Examiners' Report
June 2016

IAL Economics 2 WEC02 01

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Introduction

This was the sixth 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 eight supported multiple choice questions (SMC) with a total of 32 marks. Section B has a choice of two data response questions with a total of 48 marks. The total available marks for this unit are 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 than Q10.

Question 1

This question was intended to ease students into the paper, relying to a large extent upon recall. A surprising number of candidates did not appear to understand how monetary policy is likely to impact upon AD, economic growth and employment and this meant they did not tend to achieve the rejection marks. 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 quite well answered with a mean mark of 3 out of 4. Better responses showed clear understanding and used a diagram to illustrate the likely impact of contractionary monetary policy upon AD, real output and employment.

Overall, this question was quite well answered with a mean mark of 3 out of 4 and a mode of 4. Better responses showed clear understanding and used a diagram to illustrate the likely impact of contractionary monetary policy upon AD, real output and employment.

Answer ALL questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.
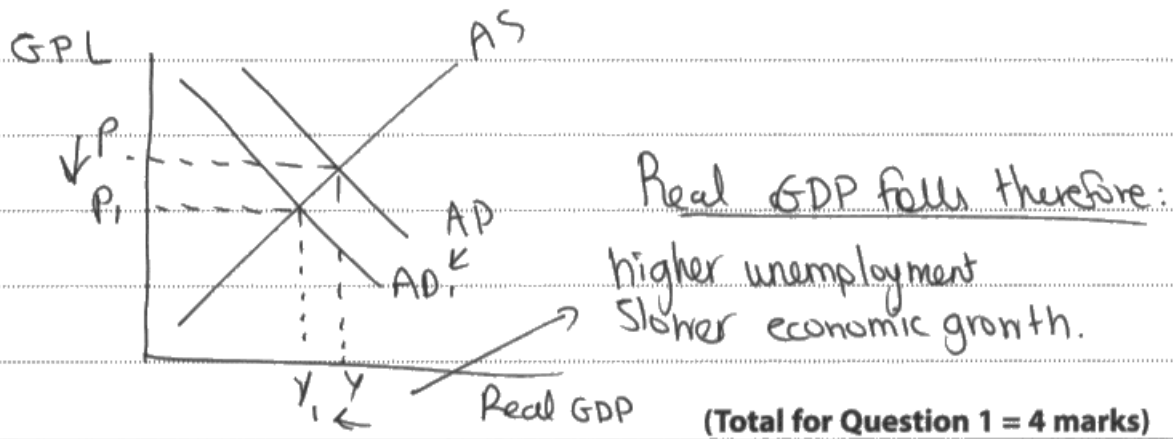
1 (a) The Russian Central Bank increased the interest rate from 5.5% in February 2014 to 8% in June 2014. All other things being equal, this is likely to lead to an increase in

(1)

A economic growth

B aggregate demand

C unemployment

D aggregate supply

Answer   C

(b) Explanation

(3)

When there is an increase in interest rates then that means that the cost of borrowing increases and the reward for saving increases therefore people will be saving more and consuming less, decreasing AD. The demand for labour will fall as well since it's derived and unemployment will rise. This can be seen in the diagram below. Answer A can be eliminated since a fall in AD mean that the rate of economic growth will fall not increase

Real GDP falls therefore:
higher unemployment
Slower economic growth.

(Total for Question 1 = 4 marks)

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, including the size of the available labour force, tended to do well in this question. This question was generally answered well, with a mean mark of 2 but a mode of 4.

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 or AS curve. Only 1 mark was awarded if candidates had not labelled the diagram correctly or if the 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/AS 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 but Q was accepted)

2 (a) In 2014, youth unemployment in the European Union was approximately 20%. Which one of the following is most likely to lead to an increase in real output and employment without increasing the rate of inflation?

(1)

A   An increase in bank cash reserve ratios

B   A reduction in unemployment benefits

C   Asset sales by the European Central Bank

D   Appreciation of the euro

Answer   B

(b) Explanation

(3)

Unemployment level is the number of people of working age who are willing and able to work but are unable to find employment. The rate of unemployment is this number as a proportion of the total workforce. B is correct because a ~~real~~ reduction in unemployment benefits mean that the unemployed are incentivised

to move actively seek a job to protect their living standards. This may mean that more people will be able to find work faster, resulting in an increase in the country's productive potential, and increase in real output and employment, and also without increasing the rate of inflation as shown in the diagram

Price level

AD₁

LRAS₁ LRAS₂

↓ P₁
↓ P₂

Y₁ Y₂ Real GDP
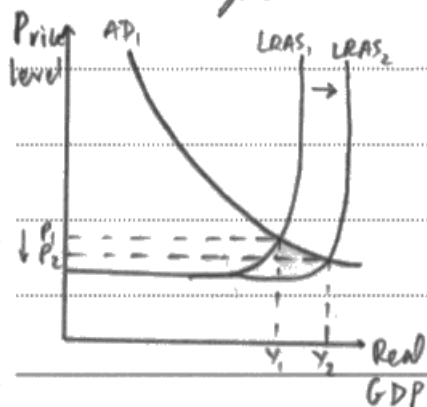
(Total for Question 2 = 4 marks)

ResultsPlus
Examiner Comments

This response was awarded full marks. A mark was awarded for the first sentence, defining unemployment. A mark was then awarded for an understanding of how lower unemployment benefits may increase the incentive to work. This is then linked to an increase in the productive potential of the economy

ResultsPlus
Examiner Tip

It would have been better if the candidate had linked the reduction in unemployment benefits to supply-side policies, as this is a specific area of the specification. However it does gain all 3 marks for part (b).

Question 3

This question was presented in a new format with candidates effectively being asked to label the diagram and explain the labelling. This proved to be a successful supported multiple choice format which resulted in some excellent, precise responses.

The questions was answered well by the majority of candidates, although it was clear that there was some confusion about the causes of and effects of a negative or positive output gap.

3 (a) The following diagram shows the trend growth of GDP for an economy compared with its actual GDP growth. At which point in the diagram is there a negative output gap?

(1)
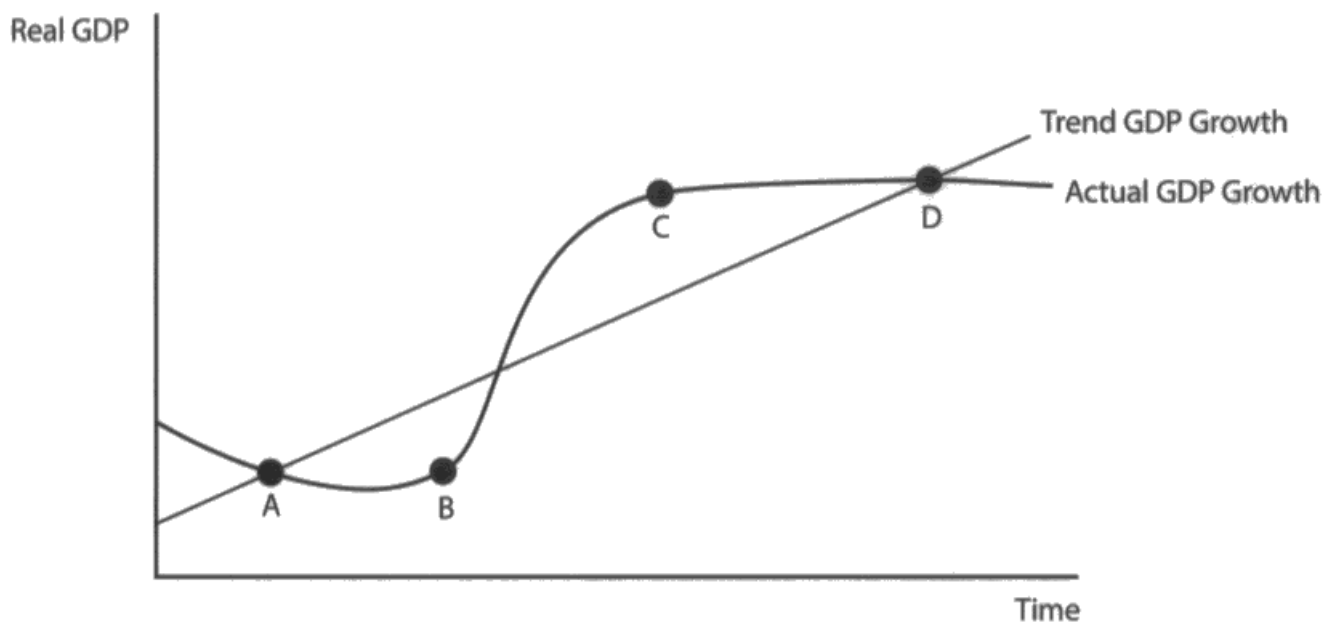
Answer B

(b) Explanation

(3)

Output gap is the difference between actual GDP and potential GDP of an economy. A negative output gap is where the actual GDP is below the potential GDP.

C is incorrect because its a positive output gap
A and D are incorrect because the economy has reached it's potential

ResultsPlus
Examiner Comments

This is a concise answer, demonstrating how it may be possible to achieve full marks without writing more than three or four sentences. A mark is awarded for defining a negative output gap. The use of the term "potential GDP" rather than "trend GDP growth" was accepted in this context. The candidate then scores 1 rejection mark for C and 1 rejection mark for A and D.

ResultsPlus
Examiner Tip

Always explain at least 1 of the distracters in order to gain vital marks for part (b). If short of time, then just explain 1 rather than 2. Many marks are lost because candidates do not explicitly refer to the rejection point in their response. This example shows how to reference and achieve rejection marks.

Question 4

Once again, this question testing knowledge and understanding of HDI, posed problems for many candidates. The majority of candidates achieved full marks for part (a) but many were unable to explain why (d) was the correct answer. This showed a lack understanding of how the composite HDI is constructed.

The key to the question was the higher GNI per capita in Denmark and the higher HDI in the Netherlands. Although it was possible to achieve full marks without necessarily identifying and explaining this with reference to the data. The most efficient method of achieving full marks was to point out that the higher HDI for Netherlands must be due to either longer years of compulsory education of higher life expectancy given that the GNI per capita is lower.

4   The table below shows the Human Development Index (HDI) and Gross National Income (GNI) per capita for the Netherlands and Denmark in 2013. ·

Country	HDI	GNI per capita (current US$)
Netherlands	0.910	43 210
Denmark	0.895	44 460

(a) Which one of the following may be deduced from the data?

(1)

A   The Netherlands had lower levels of human development than Denmark

B   Denmark's population had better access to clean water than the Netherlands' population

C   Denmark had a higher level of energy consumption per capita than the Netherlands

D   The Netherlands had more years of compulsory schooling or better standards of health than Denmark

Answer   D

(b) Explanation

(3)

HDI ~~was~~ is a composite measure of economic development and it includes the longevity, the years of schooling and the GDP at PPP as an index, representing the levels of health and education and not just income. The correct answer is D. This is because, even though denmark had a higher GNI that Netherlands, the HDI of

Denmark is lower. This most probably is caused because Netherlands had better education or better standards of health, dragging its HDI higher than Denmarks. A is not the answer, because Denmark had lower HDI than Netherland

ResultsPlus
Examiner Comments

This is an excellent response, explaining the higher HDI figure for the Netherlands in reference to the composite index. There is also good examination technique here, as the candidate also rejects Option A.

ResultsPlus
Examiner Tip

It is always a good idea to refer to the data provided where numerical or graphical data is provided. It is even better to do something with the data, to calculate a percentage difference for example. Engaging with the data in this way may make it less likely that important points are not missed and therefore opportunities for marks lost.

Question 5

This question was intended to test understanding of factors likely to create a rapid increase in aggregate demand. It was generally answered well by candidates who were aware of the "wealth effect" and the impact this may have upon consumption, particularly in economies where consumption is a significant component of aggregate demand.

Very few candidates seemed to be able to define a demand-side shock, however many were able to describe the likely impact of a "wealth effect" upon AD and illustrate this with an accurate diagram.

5 (a) Which one of the following is most likely to result in a demand-side shock to the US economy?

(1)

A   Increase in US house prices

B   Increase in environmental regulations on US businesses

C   Increase in world commodity prices

D   Increase in use of new technology by US businesses

Answer   A.

(b) Explanation

(3)

An increase in US house prices will lead to home owners feeling more wealthier and therefore increasing their consumption, causing AD to shift outwards (positive wealth effect).
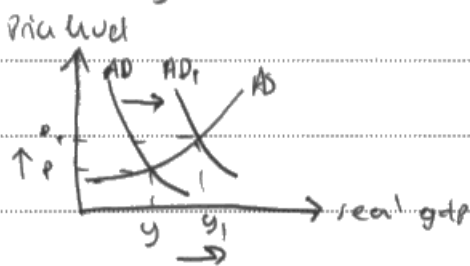
Option C is wrong as an increase in commodity prices will increase the cost of production of firms causing SRAS to shift inwards, hence this is a supply side shock and not a demand side shock

Question 6

This question proved to be one of the more challenging of the supported multiple choice questions, with candidates having to demonstrate knowledge and understanding of the current account, as well as economic variables likely to affect the current account balance. There are still many candidates who have a simplistic understanding of the current account, describing it as "exports minus imports". At this level, such an assertion was not be awarded a mark and proved to be less likely to support the analysis required for part (b).

The reason **why** an increase in inflation or an appreciation/increase in the value of currency might impact upon current account had to be explained for marks to be awarded (e.g. loss of competitiveness of exports or cheaper imports).

Similarly, a decrease in unemployment and the likely impact upon the current account has to be explained for marks to be awarded (e.g. higher income, higher demand for imports).

For rejection points, only one of the impacts had to be explained for a mark to be awarded.

6 (a) All other things being equal, which one of the following combinations is most likely to lead to deterioration in a country's balance of payments on the current account?

(1)

	Inflation rate	Exchange rate	Unemployment rate
A	Increase	Decrease	Decrease
B	Decrease	Increase	Increase
C	Increase	Increase	Decrease
✗ D	Decrease	Decrease	Increase

Answer [C]

(b) Explanation

(3)

The Balance of payment reffers to the transactions between the economic agents of one country and the economic agents of another. The current account reffers to the trade in goods, Services and investment income.
An increase in inflation will make foreign goods cheaper (relative inflation rates), an appreciation in the exchange rate too would increase imports and falling

unemployment will increase the marginal propensity to import,
all three factors will result in higher imports
and a deficit (deterioration) on the current account.
Answer D is wrong as a decrease in inflation,
rank exchange rates and rising unemployment will
increase exports, not imports. Answer A is wrong since
the Increasing inflation and decreasing exchange rate
offsets each other, resulting in no change in the current account

(Total for Question 6 = 4 marks)

Question 7

This question was intended to test knowledge and understanding of inflation, specifically demand-pull inflation. It was generally well answered, with many candidates showing good understanding and they were able to contract demand-pull inflation with cost-push inflation.

This question was generally well answered with many candidates able to identify government spending (G) as a component of AD and explain the impact upon the price level.

Up to 2 marks were awarded for an accurate diagram showing an outward shift of AD.

In this case an accurate diagram consisted of:

- Axis labels correct – NOT Price or P on Y axis

- Shifted curves labelled correctly

- Changes in price level and real output labelled correctly (it was not necessary to use a Y label on Real Output axis – Q was acceptable)

7 (a) All other things being equal, demand-pull inflation is most likely to result from an increase in

(1)

A   the rate of interest

B   the cost of imported raw materials

C   the rate of income tax

D   government spending
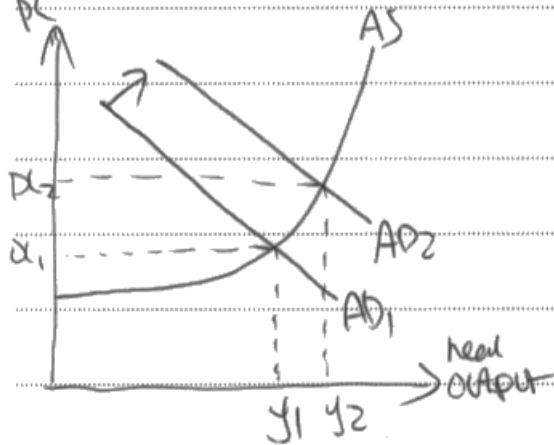
Answer $\boxed{D}$

(b) Explanation

(3)

A demand-pull inflation is the sustain increase in the average price level cause by a increase in Aggregate demand.

When government spending rises, AD would rise because government spending is a component of AD

$$AD = C + I + G + (x - m)$$

PL

AS

PL₂

α₁

AD₂

AD₁

real output

y₁ y₂

Price level increases from PL₁ → PL₂ therefore, there is a demand-pull inflation.

A is incorrect because increase in rate of interest consumption and investment would fall, AD would fall and price level would fall

Question 8

Previous papers had demonstrated a lack of understanding of the multiplier and this question was intended to test this area of specification, allowing candidates to demonstrate a basic grasp of the economic theory.

The formula for the multiplier is provided in the specification document as 1/mpc-1. Simply stating this formula was sufficient for 1 mark. It was therefore surprising to see a number of inaccurate formulae presented in responses. A clear written explanation of the multiplier mechanism was also awarded 1 mark.

There were some very good responses, with learned numerical examples, demonstrating a good level of understanding.

8 (a) Which one of the following is most likely to increase the size of the multiplier?
An increase in the

(1)

A marginal propensity to import

B marginal rate of income tax

C marginal propensity to consume

D marginal propensity to save

Answer   C

(b) Explanation

(3)

multiplier = $\dfrac{1}{1-mpc}$ (marginal propersity to consumption)

C is correct as it can be recognised as an Injection to the economy and as Consumption is a main factor affects AD, this rise in mpc will boost multiplier effect of the economy. B is wrong as this Increement will limit and reduce peoples consumption as it reduces disposible income so this marginal rate of

Income tax rise will reduce size of

multiplier effect.

ResultsPlus
Examiner Comments

This is a clear response, with an accurate formula and a reference to an injection and to consumption as a component of AD. There is also a rejection of Point B, with a suitably detailed explanation.

ResultsPlus
Examiner Tip

Make sure that basic definitions, such as formulae, are learned and reproduced accurately in responses. Valuable knowledge marks can be earned by providing accurate definitions for key terms and correct formulae.

Question 9 (a)

The first question was intended to test basic knowledge and understanding, relating to the data provided in the case study. It is expected that AS Level candidates will understand the meaning of the terms 'real' and 'per capita'. In many ways, such an understanding it vital for subsequent questions and an accurate interrogation of the case study material.

There were a number of ways to achieve the knowledge marks with definitions. The statement that GDP per capita is GDP "per person" was awarded a mark. Many candidates did seem to overlook the word "growth" in the question but were still able to achieve the knowledge marks.

There was plenty of data in the case study that could be used and described for the applications marks.

(a) With reference to Figure 1, explain what is meant by the term 'real GDP per capita growth'.

(4)

Real GDP per capita growth is the amount of GDP per head that has been adjusted for inflation.

For Portugal, the % change in GDP was highest in 2007 at about 2.80 2.40. Then in 2009 it decreased to -3.00. With again a rise in 2010 to 2.00.

The real GDP per capita growth fluctuates, moving up and down. In 2013, the GDP growth doesn't go into the positives, showing negative growth.

ResultsPlus
Examiner Comments

This response achieved the 2 knowledge marks in the first sentence. The application marks were then awarded for the data references in the 2nd paragraph and the description of the trends in the third paragraph.

ResultsPlus
Examiner Tip

When attempting four mark questions, the aim is to achieve at least 2 knowledge and 2 application marks. Always refer to the context or to other, relevant examples for application marks. Make sure that definitions are clear for knowledge marks.

Question 9 (b)

This question asks for two causes (not effects) of the increasing unemployment in Portugal and it was a levelled response.

Each cause was marked out of three for Knowledge, Application and Analysis (KAA) and then a level was awarded for Evaluation(E).

The most common error here was due to candidates not grasping the significance of the command word "assess", implying that evaluation was required. There were also some responses where the candidate looked at the effects rather than the causes of rising unemployment.

(b) With reference to the information provided, assess **two** possible causes of the increase in the rate of unemployment in Portugal between 2007 and 2013.

(10)

Unemployment refers to the people of working age who are in the labour force that are looking and willing to work but are unable to find a suitable employment.

One reason for the increase in the rate of unemployment is the higher value-added tax. Higher value-added tax shit increases cost of production and shifts supply curve to the left. Prices become higher and demand falls. This leads to higher unemployment. Moreover, due to higher ~~Mau~~ VAT cost, the increase in price can be seen in figure 2 where prices have been constantly increasing from 2009 to 2013 from -0.8% to 0.3%.
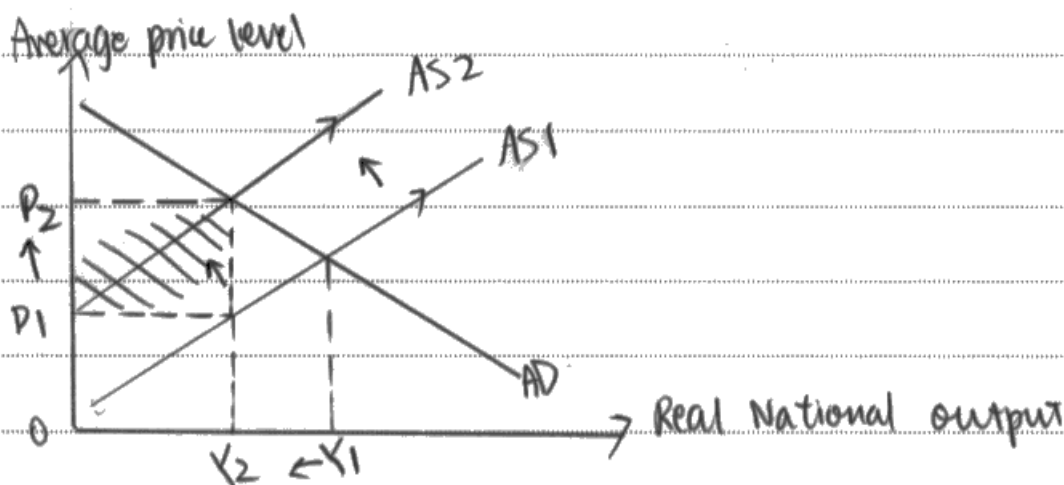
Another cause of increase in unemployment rate is that many businesses went into bankruptcy. This could possibly be due to high levels of regulation on firms which increased cost of production. Due to this, their demand ~~both~~ for labour fell and increased unemployment level. From extract 2, regulation has led 'low productivity'. The magnitude of increase in VAT tax affects unemployment. If tax is higher, then unemployment is high.

Moreover, the price elasticity of demand affects the demand for goods. If a firm facing high levels of tax increases the price of it's goods, if the demand is price inelastic, demand won't fall greatly and this will increase total revenue for the firm. Hence rate of unemployment will be lower.

Question 9 (c)

This question was intended to test knowledge and understanding of deflation. In the context of the global economy since 2008, it was expected that candidates would have encountered macroeconomic data showing deflation. It was also expected that candidates would have some understanding of how deflation may impact upon macroeconomic objectives of growth and employment. In the circumstances, it was surprising that many candidates saw deflation as by definition a "good thing", with lower prices improving living standards.

There were some good answers here, with two or more effects identified, either with data references or accurate diagrams with more generic explanation.

- An accurate diagram, which was also explained well in the written response, was placed in level 3 for KAA.

- In the practice, there were responses with no data references but by using accurate diagrams they were explained in the text. These were also put into Level 3 for KAA , although there were no explicit data references.

- There were also responses where the evaluation was strong, with good analysis and data references. In fact, one good evaluation point was enough to take the evaluation to Level 2.

(c) Portugal experienced deflation in 2009 and also in 2014. Assess the likely impact of deflation on the Portuguese economy.

(14)

Deflation is a sustained fall in the price level

Deflation can be more harmful to the Portuguese economy than inflation

firstly, firms might think that the economy is in decline which reduces business confidence, this means the country will have less invested as a result AD is affected and economic growth decreases and unemployment increases because firms will make their workers redundant
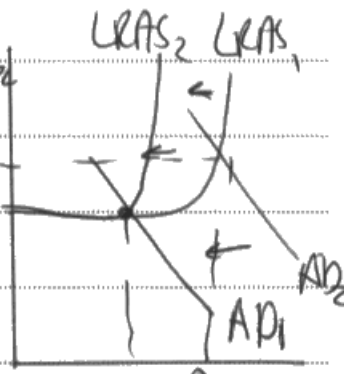
This might cause ~~business~~ firms, to shut down & foreign investors to stop investing which decreases LRAS, ~~Additionally~~ This causes the PL to decrease to P_2 and causes unemployment as seen between 2008 & 2009 ~~where unemployment fell~~ ~~below~~ by 3.4%. And unemployment increased by 1.9%.

~~Secondly~~ However, deflation may also affect the consumers espically homeowners as the prices of homes fall the homeowners would have less wealth (wealth effect when a change in income causes a Δ in C) this would cause a fall in consumption which leads to further deflation and further unemployment

Additionaly, those on fixed mortgage repayment will suffer the most in portugal as ~~if~~ when the rate of inflation increases ~~their~~ real mortgage repayment falls however the cause is different in Deflation and the real repayment will increase which means in the future they might not be able to pay their loans back.

[Diagram: axes labelled CPI (vertical) and real GDP (horizontal), showing LRAS$_2$, LRAS$_1$, AD$_1$, AD$_2$ curves with P_e, P_2 on vertical axis and Q_2, Q_e on horizontal axis]

However, ~~this~~ the deflation may be for a short period of time only because deflation in 2009 has dissappeard by 2010 and inflation occured.

furthermore, ~~the decrease in prices will reduce~~ con its less likely that Portugal is going to be facing deflation espically that ~~th~~ between 2009 & 2014 they have faced deflation once.

finally, we are told that ~~th~~ Portequese exports increase to 40% of GDP which means that Aggregate demand is most likely going to increase and exports ~~are not really affected by the mainly~~ so the future for Portugal may be better because surviving business aimed more at overseas markets.

Question 9 (d)

This question was intended to test candidate understanding of the links between productivity and the macroeconomy of Portugal. There were references to regulation in the case study, as well as to the possible impact of deregulation. Given that deregulation is in the specification as an example of a supply-side policy, candidates were expected to be able to explain the possible impact of deregulation upon AS/LRAS.

Many candidates mentioned economies of scale and larger firms being more likely to benefit from the division of labour therefor raising productivity. This was rewarded in the mark scheme. More common among the better responses was an explanation in terms of supply-side policy.

(d) With reference to Extract 2, explain how deregulation may increase productivity in Portugal.

(6)

Deregulation of the labour market is a supply-side free market policy intended to ↑ LRAS. Thus, deregulating the labour market e.g.: by making it "easier to hire and fire workers" as well as to "start expanding a business" will improve the flexibility of the labour market. Therefore, if firms can expand (by buying more capital) and can higher more workers, they can become more productive with the increase in quantity and quality of FoPs. As a consequence, the LRAS curve shifts outwards as the productive capacity of Portuguese
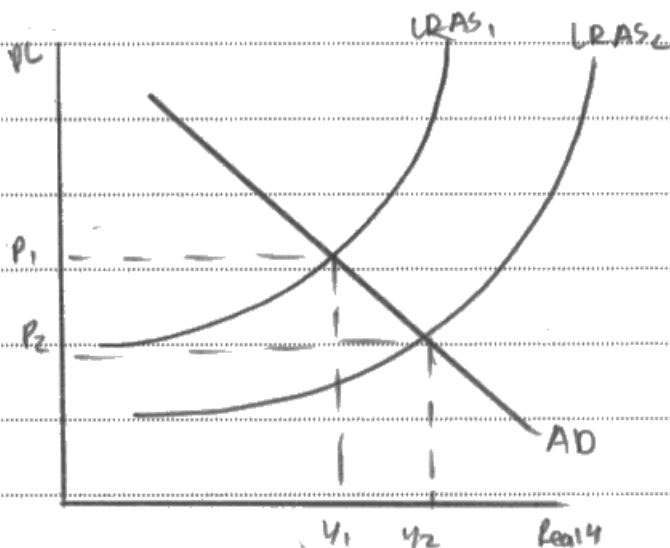
firms increases, leading to increased real Y, lower prices, higher economic growth in Portugal and less unemployment. Most likely, this will increase the TR and π of portuguese firms, allowing them to invest even more and expand.

Question 9 (e)

The final question was fairly open-ended, inviting candidates to demonstrate an understanding of the likely macroeconomic impact of high unemployment. It was generally quite well done, although there tended to be a lack of evaluation which restricted marks to the 8-10 range in many cases.

A common source of misunderstanding here was that many candidates did not know that Portugal is a member of the Eurozone. This meant that they made recommendations in respect of Government spending and monetary policy that were largely impossible in the context.

(e) Evaluate the likely costs of sustained high levels of unemployment on the Portuguese economy.

(14)

Unemployment is defined as the number of people willing and able to work at the market wage but aren't able to find a job. The high unemployment has caused irreparable social and economic damage to Portugal. The unemployed people have less to spend, therefore the consumption is lowered and AD reduces. This leads to lower Real GDP ~~gross~~ ~~output~~ and lower price levels. This is also leads to a loss of output as those unemployed don't contribute to the economy and resources are also wasted. Those unemployed have low standards of living and are living below the poverty line. This leads to an increase in crime rates and create social unrest. The skills of those unemployed are also lost as they aren't working and in the long-run

if they get employed, they would lose their efficiency and speed. As unemployment increases, there is loss of output and the productive capacity of the economy also reduces.

would be visible, if the rise in unemployment is sustained. if the unemployment reduces then, the effects won't be visible enough.

Question 10 (a)

As with 9a, this was a points-based question. Accurate data references were commonly seen and were awarded application marks. There were however quite a few examples with data clearly showing a depreciation of the metical which was presented by the candidate as showing an appreciation. In fact, the data shows both an appreciation (only in 2011) and depreciation (all other years). Over the time series (2007-2013) there was a depreciation against the $US.

There seems to have been some confusion about an appreciation and depreciation. Some candidates clearly did not understand that if it takes more metical to buy a dollar than the metical is depreciating.

If a candidate was able to define an exchange rate and explain depreciation with an example and/or an appreciation with an example, then they would have achieved full marks for this question.

(a) With reference to Figure 2, explain what is meant by the term exchange rate.

(4)

Exchange rate is the price of one currency in terms of another.
For example in 2007 1US$ equals to 23560 Mozambique Metical. This can be calculated in many ways. The purchasing power parity is mainly used. It compare how much the same basket of goods is worth in another country.

From 2007 to 2008 the Mozambique Metical has depreciated in value against the US$ from 23560 to 24990.
However between 2010 and 2011 it has appreciated in value from 32407 to 26577. By 5837 Metical.

ResultsPlus Examiner Comments

There are 2 knowledge marks achieved and 2 application marks for reference to the context (in this case the data provided on the metical and the dollar).

ResultsPlus Examiner Tip

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

Question 10 (b)

Examiners saw a significant number of weak responses here. While most candidates seemed to know what deterioration in the current account balance meant, they failed to explain possible causes for this deterioration. A large number of responses detailed the structure of the trade accounts scoring virtually nothing for a page of writing as no cause was identified for the deteriorating balance. Stronger candidates used the context material, picking-up on the falling global price of coal and poor infrastructure linked to international competitiveness.

It was difficult to select a strong response for this question. Often there was weak KAA, lacking analysis, or else little or no evaluation.

In some cases the confusion about depreciation/appreciation (misreading of the data evident in Q10a) meant that the analysis and evaluation was simply incorrect.

(b) With reference to the information provided, assess the possible causes of the deterioration in Mozambique's current account balance from 2007–2012.

(10)

A current account deficit means that invisible and visible exports are less than invisible and visible imports. Mozambique has had a deteriorating current account deficit from 2007-2012, as referred to in ~~extra~~ figure 2. This may be due to a decrease in global coal prices. Mozambique's coal deposits are the fourth-largest in the world and they rely very heavily on coals for its exports. Therefore, a fall in price of coals may ~~be~~ lead to a decrease in the total value of Mozambique's exports. The falling prices for coals is due to its excess supply, as referred to in extract 1. Another possible cause for the deterioration may be increasing value of imports. As coal prices fall and thus, leading to a deterioration of the balance of payments and depreciation of Mozambique Metical, imports become more expensive for Mozambique and hence, increasing the value of imports. Mozambique's lack of goods/services other than natural resources may also mean that they have to import a significatnt amount of goods $ and services from overseas. However, Mozambique's current account ∧have improved slightly in 2013, as referred to figure 2.
balance

This may be due to ~~ar~~ ~~cheaper exports from~~ exports becoming cheaper in Mozambique as a result in the depreciation of the Mozambique Metical. Hence, the value of exports increase as the value of imports decrease. Global coal prices are also expected to increase again as future demand will increase. This may ~~tend~~ improve Mozambique's current account balance in the future. The effects of increasing prices of imports may also depend on the elasticity of AD. If AD is relatively ~~inelast~~ elastic, the impact of higher import prices will be relatively small.
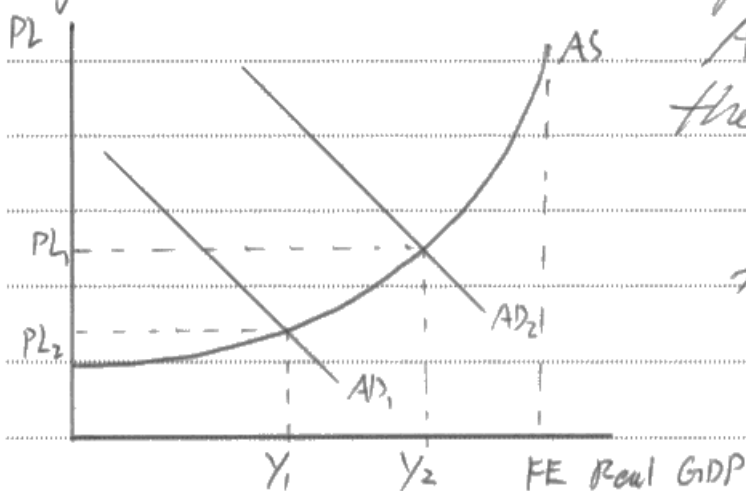
Question 10 (c)

There appeared to be plenty of scope for candidates to score well on this question. Weaker responses tended to ignore the context and write about demand-pull and cost-push inflation. Stronger responses did this but in context, using the data to support analysis and finding it easy to score evaluation marks by making a judgement about which factors contributed most to changes in the rate of inflation.

Inflation fluctuated widely throughout the period shown in the case study (2007-2013). Therefore reasons for increases in the rate of inflation **and** decreases were rewarded. There was a clear link, for example with a time lag between inflation and currency appreciation/depreciation.

(c) With reference to the information provided and your own knowledge, assess possible factors which may have contributed to changes in the rate of inflation in Mozambique.

(14)

Inflation refers to the sustained rise in the average price level in an economy. One reason for the change in the rate of inflation in Mozambique is its rapid and strong economic growth, for instance, according to Figure 2, Mozambique economy has been experiencing a GDP growth between 6.83% - 7.32% in 2007 - 2013, which means there is a big right shift of AD from AD₁ to AD₂, hence causing the price level to rise from PL₁ to PL₂, e.g. the inflation rate is 4.86% in 2013. Strong economic growth means there is a lot of consumption and it is one component of AD, hence, rising inflation as a result of too much spending, which is a demand-pull inflation.

Fig. 1.

(hand-drawn AD-AS diagram with axes labelled PL (vertical) and Real GDP (horizontal); curves labelled AS, AD₁, AD₂; points PL₁, PL₂ on vertical axis; Y₁, Y₂, FE on horizontal axis)

Another reason to changes in the rate of inflation could be the value of Mozambique Metical deteriorated, e.g. In ~~2012~~ 2007, only need 23560 Mozambique Metical to buy 1 US dollar, whereas, in 2013. It needs 29.950 Mozambique metical to buy 1 US dollar.

there is a further economic growth of 8% in 2014.

Further,

Question 10 (d)

This question was generally answered very well in context.

The question asks for two ways in which the employment situation could be improved.

Extract 2 identifies the following reasons for the 23.2% unemployment rate (2013):

- Labour market was unable to absorb the large number of young people entering the labour market

- Unemployment rate was high among those with low levels of education and without professional qualifications

- Also Extract 2 suggests ways in which the employment situation might be improved:

- If the Government adopts a national labour policy limiting employers' demands that recruits should already have many years of experience

- The policy may also limit/reduce demands that recruits should speak English

- Candidates were rewarded for other (more generic) responses, such as policies to increase economic growth, investment in education/training.

- Similarly, subsidies for firms employing inexperienced workers were rewarded.

(d) With reference to Extract 2, explain **two** ways by which the employment situation in Mozambique could be improved.

(6)

unemployment is when people are willing and able to work but cannot find a job. Figure 2 states that Mozambique's unemployment rate was estimated to be 23.2% in 2013 and the rate of unemployment is increasing particularly amongst those with low levels of education and without any professional qualifications.

One way to improve this problem is by improving the education sector and provide more training facilities. Government can help this by revamping the syllabus in schools by inserting relevent skills like ICT in their syllabus. Government may also build more vocational schools or training facilities for unemployed people. The theory behind this is a highly skilled workers are better able to work with productivity enhancing

equipment like computers and advanced machinery. This will then makes it easy for them to find a job as ~~em~~ the employers will be attracted by their skills.

Furthermore, Mozambique's trade unions should put pressure on the government to draw up and implement a national labour policy. This means that the government should ~~carry out~~ remove the barriers that may hinder the ability of the young unemployed to find work. For example, the employers should recruit the young ~~workc~~ workforce and give them the opportunity to work eventhough they don't have any experience.

Question 10 (e)

This question was generally well answered by candidates who used AD/AS diagrams to comment upon growth, employment and tax revenue. Many candidates analysed well but did not evaluate effectively, or seemed to struggle to do so effectively. As with Q9e, this may have been due to time constraints.

There were plenty of mid-range responses, with reasonably good KAA. There was also some limited evaluation developed in context.

An accurate diagram, which was also explained well in the written response, was awarded level 3 for KAA.

Evaluation marks were awarded for environmental damage and/or a reliance upon finite (albeit large) coal reserves.

(e) Evaluate the likely impact of a significant increase in Mozambique's coal and gas exports on the country's future economic performance.

(14)

Mozambique depend largely on coal and gas for its exports and a rise in coal and gas exports may improve the country's future economic performance. An increase in coal and gas exports may improve the balance of payments on the current account as the value of exports increase. This will lead to an increase in AD as its components are C + G + I + (X - M).
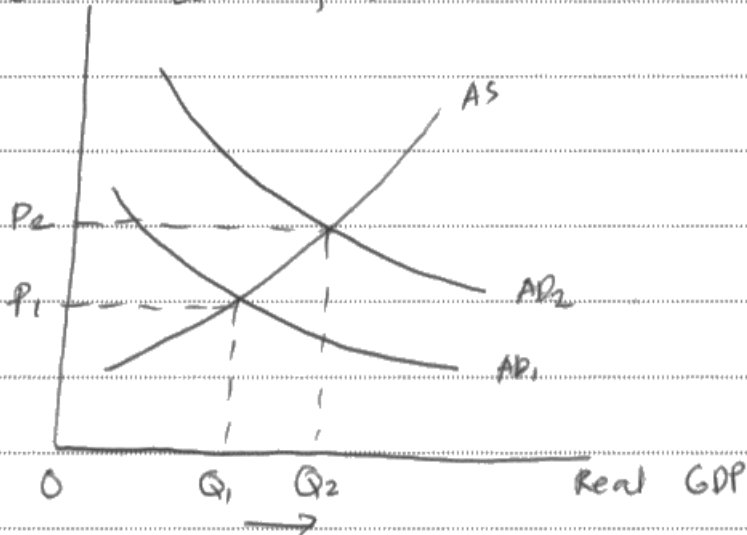
An increase in AD (AD₁ → AD₂) would lead to an increase in real GDP and output. As a result, ↑ employment and wages

would increase, leading to higher living standards. This ~~may~~ is because the demand of labour is derived from the demand for output. As demand for output increases, demand for labour also increases. An increase in coal and gas exports in Mozambique may also lead to an appreciation of the Mozambique Metical. If the currency depreciates further, it may not be very good for the economy. However,

Paper Summary

Based on their performance on this paper and in previous papers, 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 continues to be some improvement in the general standard of diagrams, 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 or their own relevant examples to support their answers in Section B in order to achieve higher marks.

- Handwriting needs to be clear and legible. While many candidates may present word processed work in class, it is vital that handwritten work is also produced and that centres are satisfied that a candidate is able to write legibly. If the response cannot be read by the examiner, it is unlikely to achieve 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