Examiners' Report
June 2015

IAL Economics WEC02 01

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Introduction

This was the fourth sitting of the International Advanced Level (IAL) Economics paper, Unit 2 relating to macroeconomic performance and policy.

This unit introduces the key measures of economic performance and the main objectives and instruments of economic policy in an international context. Candidates will learn how to use a basic AD/AS model to analyse changes in real output and the price level. Candidates will look at when demand and/or supply side policies may be appropriate ways of improving an economy's performance; consider these policies in an historical context; predict the possible impact of such policies and recognise the assumptions involved. Candidates should understand different approaches that may be used by policy makers to address macroeconomic problems and to identify criteria for success. The ceteris paribus assumption must be used when developing economic models.

As in previous series, the paper is split into 2 sections: Section A comprises of 8 supported multiple choice questions (SMC) with a total of 32 marks. Section B has a choice of 2 data-response questions with a total of 48 marks. The total available marks for this unit is 80.

There continues to be a marked division in performance between the candidates who had learned the theory, including precise definitions and accurate diagrams, and those who had more limited knowledge. This means some candidates struggle to achieve knowledge marks and were consequently less likely to be able to apply, analyse and evaluate to any extent.

In this series, many more candidates attempted Q9 (60% of candidates) than Q10 (40% of candidates).

Question 1

This question was intended to ease students into the paper, relying to a large extent upon recall. However, a surprising number of candidates did not appear to understand GDP or GDP growth, let alone nominal and real GDP growth.

Candidates for this unit are expected to apply an understanding of definitions and to be able to achieve marks for the use of these in the supported multiple choice section. Overall, this question was generally not well done. Better responses showed clear understanding and used the data to calculate the inflation rate in one or more years in their explanation or rejection.

1 The table below shows the real and nominal GDP growth rates for Indonesia for the years 2008 to 2011.

Year	Real GDP growth (%)	Nominal GDP growth (%)
2008	2.0	5.0
2009	2.2	5.6
2010	1.5	4.5
2011	1.6	6.5

(a) From the data it can be deduced that

(1)

A the population of Indonesia grew in each year

B the inflation rate was above 2% in each year

C Indonesia experienced deflation in each year

D the GDP per capita increased each year

Answer B

(b) Explanation

(3)

GDP growth is a sustained increase in the output of an ~~ec~~ economy. Real GDP ~~grow~~ is the output of an economy considering ~~a basem~~ price levels for a base year. Real GDP growth can be calulated as nominal GDP growth − inflation rate. Each value for nominal GDP growth is more than two percentage points greater than the Real GDP growth for the same year, thus indicating that inflation rate was above 2% in each year. Option D is incorrect, as population growth at a rate higher than the real GDP growth would cause a fall in GDP per capita. Option A is incorrect, as ~~Ao~~ the trend in population cannot be inferred from the data given.

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Examiner Comments

The candidate clearly has an understanding of the difference between nominal and real GDP growth and was rewarded for this. The response shows how the rate of inflation must have been greater than 2% in each year and were awarded marks, although there is no specific calculation/worked example.

The response was also awarded for a rejection mark for Option D, showing good understanding of the per capita GDP measure and a potential rejection mark (not needed) for Option A, again demonstrating knowledge of how per capita GDP is calculated.

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Examiner Tip

It is vital to learn definitions and, where appropriate, examples. This basic knowledge and understanding can then be brought to the examination paper. It is useful not only in SMC in Section A, where there are invariably marks awarded for definitions related to the stem of the question, but also in Section B where there are also many marks awarded for definitions.

It is also a good technique to actively do something with the data. Candidates who, for example, calculated the difference in nominal and real GDP growth were rewarded with a mark.

Question 2

This question was intended to examine understanding of LRAS and factors likely to cause a shift of LRAS. Candidates who understood that LRAS is about potential output tended to do well in this question.

Many candidates provided a diagram as part of their explanation. For 2 marks candidates should have drawn an AD/AS diagram (axes and curves labelled correctly) with a rightward shift in the LRAS curve. Only 1 mark was awarded if candidates had not labelled the diagram correctly or if AD curve was also shifted.

The labels for a diagram were expected to show:

- Y-axis: Price Level/Average Price Level/CPI (Price on its own is incorrect)
- X-axis: Real Output (not quantity)
- LRAS curve labelled
- AD curve labelled
- Shifted curves labelled correctly
- Changes in price level and real output labelled correctly (P and Y are the standard here)

This question was generally answered well, with a mean mark of 2 and a mode of 4.

2 The UK Government has proposed a high speed rail link between South East England and North West England at an estimated cost of £42.6 billion.

(a) This rail link is **most likely** to lead to

(1)

~~A~~ an increase in withdrawals from the circular flow of income

~~B~~ a reduction in the size of the labour force

✓C an increase in long-run aggregate supply

~~D~~ a reduction in aggregate demand

Answer C

(b) Explanation

(3)

Aggrigate supply is the total supply in the economy over a period of time

option "C" is correct because the cost of rail link is investment by the government. This is an injection to the circular flow of income. This will increase the long run AS as Transportation cost will fall in future thus cost of production will rise and increased efficiency leading to rightward shift of LRAS.

Option "A" is incorrect because government spending is not a withdrawal but a injection to the circular flow.

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Examiner Comments

This response was awarded full marks. There were no marks for the first sentence but the linking of investment to transportation costs and increased efficiency achieved 2 marks. The final mark was awarded for rejection point A, which is sufficiently developed. This response shows how it was possible to achieve full marks without a diagram.

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Examiner Tip

An accurate diagram will invariably achieve at least 1 mark. There are then only two additional marks to achieve with a sentence explaining why the answer is correct and a sentence explaining why it could not be one of the other options. Efficient, concise responses are required in Section A.

Question 3

This question was not well answered, with a mean and a mode of just 1 mark.
There seemed to be a good deal of confusion here. Many candidates mistakenly describe exchange rates or inflation. PPP is in the specification and is a useful concept, particularly as candidates will be moving on to study International Economics at A2.

We were looking for an understanding that PPP relates to what a currency buys in an economy. It is the real as opposed to the nominal value of a currency. Some candidates tried to explain how PPP is calculated and if this showed understanding it was rewarded. Examples, such as the 'Big Mac Index' were also rewarded.

3 The World Bank calculates a 'PPP-adjusted level of GDP' for different countries.

(a) Purchasing Power Parity (PPP) is calculated by comparing the

(1)

A inflation rates in different countries over a given time period

B value of the currency of one country to the US dollar

C life expectancy and educational attainment in different countries

D price of a basket of comparable goods and services in different countries

Answer D

(b) Explanation

(3)

For example, the price of apple in China is X and the price of apple in the USA is Y. The PPP is calculated by $\frac{Y}{X}$.

Option C incorrect since it's a measurement of HDI instead of PPP.

Option B incorrect since it shows the exchange rate of a currency compared with US dollar.

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Examiner Comments

This candidate was awarded 1 mark for showing a basic understanding of how (relative) PPP may be calculated. A rejection mark was awarded for Option C and another for Option B.

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Examiner Tip

Be precise with definitions and make sure that they are relevant to the question. Make sure that you understand the ways in which PPP may be calculated and why it is calculated.

Question 4

This appeared to be a straightforward question and was quite well answered, with a mean mark of 2 and a mode of 3.

For a knowledge mark there had to be evidence of some understanding of tourism as an (invisible) export. Application marks were awarded for understanding tourist spending is income for Cuban firms.

Analysis marks were awarded for the development of circular flow model; employees in tourists industry spend income in Cuban economy. However, a generic circular flow diagram was not rewarded as it was not answering the question.

Many candidates provided an AD/AS diagram, showing an outward shift in AD curve, increase in real output and average price level. Up to 2 marks were awarded for a correct diagram.

4 According to the Cuban Government, 2.84 million tourists visited Cuba in 2012.

(a) The **most likely** consequence of this was

(1)

A a net withdrawal from the circular flow of income

B an injection into the circular flow of income

C a reduction in the level of Cuba's national output

D an increase in demand deficient unemployment

Answer $\boxed{B}$

The answer won't be C as this is more likely increase the National output as ~~ex~~ export is an component of Aggregate demand. AD increases therefore leads to increase National output.

(b) Explanation

(3)

2.84 million tourists visited in Cuba is an example of exported ~~a~~ service. It is an injection to the circular flow of income and brings in positive multiplier effect to the Cuba. Injection refers to the income which is not generated by domestic households and flow into the circular flow. The answer won't be A as ~~export~~ this is an injection to the circular flow of income.

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Examiner Comments

While this response achieved full marks, it is a good example of how a candidate may not answer efficiently, although they clearly possess the required knowledge and understanding.

Marks were awarded for identifying tourism as an export. There is also some development of this with reference to the multiplier. Taken with the previous sentences, a rejection mark was awarded for option A and for option C.

The candidate could have achieved full marks more efficiently with an accurate diagram and 1 rejection point.

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Examiner Tip

It is always a good idea to explain why the choice of an option is correct; use a diagram if appropriate. Then explain how one (or more) of the other answers could not possibly be correct. Make sure this explanation of the rejection point is clear and appropriately developed.

Question 5

This question produced a mixed response, with a mean mark of 1.5 and a mode mark of 2.

A knowledge mark was awarded for either a written explanation of MPM or a correct formula:

- MPM = Δ imports/ Δ income
- Rejection mark B required an explanation of why an increase in MPS could not be correct – there had to be an indication of why an increase in MPS may reduce imports through lower consumer spending.
- Rejection marks A and C were likely effects of rising imports NOT causes but needed to be explained for marks to be awarded.

5 The demand for Chinese and German manufactured goods is increasing in New Zealand.

(a) This is **most likely** to have resulted from

(1)

A a depreciation of New Zealand's currency

B an increase in New Zealand's marginal propensity to save

C a deficit in New Zealand's balance of payments on the current account

D an increase in New Zealand's marginal propensity to import

Answer D

(b) Explanation

(3)

Marginal propensity to import is the increase in importing in an economy per unit increase in income. It is mathematically represented as $\frac{\Delta M}{\Delta C}$. An increase in marginal propensity to import would thus cause a rise in consumption of imported goods, thus causing a rise in demand for Chinese and German goods in the New Zealand economy. Option A is incorrect, as a depreciation of New Zealand's currency would make imports more expensive, thus causing a fall in imports. Option B is incorrect as an increase in marginal propensity to save would cause a fall in household ~~con~~ consumption, and thus a fall in ~~the~~ ~~house~~ the consumption of imported goods. ~~the~~

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Examiner Comments

Although offering an incorrect formula, this response was awarded a knowledge mark for the first sentence. 2 rejection marks were awarded for option A and option B.

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Examiner Tip

Remember that examiners are looking to award marks. They do not negatively mark. If you are unsure of a formula in the pressure of the exam, write a short, clear explanation.

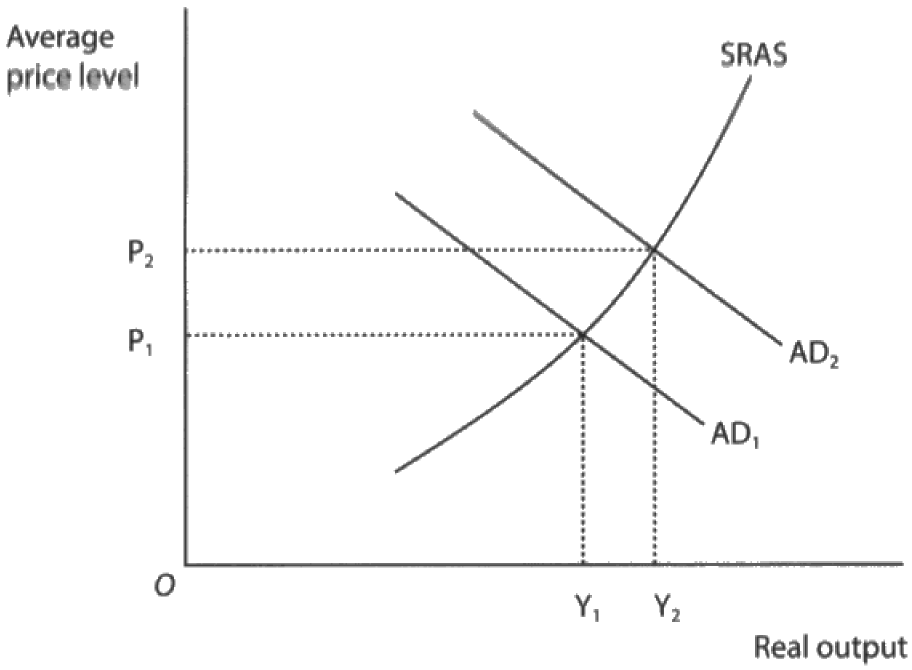
Question 6

We were looking here for an understanding of the impact of decreased interest rates and a rise in house prices upon consumption/investment and AD. The key ideas are a reduced incentive to save, increased incentive to invest and a 'wealth effect'.

For rejection marks, candidates who simply stated that “AD will increase” or “AD will decrease” were not awarded marks. There had to be some explanation of the mechanism, e.g. increased/reduced consumption or investment.

Only one aspect of the rejection needed to be covered for the mark to be awarded. See the mark scheme for this where a mark may be awarded for covering just one part of the rejection point.

6 The diagram shows two aggregate demand (AD) curves and the short-run aggregate supply (SRAS) curve for an economy.



(a) Which **one** of the following is **most likely** to have caused the shift in the aggregate demand curve from AD_1 to AD_2?

(1)

A An increase in interest rates and a fall in share prices

B A decrease in interest rates and a rise in house prices

C An increase in direct taxation and an increase in imports

D A decrease in exports and an increase in indirect tax

Answer B

(b) Explanation

(3)

Aggregate demand = $C + I + G + (X - M)$. A decrease in ~~t~~ interest rate would cause a rise in investment, thus causing an increase in AD, from AD_1 to AD_2. A rise in house prices would cause ~~an~~ a rise in consumer confidence, thus causing a rise in consumption, thus increasing AD as well. Option A is incorrect, as an increase in interest rates will cause a fall in investment, and a fall in share prices will cause a fall in consumer confidence, thus both causing a fall in AD.

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Examiner Comments

This response was awarded 1 mark for defining AD. There is then an explanation of the impact of falling interest rates and rising house prices on AD. The rejection of option potentially achieved 2 marks for covering both parts of the option. In fact, this was not necessary as the marks had already been achieved with the definition and explanation of the correct answer.

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Examiner Tip

Always try to explain why an option could not be correct to achieve a rejection mark. Read through your response and if you think an examiner could write, "why?" next to the answer, try to develop it a little more.

Question 7

This question was looking for basic understanding of the multiplier. It was not well answered with many candidates stating that an increase in investment increases the value of the multiplier. The mean and mode marks were consequently 1 mark.

Understanding needed to show some link to an injection into circular flow of income and that the value of the multiplier is increased if extra income is spent on domestic goods rather than imports. References to an increase in domestic employment and output were also awarded an analysis mark.

An accurate formula and valid development was awarded 1 mark for knowledge and 1 mark for application. A mark was not awarded if a response just stated increased consumption increases the value of the multiplier as this depends if the consumption is on domestic goods (option A) or imported goods (option B).

Diagrams were not really relevant unless they were accompanied by a clear explanation. If this was the case, then 1 mark was awarded for 1 application and 1 mark for analysis but only if the diagram was accurate and correctly labelled, (showing an outward shift of AD curve). If there was no explanation as to how the diagram relates to the multiplier, then no marks were awarded as the question was not being addressed.

Some candidates stated the value of the multiplier for developed (+1.5) and/or developing economies (+1.6). If they stated a value between +1.0 and +2.0 this was awarded a mark for application.

For rejection mark C, saving does not necessarily create a negative multiplier; it just reduces the value of the multiplier.

7 The multiplier ratio is used to measure the impact of a change in aggregate demand on GDP.

(a) The value of the multiplier will increase when

(1)

A the propensity to spend extra income on domestic goods and services increases

B the propensity to spend extra income on imported goods and services increases

C the marginal propensity to save increases

D the level of investment increases

Answer $\boxed{A}$

(b) Explanation

(3)

Multiplier : $\frac{1}{1-MPC}$

Multiplier process : ~~An increase in~~ An initial change in aggregate demand can have a much greater final impact on level of equilibrium national income.

Option ~~B~~ C incorrect since when the marginal propensity to save increases, which means the value of (1−MPC) increases, the value of the multiplier will fall.

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Examiner Comments

This is a concise response and achieved full marks in a very efficient way. There is a mark for the correct formula and an additional mark for the explanation of the multiplier. Rejection mark C is then awarded.

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Examiner Tip

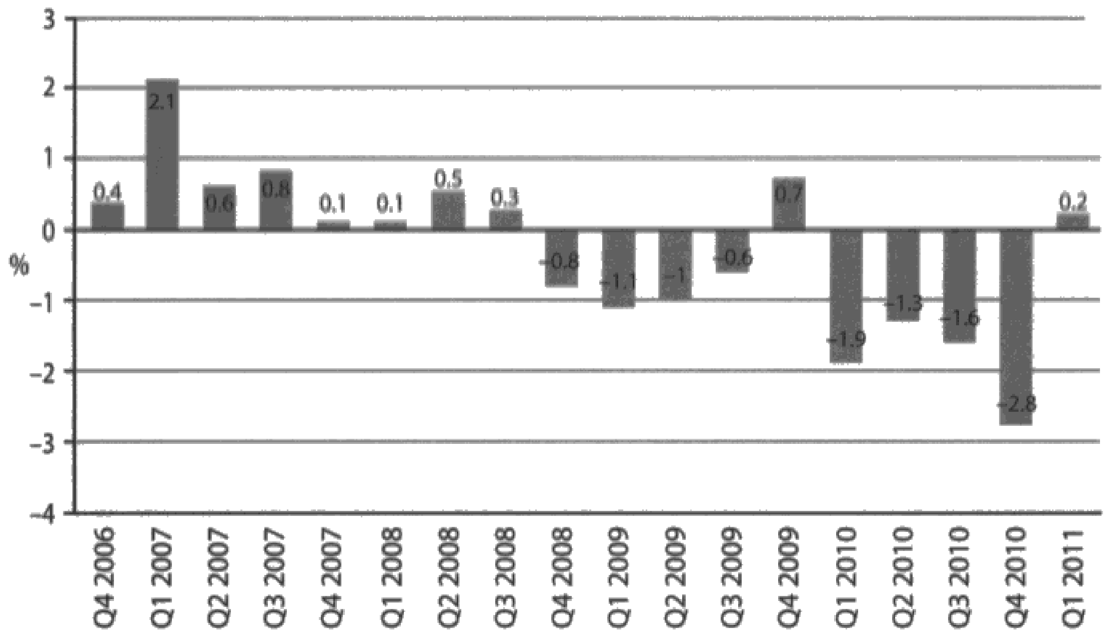
All areas of the syllabus will be examined. As with PPP, it is important that candidates know how to calculate the multiplier and understand factors determining the value of the multiplier.

Question 8

This question was intended to test the interpretation of data presented as a chart. This was due to poor performance in previous papers where a chart had to be interpreted accurately. Thus rejection mark A was included, where data is **not** actually provided prior to Q4 2006. The question was also intended to test understanding of GDP growth and negative GDP growth.

For an application mark it was sufficient for the candidate to state that the period between Q4 2008 and Q3 2009 was characterised by negative real GDP growth as this was effectively using the data provided.

8 **Greece real GDP quarterly growth rate (%)**



(Source: http://www.tradingeconomics.com/greece/gdp-growth)

(a) From the data it can be deduced that

(1)

A the Greek economy was in recession from Q2 2006 to Q4 2006

B total output fell between Q2 2008 and Q3 2008

C the Greek economy was in recession from Q4 2008 to Q3 2009

D total output increased between Q1 2010 and Q2 2010

Answer C

(b) Explanation

(3)

Option A incorrect since the ~~rea~~ GDP growth rate before Q4 2006 is not given.
Option B incorrect, although growth rate fell, but it ~~is~~ was still positive, so GDP still growing.
Option D incorrect since the growth rates was negative, so total output fell.

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Examiner Comments

This is an example of a response achieving full marks for 3 rejection points. Option A is awarded for a concise explanation. Option B shows good understanding of falling growth rates. Option D similarly shows good understanding of the relationship between negative growth and total output.

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Examiner Tip

It is important to understand the difference between falling rates of GDP growth and negative GDP growth.

Question 9 (a)

The majority of candidates attempted Question 9.

For this question, there were 2 knowledge and 2 application marks available. Essentially, 2 valid defining comments and 2 valid data references were awarded full marks. Data references could be taken from Figure 2 or Figure 3, (either were awarded marks).

The mean and mode marks for this question was 2, which was lower than expected. Candidates often provided just 1 valid defining comment and only 1 data reference.

(a) With reference to Figure 2, explain what is meant by 'real GDP growth rate'.

(4)

~~Beta~~ Real GDP growth rate is the rate of increase of real output in an economy. Real GDP is the total value of all goods and services produced in an economy during a year ~~at pr~~ considering price levels of a base year, in order to account for inflation. According to Figure ~~1~~ 2, ~~the~~ The real GDP growth rate in ~~the UK~~ Canada fell from 2.2% in 2007 to -2.8% in 2009, then rose to 3.2% in 2010, then fell again to 1.8% in 2012. According to the figure, real GDP growth rate in ~~Canada fell from 3.6% in 2007 to~~ the UK fell from 3.6% in 2007 to -4% in 2009, then rose to 1.8% in 2010 then fell again to 0.3% in 2012.

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Examiner Comments

The candidate clearly understands the term 'real GDP growth rate' and was awarded full marks for this response. The response also makes good reference to the evidence (Figure 2) to illuminate their definition and explanation.

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Examiner Tip

When attempting four marks questions, aim to achieve at least two knowledge and two application marks. Where possible, refer to the context for application marks and make sure that definitions are clear and precise for knowledge marks.

Question 9 (b)

Here we were looking for an understanding of balance of payments on current account and likely causes of a deficit in Canada. A maximum 4 marks out of 6 was awarded if there were no data references or if the response referred to the UK. Full marks could be achieved by mentioning one cause of the deficit, fully developed, with data references.

The mean mark for the question was 3 and the mode mark was 4. The most common problem was a lack of valid data references in candidate responses.

(b) With reference to the information provided and your own knowledge, analyse possible reasons why Canada recorded a deficit on its balance of payments on current account after 2008.

(6)

Balance of payments are the financial dealings between ~~one~~ economic agents of one country and another country consisting of current account and Capital account. Current Account is the value of exports minus imports as well as current transfer and other income of a country.

Canada recorded a deficit in current account after 2008 due to global demand for exports have fallen significantly. During 2008 the world have suffered from a financial crisis thus this have reduced the demand for Canada's exports. From figure 1, 75.4% ~~most~~ of Canada's export went to USA. Thus when the financial crisis occur in USA during 2008, Canada's ~~ex~~ demand for export also falls.

Furthermore, the GDP growth rates for UK and most of ~~EU~~ European Union also fell after 2008. This have reduced the income for consumers due to fall in GDP. Thus the propensity to import have also fallen. This is why ~~Canada~~ demand for Canada's export have fallen.

As a result of low export, Canada have suffered a negative current account balance after 2008.

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Examiner Comments

This response demonstrates a good understanding of BoP deficit, and analysis is related to the Canadian context. This is a clear response achieving full marks.

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Examiner Tip

It is important to learn precise definitions to efficiently achieve knowledge marks. Explanation should always relate to the context of the question.

Question 9 (c)

The most significant issue with this question was that candidates were asked to look at the economic ‘effects’ of a deterioration of the balance of payments on current account and not the causes, as this was Q9b. Extract 1 clearly identifies a negative impact upon investment and employment in Canada. Extract 2 similarly identifies a negative impact upon UK investment.

If a candidate provided a correct diagram for falling AD then it was assigned to Level 1 and awarded 3 marks. If the diagram was explained then it was awarded Level 2.

For evaluation marks candidates needed to look at the ways in which the deficit may be funded, or comment upon the short and long term effects. Candidates who showed an awareness of the problems associated with collecting accurate data were also rewarded for evaluation.

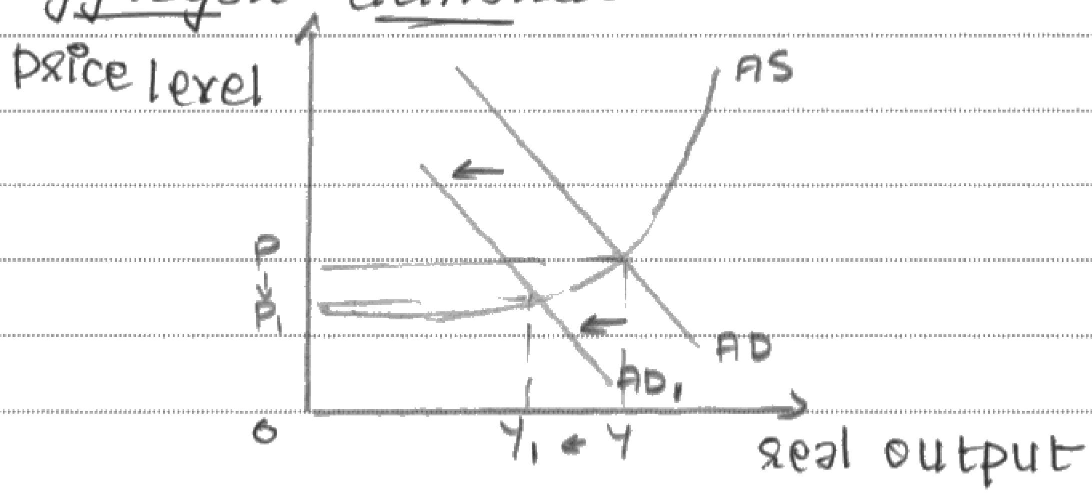
The question was generally quite well answered with a mean of 5 marks and a mode of 6 marks.

(c) With reference to the information provided and your own knowledge, assess the economic effects of a deterioration of the balance of payments on current account.

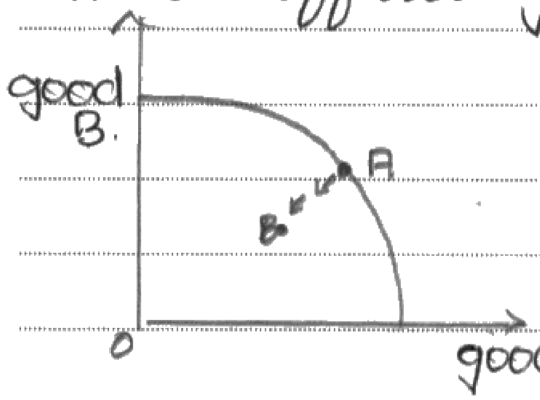
(10)

Balance of Payment shows all the inflows and outflows between two countries arising from economic activity. Consists of current account and Capital account. current account GDP fell sharply in 2009 ~~by~~ to -3.00% and is therefore increasing to -3.5% in 2012.

Business confidence is likely to be eroded as exporting industries are facing severe losses since 2009. Therefore invest-ment by the firms are likely to fall because of uncertain economic conditions. Moreover it is unlikely to recover because of the slow pace of the worlds economy. Fall in investment reduces injection from the circular flow thus reducing aggregate demand.



Due to fall in aggregate demand firms ~~are~~ might be needing few workers as ~~as~~ number of goods sold lowered. Moreover to recover the costs and losses firms might redundant workers leading to higher unemployment in the economy. Thus reducing the disposable income of the people, hampering the standards of living of the economy. High level of unemployment indicates loss of skills and capital increased resulting in inefficiency.



However exporting industries might then focus on selling the goods to domestic consumers inorder to recover the fall in profit. Therefore in the long-run it might not effect the economy.
Moreover current account deficit could mean ~~pe~~ consumers propensity to import has risen. That's why more is being imported indicating high disposable income. Government could increase revenue by charging direct and indirect taxes and these income could be spend to the welfare of the country.

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Examiner Comments

This is another clear response with data references, appropriate diagrams and good evaluation. The candidate uses relevant economic theory in analysis and evaluation and was awarded full marks for this efficient response.

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Examiner Tip

Always try to use the data given in the case study. Application marks will be awarded for relevant data references. Analysis should then be based upon this context. The examiner is looking to see if you can apply your knowledge and understanding to the case study.

Question 9 (d)

The most significant issue here was that the question asked candidates to look at the impact and not the causes of falling business investment in the UK.

There was a maximum of 3 knowledge marks if there was no diagram provided, as the question specifically asks for a diagram.

An inaccurate diagram, i.e. incorrectly labelled was awarded Level 1. An accurate diagram in Level 2 was awarded up to 5 marks for left AD shift and left LRAS shift. For Level 3, an accurate diagram was necessary which was also explained well in the written response.

Candidates who referred to the UK and used the context (Figures 1-4 and Extract 2) were rewarded. If candidates referred to Canada then the data references were not valid unless links/comparisons were made to the UK.

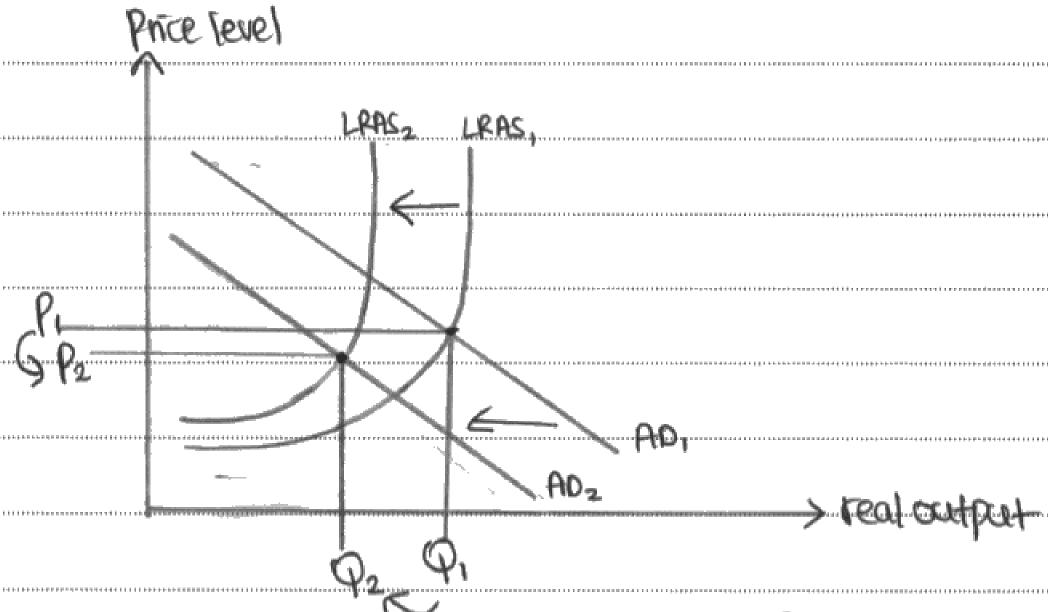
(d) With reference to the information provided and your own knowledge, assess the likely economic impact of falling business investment in the UK. Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)

Investment is the expenditure undertaken by firms to increase the amount of stock available and productive capacity in the economy. Investments include plant and machinery.

According to extract 2, the downturn in Europe has greatly affected UK business investment, total investment falling by more than €350 billion; ~~and~~.

Falling business investment means a fall in the total output in the economy. This results in a loss of productivity and efficiency in the UK. The loss of productivity reduces the UK businesses ability to globally compete and would therefore have an adverse effect on the current account and balance of payments. Furthermore, falling investment would increase the cost of production, lower the level of output and create unemployment. This results in a fall in the standard of living in the UK and the government spends more in unemployment benefits. The government also receives less in tax receipts as the revenues and profits of firms fall as a result in the fall of aggreate demand in the UK, as stated in the extract of a large fall in private consumption. Furthermore, reduced investment indicates a decrease in the productive capacity causing the PPC to shift inwards. There is also a negative multiplier effect in the UK as investment is an injection and its reduction takes spending power out of the economy. A fall in business investment impacting both aggregate demand and supply in UK can be illustrated.



As AD shifts inwards along with LRAS, Price reduces from P1 to P2, and output from Q1 to Q2.

However, the impact on the UK of decreased investment would depend on the size of the multiplier. A small value may not greatly affect UK. Furthermore, according to Figure 2, the percentage of real GDP growth in UK was 1%, proving that the economy was recovering from a negative output gap and it may be that other components of AD and economic growth may have increased. In addition, it also depends on the magnitude of the investment reduction in UK. If small, it may be insignificant to the economy. The PED of aggregate demand and supply also matters. If inelastic, falling investment would not greatly affect price and output in UK.

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Examiner Comments

This is one of the stronger responses, achieving 12 marks. There is good knowledge, application and analysis as well as some evaluative comments. The diagram is also accurate and relevant to the context.

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Examiner Tip

Always try to make sure that the answer is given in context and data is selected carefully, so that questions can be set which enable candidates to develop their analysis of a specific situation.

Question 9 (e)

The most significant issue here was that the question asked candidates to evaluate the likely impact of supply side policies on economic growth in either of the two countries in the case study.

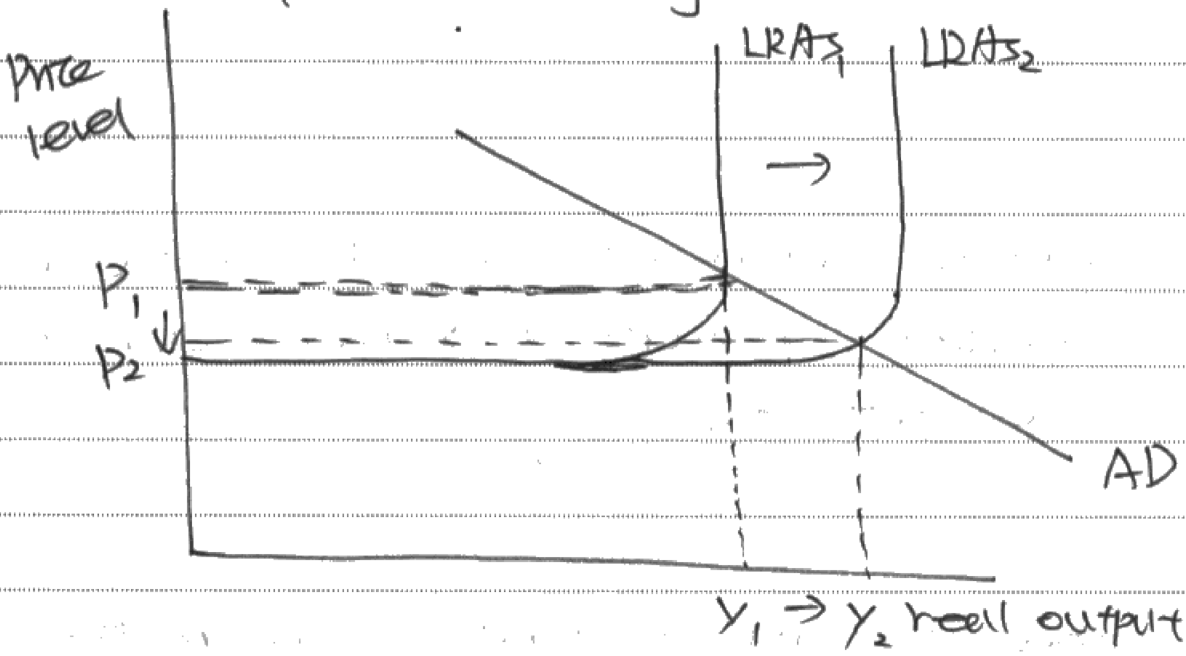
While a diagram was not specifically asked for, diagrams used in this question adopted the same approach as in Q9d. An inaccurate diagram put it in Level 1, an accurate diagram in Level 2 (right LRAS shift) and an accurate diagram which was also explained well in the written response in Level 3.

The mean mark for this question was 7 and the mode mark 8.

(e) Evaluate the use of supply side policies to increase the rate of economic growth in Canada or the UK.

(14)

Supply-side policies are implemented by the Government to increase the productive potential of an economy.



Supply-side policies include a fall in corporation tax, increased education and training opportunities, an fall in personal income tax, ~~a rise in investment privatisation~~.

A fall in corporation tax may encourage ~~co~~ firms to invest some capital equipment as the profit returns of investment would be greater. Thus, a fall in corporation tax help shifts $LRAS_1$ to $LRAS_2$ as capital goods are crucial in increasing the productive capacity in an economy.

~~An~~ Increased education and training opportunities helps to improve human capital. Thus workers become more productive. Potential output increase. Thus, $LRAS_1$ shifts to right to $LRAS_2$

A fall in personal income tax encourages ~~co~~ workers to work for longer hours as the opportunity cost of not working increases. Also, the fall in personal income tax may encourage some discouraged workers go back to find job and being employed. Thus, potential output increases. $LRAS_1$ shifts to $LRAS_2$

The Effect of an increase in productive ~~cap~~ capacity is a rise in output without inflationary pressure. Also, employment increases. Also, a fall in the price level may help to increase international competitiveness.

Evaluation:

Time lags. It may ~~takes~~ take long time until the supply-side policies come into effect. ~~Esp~~ Especially in the case of education, it would take a long time before the education has effects in ~~reducing~~ reducing opportunity costs.

There is an opportunity cost to government. Government has more spending and less tax revenue. Thus, budget deficit would increase in the short run. In the long run, as more people are employed, government may cut spending and ~~raise~~ receive tax revenue. Budget deficit would decrease.

The exact effect depends on the elasticity of AD.

Due to bad economiz condition, even a fall in corporation tax, due to uncertainty, firms may not increase investment.

~~Relative sig~~
Extent of investment, a fall in tax matters

ResultsPlus
Examiner Comments

While this response lacks data references, and was limited to 6 marks out of 8 for knowledge, application and analysis, it includes some good basic evaluation and was awarded 5 marks for this giving a total of 11 marks. While not the best response, it does show how a clear structure and an efficient approach can achieve a good total mark.

ResultsPlus
Examiner Tip

Remember that evaluation can be achieved at any stage in the essay and does not have to be achieved in a conclusion. It is a good technique to make a point and then evaluate this point in the same or in the next paragraph. This has the advantage of meaning that evaluation marks can be achieved even if the candidate runs out of time.

Question 10 (a)

Just under half of candidates answered question 10. The key understanding in this question was the difference between income in the form of wages and salaries for individuals and sales revenues for firms and wealth, which is the value of a household or individual's assets minus their liabilities.

There were 2 knowledge and 2 application marks available. Two valid defining comments relating to income and wealth, along with two valid data references or examples would be awarded full marks.

Data references were mainly from Extract 2, although candidates' own examples were also rewarded.

It seemed that many candidates were either unclear about the difference between income and wealth or reluctant to use simple, everyday examples in their response.

(a) Explain the distinction between income and wealth.

(4)

Income is the value of liquid assets through wages, dividends benefits etc. This is usually in the form of cash or a balance in banks, readily available to spend. 21.4% of Brazilians live below the poverty line i.e. their income and earnings cannot support a decent lifestyle. ~~to~~

Wealth on the other hand is the total value of assets including illiquid assets such as property and houses. The total wealth of the richest 20% of Brazil's population ~~is~~ has fallen in a 10 year span to 2009.

ResultsPlus
Examiner Comments

There are two knowledge marks achieved and two application marks for reference to the context, in this case, the data provided on Brazil.

ResultsPlus
Examiner Tip

For the four mark questions, make sure that there is at least one data reference. If possible, try to do some calculation with the data even if this is only calculating a percentage change in a value or commenting upon the magnitude of the range of values.

Question 10 (b)

The most significant issue in this question was that it asked candidates to look at the effects and not the causes of China's demand for Brazilian commodities. The question is about the effects upon the Brazilian economy.

There was a maximum of 3 knowledge marks if no diagram was provided, as the question specifically asks for a diagram.

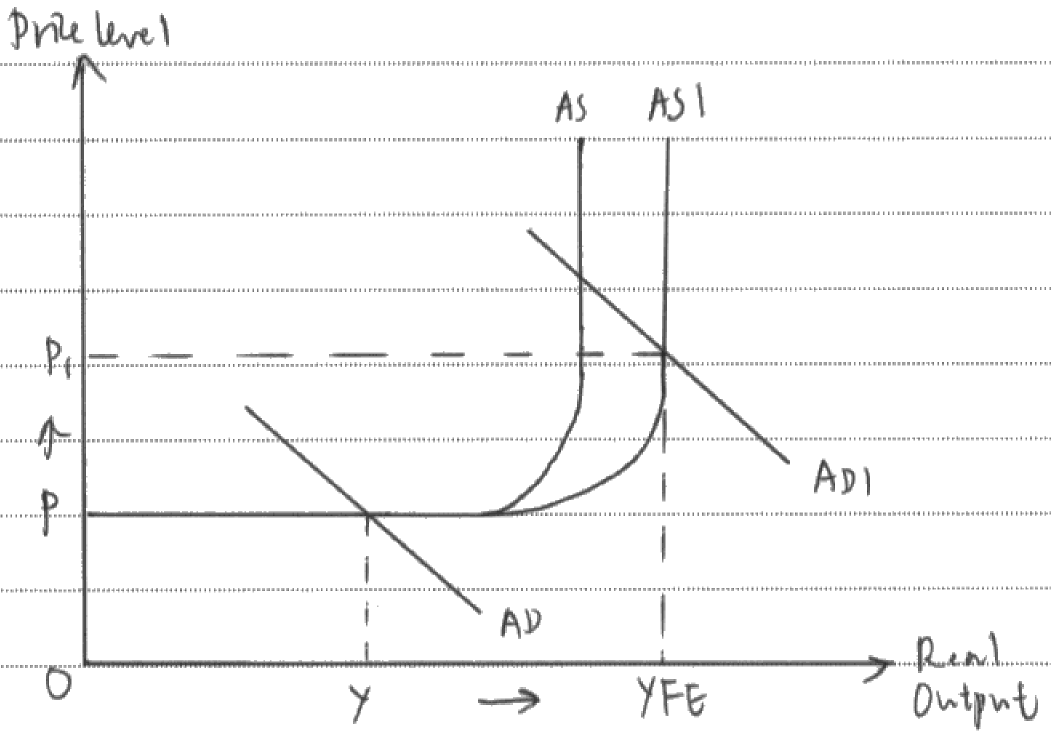
When awarding diagrams on this question an inaccurate diagram, i.e. incorrectly labelled, was put in Level 1. An accurate diagram in Level 2, (up to 3 marks for a right shift of AD or LRAS) and an accurate diagram which was also explained well in the written response in Level 3.

Candidates were rewarded positively where they made reference to Brazil and where they used the data provided.

The mean mark for this question was 6 and the mode mark was 7. Many candidates failed to develop their evaluation beyond Level 1, simply providing a list of possible negatives without any explanation or reference to the data.

(b) With reference to the information provided and your own knowledge, assess the effects of China's demand for commodities on Brazil's economy. Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)



There is increase in China's demand for commodities on Brazil's economy, 'namely ore and soya beans, which led to substantial price increases'. The increase in demand for commodities in Brazil increases exports of Brazil, as ~~Brazil's~~ exports are component of the aggregate demand (AD), it increases AD' from AD to AD1, causing an increase in price level from P to P1, real output increases from Y to YFE. ~~As the price of commodity increases, the firms will find it profitable and so –~~ It ~~increases~~ causes injection into circular flow of income.

As the price of commodity increases in Brazil, firms find it profitable and so they tend to employ more workers, which reduces unemployment. The labour is in higher demand and extraction of these commodities require low skills, and so more unemployed labour will now be needed by the businesses of ~~pro~~ supplying commodity and so the unemployment level of Brazil's economy decreases. More labour working in the industry increases production capacity of the economy. ~~Brazil~~ Businesses will also increase investment on commodities as they think it is profitable and have strong business confidence in it. This increases long run aggregate supply of the economy shifting AS curve from AS to AS1.

As exports of commodities increases, the current account balance of payment will be improved and will not be worsen off. As the demand for commodities in Brazil increases, the export revenue will increase as China bought a lot of commodities from Brazil, the import revenue ~~may~~ will be lower, leading to the current account balance of payment surplus for Brazil and aggregate demand also increases.

It also causes ~~budget surplus of the Gov~~ economic growth which in 2009 to 2010, there are over 7% of real GDP growth. As the exports of commodities increases due to China's increased demand, the real output of the economy increasing and more unemployed labour are now working, idled resources are now working in full capacity, increased in investment also increases AD and LRAS, this leads to increase in total output of Brazil's economy and there is economic growth, which is export-led growth.

However, it may not always be the case as it depends on the size of multiplier. ~~If the~~ Greater the multiplier, greater the effect on aggregate demand and GDP. If the value of multiplier is large, such as 2, increase in 1 million of injection to circular flow of income, there will be increase in 2 million of GDP, greater eventual effect on the economy.

It also depends on the magnitude of demand increase for commodities in Brazil from China. If the magnitude is ~~large~~ small, which the demand increase is not very significant, it may not have much effect on the economy which unemployment may not be reduced much.

~~It the rate~~ In short run, the aggregate supply may not increase as investment takes time to be effective, such as by building new factories or finding new mines. In the long run, the production capacity will increase greater.

It also depends on how dominating China's ~~to the~~ exports is in Brazil's economy. If ~~it~~ it is not very significant and Brazil's economy do not depend on exports ~~they~~ to China, it may not have much economic effects.

ResultsPlus

Examiner Comments

The most important aspect of this response is that it is in context and is applied to the case study. The evaluative comments are also in context and are clearly developed. The response achieved 13 marks.

ResultsPlus

Examiner Tip

Read the case study carefully and highlight any key details. The examiner is trying to highlight key features of an economy in the extracts and in the data. It is worth spending a few more minutes analysing the context rather than producing a generic response that may not be relevant.

Question 10 (c)

The question was about the causes of falling economic growth in Brazil in 2011 and not the effects.

There were 2 knowledge and 4 application marks for the question. This is best thought of as 1 knowledge and 2 application marks for each of the two reasons. Most of the data came from Extract 1, although some candidates did use their own knowledge and were rewarded for this.

Some candidates provided a diagram for each cause. For example, inward/left shift of AD for reduced exports; inward shift of SRAS as a result of higher wage costs caused by higher costs of food and education.

2 marks were not awarded for an identical diagram used for two different reasons. For 4 marks, the diagrams had to be different for each cause, (see paragraph 3 above).

The mean mark was 3 and the mode was 4. The reason of which was that often candidates failed to provide two distinct causes or else only fully explained one of the causes.

(c) With reference to Extract 1 and your own knowledge, explain **two** reasons why Brazil's rate of economic growth fell in 2011.

(6)

In 2011, economic growth rate in Brazil fell for two main reasons - rise in inflation which has led to higher prices for the general population. Secondly, companies have stopped investing due to inflationary pressure. The rise in inflation for consumers, has raised prices of goods greatly, resulting in lower consumption as people are not able to afford the basket of goods they previously had access to, reducing consumption, ~~and~~ thus reducing AD (Aggregate Demand) in an economy contributing to a lower economic growth. Companie's have stopped investing as inflationary pressure has increase their cost of production reducing their rate of return on investment, resulting in a net fall in investment, causing a fall in economic growth. This also has the effect of reducing the multiplier effect in the economy as well as reducing AD, causing a further decrease in economic growth.

ResultsPlus
Examiner Comments

Two reasons are identified, each in context and each is then developed to achieve the available marks for each factor giving a total of 6 marks. While data references are not made explicit in the response they are clearly taken from the case study material.

ResultsPlus
Examiner Tip

Where possible, always try to use the data given in the case study. Application marks will be awarded for relevant data references. Analysis should then be based upon this context.

Question 10 (d)

The question focuses upon candidates' understanding that GDP is not necessarily the best measure of living standards. Candidates were expected to understand some of the limitations of GDP as a measure of living standards. Extract 2, for example, refers to income and wealth inequality in Brazil despite high rates of economic growth. As HDI is in the specification, we did see many candidates offer this as a better measure of living standards.

Knowledge marks were awarded for an awareness of how GDP can measure living standards, or be used to compare living standards. In addition, development of the concept of GDP per capita was awarded marks. Links between rising GDP and incomes were also awarded marks. Knowledge marks were awarded for an awareness that there are other measures available, such as HDI.

Evaluation marks were awarded for assessing the suitability of GDP as a tool for comparing living standards over time. The mark scheme presents some possible limitations but other, equally valid limitations, were rewarded appropriately.

The question was not answered well, with a low mean mark of 3 and a mode mark of just 2. It would appear that candidates need to do more work in GDP growth and per capita GDP as a measure of living standards.

(d) With reference to the information provided and your own knowledge, evaluate the use of GDP data to compare living standards in Brazil over time.

(10)

Gross domestic product ~~of~~ is the total value of all goods and services produced in the economy. With reference to extract 2 it is clearly stated that the income inequality in brazil have reduced over 14 years the figure shows that the GDP percentage growth was 7% in 2011.

GDP shows the income generated by the citizen of brazil and overall wealth in the country. This could be used to compare living standards of Brazil with the other emerging economies.

GDP, GNP also shows the value of goods and services produced by the country's own factors of production. This could useful as they can measure the income and living standard of those citizens who are employed abroad and Generate income for their ~~families~~ families in native economy. However, the limitation of GDP is that it does not point out the regional variations ~~with~~ with in the economy. The GDP calculates the economic growth as whole, the region where there is lot of poverty and ~~(?)~~ consumers with low income are often outlayed by those who ~~have~~ have higher income.

Also the GDP does not measure the literacy rate, life expectancy of the economy. This is ~~these~~ very important component to measure the living standard of the economy can be achieved by Human development index.

ResultsPlus
Examiner Comments

There is good knowledge and some application to context in this example, as well as, some clear analysis and evaluation. The response demonstrates an understanding of some of the limitations of GDP data and possible alternative measures. It was awarded 10 marks.

ResultsPlus
Examiner Tip

Be aware of some of the limitations of macroeconomic indicators and of a range of alternative measures available to economists when evaluating macroeconomic performance.

Question 10 (e)

The focus of this question related to the costs of rapid economic growth. Many candidates were able to identify 2 or 3 costs, yet they did not often develop these sufficiently to reach Level 3.

Evaluation included attempts to examine some of the benefits of rapid growth, and this was rewarded. Evaluation marks were also awarded where there was evidence of understanding at a sophisticated level. For example, where environmental costs are explored in terms of providing a limit to potential GDP growth, (sustainability of growth) or how increased tax receipts may be misallocated by government.

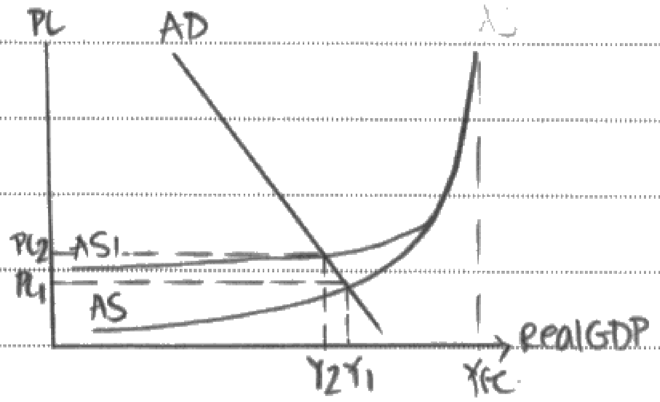
The mean mark for this question was 5 and the mode mark was 6. This was largely due to a lack of evaluation, either highlighting the benefits, such as decreasing income inequality, (Extract 2) or developing a more sophisticated analysis of the likely costs, (environment degradation or ring unemployment through technological development).

(e) Assess the likely costs of rapid economic growth in a country such as Brazil.

(14)

Rapid economic growth can lead to high levels of inflation as shifts in AD can be inflationary. This is supported by extract 1. The country will then face costs of inflation such as more expensive exports therefore reduction in international competitiveness. ~~Esp~~ This especially harms Brazil as it's main exports are commodities which ~~has~~ have many other countries that produce similar goods such as Australia with regards to iron ore. Additionally it causes uncertainty about economic stability and future costs, therefore deters investment as the future performance of businesses is unclear.

High levels of inflation can also lead to wage price spirals. As labourers realise their real incomes are being eaten away by inflation, they will bid higher wages. This leads to rising production costs and an inward shift of the SRAS. ~~Ca~~ This creates unemployment and a negative multiplier.



As SRAS shifts in from AS to AS_1, unemployment increases from $Y_{fe} - Y_1$ to $Y_{fe} - Y_2$. Additionally, it leads to even higher levels of inflation as price levels increase from PL_1 to PL_2.

However the ~~e~~ significance of the negative multiplier could be remote and not ~~cause as much of~~ affect the propensity to spend on domestic goods and services.

In relation to exports, the increasing inflation causes a depreciation in Brazil's currency, which can make its exports more desirable to other countries.

Even if prices of Brazilian exports increase, it may not affect the demand to a great extent if its exports are price ~~ine~~ inelastic, which most commodities are.

ResultsPlus

Examiner Comments

This is a clearly written response, with logical, coherent analysis in context. There is a slightly more generic evaluation but again this is clear and logical with some reference to Brazil. The diagram is also relevant and accurate. The response achieved 10 marks and would have been improved with more evaluative content, perhaps relating to the problems associated with a rising urban population or environmental degradation.

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Examiner Tip

It is an efficient use of time to plan 14 mark responses rather than simply going straight into writing them. This may mean that the essay can be planned around achieving the different marking levels used for assessment.

Paper Summary

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

- It is vital to learn definitions and be aware that accurate definitions can achieve knowledge marks. It may be worthwhile candidates producing their own, shared glossary of definitions and practice writing them out in timed conditions.
- While there was some improvement in the general standard of diagrams compared to previous series, candidates are reminded that diagrams need to be correctly labelled and explained if used to illustrate an answer. There were still examples of micro diagrams being substituted for AS/AD diagrams. This is really not appropriate at AS Level.
- Timing appeared to be a problem for some candidates, who did not sufficiently develop their more extended responses particularly in terms of evaluation. It is recommended for candidates to practise writing 14 mark questions, in timed conditions, from early on in the course. Similarly, with the short answer questions and supported multiple choice (SMC). Many candidates again used extra paper for the SMC questions when there was only 3 marks for the explanation. Too much time was being spent on Section A and this meant there was insufficient time for Section B.
- There was some evidence this session of candidates completing Section B before Section A in an effort to overcome some of the timing issues. This is a good idea but it does not follow that the examiners are rewarding quantity rather than quality for Section B. There were also some examples of candidates achieving high marks on Section B but achieving less than 50% for Section A.
- Candidates also need to use the data provided to support their answers in Section B in order to achieve higher marks.

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

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