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Pearson Edexcel International A Level
In Economics (WEC02)

Unit 2: Macroeconomic Performance and Policy

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Introduction

Around 67% of candidates attempted Q9 rather than Q10. On average, performance on each of the data response questions was similar.

As mentioned in previous reports, more work is required on the interpretation and use of charts, graphs and numerical data. Questions 5 and 7 for example, discriminated between candidates who were able to interpret and use numerical data and those who were unable to do so. Furthermore, in relation to Question 3, there continues to be some confusion in distinguishing between changes in the rate of inflation and changes in the average price level. Candidates need to learn precise definitions and also have a suitable level of experience interpreting and analysing macroeconomic tables and charts so they are able to demonstrate full understanding of such data.

For supported multiple choice questions such as Question 4, simply repeating the stem of the question or simply rejecting by saying "it is not B as it is A" is not going to achieve any extra rejection marks. A rejection point must be fully explained to be awarded a mark. Also, a rejection point has to be explicitly referred to in order to be awarded a mark. This has always been a requirement and is indicated in all previous mark schemes and PE reports.

The use of data and context continues to be important in Section B. In some cases candidates were completing purely generic responses, making no reference to the data or to their own examples, therefore not really answering the question. While using previous papers, mark schemes example essays in preparation for the examination is to be encouraged, it is not a good idea to simply learn mark schemes or example essays. By definition, in such cases, the written response will lack application to the context.

There also appears to be a growing number of candidates who simply copy out sections of the data, expecting to be credited for application. This is not application. It is the use of the data to support and argument or explanation that is credited not the simple replication of data.

Any diagrams must be drawn and labelled correctly for full credit. There continues to be many examples of either partially drawn AD/AS diagrams or incorrectly labelled diagrams. In the supported multiple choice questions, it is good practice to annotate the diagrams provided rather than to draw another version of the diagram. In Question 4, for example, there were 2 marks available for accurately annotating the diagram.

Section A

Q1

This question was generally well answered. Candidates needed to identify the link between contractionary fiscal policy, consumption and AD and the average price. Candidates who identified the change in income tax as an example of contractionary fiscal policy were rewarded.

Remember that candidates can achieve 3 marks for the explanation even if they get Part A incorrect; rejection marks are available even if part A is wrong so candidates should be encouraged to explain why at least one of the distractors is not correct. For example, rejecting Option A as interest rates are an example of monetary policy would have been awarded 1 mark.

Q2

This question was generally well answered. Many candidates successfully identified a fiscal surplus from the stem of the question, linking this to the concepts of a withdrawal from the circular flow of income.

The rejection points had to be explained or developed to be rewarded with a mark. For example, for rejection point B, this could be achieved through an explanation that government spending would have to be greater than tax revenues for there to be a net injection into the circular flow of income.

Q3

While many candidates performed well on this, achieving full marks for Part A, it was clear there is some confusion about the difference between inflation, disinflation, deflation and the implication of these concepts for the average price level. The best responses demonstrated an understanding that disinflation means that the average price level is rising more slowly. These also used the data to illustrate the changes.

Rejection marks were awarded for explaining why point A, B and D could not be correct with reference to the relevant data.

Q4

Again, this question was generally answered well. It is important that candidates understand factors that determine both AD and SRAS. In this case, the question related to the likely impact of currency appreciation on AD (net exports) and SRAS (price of imported raw materials and components).

As mentioned in the final paragraph of the introduction to this report, it is good practice to annotate the diagram provided rather than to draw another version of the diagram. In this case, there were 2 marks available for correctly and fully annotating the diagram to show an inward shift in AD, outward shift in SRAS and the impact on real output and average price level.

Q5

This question was generally well answered by those candidates who understood how the formula for calculating the multiplier can be applied to data. While most candidates were able to identify the correct answer for Part a, less were able to explain or illustrate their answer clearly. There was a mark available for providing a correct formula however fewer provided accurate evidence of how the multiplier could be calculated from the data.

Rejection marks were awarded for explaining why point A, B and D could not be correct with reference to the relevant data. For example, Option A could have been rejected by stating that the final value would be £5.3bn ($£17.6\text{bn} \times 0.3$).

Q6

This was a new style of question and most candidates achieved Part A, selecting the correct diagram. However, fewer candidates were able to explain the diagram and/or annotate the Keynesian diagram to illustrate their explanation. Many candidates relied upon the rejection points for additional marks.

It is important that candidates remain aware that the paper is based upon the macroeconomic theme of the specification. Therefore, references to diagrams need to refer to AD and SRAS/LRAS rather than normal demand and supply.

Q7

This was not well answered with many candidates unable to calculate real GDP per capita growth from the data provided. This showed a lack of understanding of how real GDP per capita growth depends upon 3 variables: GDP growth, inflation and population growth. In addition, while some candidates were able to calculate the change in real GDP they were unable to then explain why this growth was cancelled out by the increase in the population.

Rejection points need to be explicitly referred to and explained to be awarded a mark. For example Option B could have been rejected by stating if real GDP per capita growth was 2.5% then real GDP growth would have been 5.0% or population growth would have been 0.0%.

Q8

This question was answered reasonably well, with most candidates able to define the balance of trade although it is important that this refers to the value of exports minus the value of imports (net exports). Most candidates were able to identify the negative trade balance and explain that it showed a balance of trade deficit.

It is important that the balance of trade is not confused with the current account of the balance of payments or the balance of payments. There was evidence of such confusion in a significant number of responses.

Section B

Twice as many candidates attempted Q9 rather than Q10 for Section B.

As in previous series, there were many generic answers which failed to apply knowledge to the context in question or even use their own examples. There were also examples of candidates confusing "cause" and the "effect" of changes in economic variables. There were some gaps in knowledge, including in some cases budget balance and HDI.

Q9a

This was generally well answered. There were 4 marks available and many candidates accurately explained budget balance **and** provided two data references from Figure 2.

It is worth noting that simply copying down the data is not awarded a mark. The use of the data is rewarded. For example, commenting that in 2010 the budget deficit was -9.8% of GDP, which reduced in each year to -0.1% of GDP in 2014.

Q9b

This was not generally well answered, with some confusion about the meaning of a falling rate of unemployment. There was also an apparent reluctance to use the data from Figure 2 in the response. This data clearly showed a falling rate of unemployment. Indeed, there were examples of candidates describing the impact of an increase in unemployment between 2008 and 2008 but not discussion the falling rate between 2010 and 2015.

There were many ways to achieve the marks, the most common of which was reference to consumption as a component of AD and the likely impact upon growth. Evaluation marks could be achieved by pointing to the likely inflationary effects of increasing AD in the short-run and how these might have been offset by increasing LRAS through investment. The best responses demonstrated evidence of judgement as to the most likely and most significant effects and the use of data which showed, for example, that inflation actually fell between 2010 and 2015.

Q9c

This question was generally not well answered; however there were still some good responses that depended upon an understanding of the current account of the balance of payments and how tourism is an invisible export. The less successful responses did not engage with the data, failing to comment that the current account was in surplus between 2013 and 2015 (Figure 1) or that tourism accounted for more than a quarter of Iceland's trade balance in 2014 and 2016 (Extract 1).

Q9d

The main problem with some responses to this question related to the confusion of cause and effect. Figure 1 and Figure 2 show an improving current account balance, rising consumption, rising investment and falling unemployment. All of this data could have been used to explain the increase in economic growth between 2014 and 2015. For evaluation, we were looking for an awareness of factors which may have served to constrain growth. This would have included a shortage of finance for investment and consumption, or even rising imports as a consequence of rising consumption and investment.

Q9e

This question was generally answered more successfully than Q9d and there were some good responses to this question. However, while many candidates were able to explain the likely impact of a shortage of funds for consumption and investment, a significant number never really considered the likely impact of the Government reducing or eliminating restrictions (Extract 2).

A surprising number of candidates suggested that a lack of funds forced up interest rates. This showed a lack of understanding about how the supply of credit is managed. In addition, many candidates failed to point out that investment had increased significantly (Figure 2) despite this apparent lack of funds.

Q10a

This question was generally not well answered. While many candidates were able to define expansionary fiscal policy as including the use of government spending and taxation to increase the level of economic activity, less were able to link this to AD, LRAS and growth. As with Q9a (see above), it is worth noting that simply copying down the data is not awarded a mark. The use of the data to support explanation is rewarded; for example, high Government spending in Namibia (Extracts 1 and 2) and sustained economic growth throughout 2008-2015 (Figure 1).

Q10b

This question was quite well done. While some candidates failed to talk about the link between economic growth and living standards, concentrating instead on the impact of inequality or inflation upon living standard, many did look at increased real output and higher employment. Evaluative points included the point that strong economic growth has not greatly reduced poverty, inequality and unemployment (Extract 1). The best responses then went on to consider some of the costs of growth, including environmental damage and a lack of sustainability.

Q10c

This question was not well answered, showing a lack of understanding of HDI. The requirement to use Figure 2 seemed to either be ignored or else demonstrated that the inclusion of income data in the HDI calculation is not understood. In summary, there were some gaps in understanding of how the HDI is constructed and too few candidates made any reference to the specific data provided.

Q10d

There were a range of responses to this question, with many candidates failing to use the data effectively. We wanted to know about the main constraints on economic growth in Namibia, as evidenced by the data provided. There were many links that could have been made, for example: improving access to and the quality of education (Extract 1); lack of electricity generation capacity (Extract 1); lack of investment in roads/infrastructure (Extract 2); lack of labour market flexibility (Extract 1).

Evaluative points were often limited but could have included ways in which constraints on growth may be overcome such as, investment in education/training and human capital.

Q10e

Again, there were a range of responses to this question although responses tended to be better than for Q10d. Many candidates provided a reasonable, if generic, response but did not use the data. However, the complexity of the question, in the context of Namibia, was often missed. The better responses suggested how to increase investment through tax breaks, or how to implement supply-side policies that would increase LRAS and economic growth without increasing consumption or environmental damage. The most popular evaluative point suggested that such policies may only be effective over the longer term. Unfortunately, this point was often not developed in the context of a poor economy with high inequality.

Conclusion

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

- Learn accurate definitions and use these to define terms in the stem of supported multiple choice questions.
- Remember to look out for questions that ask you to evaluate or assess your answer. In such questions, responses must not be one-sided. There needs to be some developed evaluative points.
- Be careful with timing throughout the exam, and try to incorporate some time for planning your answers to the longer, 10 and 14 mark questions. This then ensures that there is sufficient content, including relevant data references and evaluation to access the higher marks.
- Use accurate diagrams and refer to them in explanations for KAA and for evaluation marks. An accurate diagram, with explanation in context, can shift a response from Level 2 to Level 3 for both KAA and Evaluation.
- Where possible, use the data provided to illustrate or support your analysis and evaluation. Use the data and do not just copy it out.

Grade Boundaries

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