of the tariff depends on the PED for tyres. If tyres are inelastic then the tariff may not reduce demand significantly and instead lead to inflation.

It depends on macroeconomic priority of the government. Unemployment may be reduced in the domestic industry but at the cost of potential inflation.

The tariff may be beneficial but is the threat of retaliation from China worth the cost.

In the long run the impacts are difficult to fully quantify as the tyres may be used to produce cars for export. In the short term domestic tyre producers may benefit, but in the long run export prices may rise, negatively affecting the Balance of Payments.

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>