



Examiners' Report

June 2018

IAL Economics WEC04 01

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Introduction

The entry for this paper continues to grow with just over 1,300 candidates sitting this exam.

Section A, question 1 was the most answered question amongst the essays followed by question 2. Question 3 was attempted by a relatively small number of candidates. In Section B, question 4 proved to be the more popular option than question 5. Slightly stronger performances were seen on question 1 from Section A (mostly driven by part 1(b)). Similar performances were seen across questions 4 and 5 from Section B.

Generally, scripts were of a better quality than previous sessions. Responses to the essay questions in Section A showed good levels of depth and breadth. It is pleasing to see the candidates taking on board the advice that has been offered to them. However, some candidates struggled to understand the requirements of the question and often did not add sufficient evaluation to their answers.

Typically, examiners are looking at three very well developed and contextualised analysis points and two very well developed and contextualised evaluative points for 15 mark essay questions. Similarly, examiners are looking at four very well developed and contextualised analysis points and three very well developed and contextualised evaluative points for the 25 mark essays.

Likewise, in answers to Section B, some candidates did not make appropriate use of the relevant data provided in the extracts. Despite this general trend, there were several good scripts. Candidates were able to integrate most of their analysis with application to context and evaluated their own arguments in detail.


The questions were accessible at all levels and provided some good opportunities for candidates to differentiate themselves by ability. Answering the exact question asked, integrating data with analysis and strong evaluation remain the essential ways that the A-grade candidates achieve higher marks.

Candidates are highly encouraged to have better structure to their answers. Many have written the essays in bullet points and some have written in long blocks/paragraphs without making a clear distinction between analysis and evaluation. This was also seen throughout the higher mark questions in the data response section.

Question 1




This was a popular question amongst the candidates. Candidates have been able to assess possible causes of an increase in income inequality. A point well explained related to changes in wage rates. Candidates also discussed other causes such as globalisation, unemployment and corruption as further analysis points. They were also able to provide chains of reasoning linking their arguments to a country of their choice. This gave them a high score, putting them in Level 3.



Those candidates who listed their points and who showed a lack of understanding of the causes were not able to access any more than Level 1.  candidates were able to explain their points but had weak development, and so were not able to achieve more than Level 2. Their arguments lacked any chain of reasoning and therefore were unable to access Level 3.


Many candidates were not able to evaluate the question effectively. They provided solutions to the cause of inequality (this relates to the question asked in part 1(b)) and not the possible causes of income inequality. As a result, they were unable to gain access to the highest level. This was seen in the answers of candidates of all abilities.



Many candidates were able to evaluate government policies that could be used to reduce income inequality and wealth inequality. Whilst candidates were able to analyse their arguments in detail, their evaluation points were often limited. Hence candidates were not able to access Level 5.

The most common analysis points made by candidates were on progressive taxes, national minimum wage, education and training and inheritance tax. Most were able to explain their arguments in detail. There were a few candidates who were only able to give a couple of points  **each** analysis and evaluation. They also did not discuss policies that could be used to reduce wealth inequality. Therefore, they were not able to access the higher levels.

The most common evaluation points revolved around the use of  **offer** curve and the problems of increasing national minimum wage.  candidates evaluated only 2 points and these often tended to be less developed – mostly just listed.

Many candidates added depth to answers  diagrammatic analysis and by referring to a developed country, which is the requirement of the question. They were able to achieve Level 5. Others were not able to develop their arguments in much detail and therefore could not access the higher levels.

Income inequality refers to the gap in incomes between the rich high income earners and the lower income earners.

A key cause to an increase in income inequality for a country like Sri Lanka where the Gini coefficient is ranging in between 0.5 - 0.6 is due to the lack of training and education. As most of the workforce remains unskilled due to lack of training and education, it hampers these workers from earning higher wages as they do not have the skills required to work higher wage jobs.

However, the reason for the lack of investment in training and education from the government could be due to the fact that Sri Lanka is mainly a primary product dependent country where skilled workers may not be necessarily required to complete certain jobs.

Another reason for an increase in inequality could be due to an external shock such as a natural disaster occurring such as the tsunami Indian ocean tsunami that hit Sri Lanka in 2004. This natural disaster hindered growth within the country and increased the income inequality gap through as many low income earners had their crops destroyed and their houses ~~are~~ as well, with the destruction of their crops.

they ~~were~~ were unable to supply produce as they didn't have anything to supply this resulting in little to no income.

However, there were many ~~off~~ campaigns that brought aid to those who were ~~adversely~~ affected in the form of ~~for~~ monetary aid, this helps out the people affected and did provide them with a source of income. As with the aid came a form of welfare payment.

Another cause for an increase in income inequality is due to regressive taxes being implemented, regressive taxes are taxes charged on people of a country at the same amount, for example a low income worker will get charged RS. 1000 as well as the high income earner, this would widen the gap between the rich and the poor as the lower income earners would keep getting poorer and high income earners won't feel any effect.

b) wealth inequality refers to how certain groups of people are richer with the assets they own or their inheritance.

The government can implement various policies to reduce ~~both~~ both the income inequality gap as well as the wealth inequality gap. Firstly, the government can implement a supply side policy where there is an increase in training and education in the country such as ^{South Korea} ~~Australia~~, the implementation of free education ~~would result in~~ and training would result in lower income earners acquiring new skills which would improve their occupational mobility as well as their overall skill set which would make them apart of the skilled workforce, this would enable them to ~~next~~ find higher wage paying jobs thus resulting in a reduction in the income inequality gap.

However, the implementation of training and education only works in the long run as ~~it takes~~ it would take time to see the results of this supply side policy, Training and education is also very costly and could be seen as an opportunity cost as the government could ~~instead~~ use these funds for ~~other~~ Infrastructure and so on.

The government of South Korea could also implement a National Minimum Wage (NMW), this would reduce the income inequality level as there would be less exploitation of labour within the country and lower income earners would earn a higher wage thus resulting in a reduced income inequality gap.

However, the firms that employ lower skilled workers
now have an increased cost of production, thus
resulting in reduced profits for the firms, due to
this they may let go of inefficient workers thus
resulting in an increase in unemployment or the firm may
move their entire manufacturing base to another country
with cheaper labour which would result in an increase in
unemployment which would affect the government's
macroeconomic objectives and also widen the income inequality
gap and also worsen the government budget as they would
~~to pay welfare benefits~~ receive less income tax.

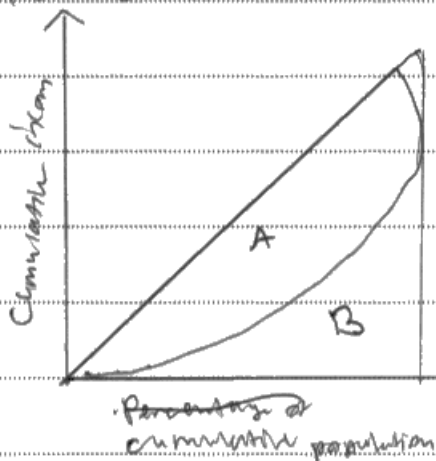
The government can implement a progressive tax,
this is where taxes are charged based on how much
your income is, ~~for example a South Korean businessman~~
~~would be charged 10% of his income and so will the~~
richer you are the ~~lot~~ more you get taxed. This would
reduce the gap in income as the rich may not necessarily
be getting richer and the poor will hardly be taxed
thus resulting in them being able to retain more of their
income.

However, this may reduce consumption within the
country as many people may find it more difficult to
afford certain goods and services, this would reduce
AD as AD consumption is $2/3$ of $AD = (C + I + G + X - M)$
the reduction of consumption may lead to businesses making
workers redundant to save cost as this increases

Unemployment once again again and resulting in the
income gap worsening.

A policy the government could implement to
reduce ~~Inheritance~~ the wealth inequality within a country
is through Inheritance tax where ~~poor~~ people that inherit
large amounts of money or assets would be
taxed on what they have as a method to
reduce wealth inequality within the country.

In conclusion most policies to work
to reduce ~~to~~ income inequality which which



bring the B curve closer
to A which is perfect equality
within the country is the Lorenz
curve. But there are a few drawbacks
to these methods.



(a) The candidate shows good understanding of the causes of income inequality. Points on external shocks and regressive taxes are well developed but there is lack of development for the point on education and training. However, there is only one developed evaluative comment on offer. This response was therefore given a Level 4 score.

(b) The candidate covers a range of policies but only supply-side policy on education and training is well developed. These are supported by three well developed evaluative comments. There was no reference to a developed country in the answer and hence this response was given a top Level 4 score and could not access Level 5.

(A). Income inequality is an uneven distribution of income in an economy. As developing country like Kenya has high income inequality due to the following causes.

One of the cause of income inequality in Kenya is that there is high unemployment. As this high unemployment could be due to the government policies in the economy. As government policies increases the cost of production for firms e.g Taxes paid by firms could be high and therefore firms ~~and~~ investment will reduce and also the potential firms will not invest ~~this reduces~~ and therefore this leads to unemployment. As this causes income inequality because of other workers or individuals ~~being~~ working earn more than those who are unemployed.

Second cause of income inequality could be lack of education in the Kenyan economy. As lack of education causes workers being less skilled and other workers being highly skilled ~~to the market~~ as workers being less skilled get less wages since there is high demand for labour in the market and workers who are skilled get high wages due to the

demand in the labour market is inelastic. As this income inequality could have an effect such as the poor people doing theft which increases the social cost in the Kenyan economy.

Third cause of an increase in income inequality could be due to providing the unemployment benefits by the government causes disincentive to work. Since government pay individuals who do not have work they will not be willing to work since ~~they would~~ ~~not~~ ~~get~~ as they are getting the benefits without working and this causes income inequality.

However, government increasing tax paid by firms could be due to have more funds available to provide for more on education and training to reduce income inequality so that most workers can get a skilled job ~~as to reduce~~ as most workers being skilled will have a better wage rate reducing income inequality.

to reduce income inequality is to subsidise firms ^{that is} ~~use~~ a grant given to firms to reduce the cost of production, increase supply and ~~provide~~ produce goods or services at a lower price. As firms given subsidies by the government it increases their profit since their cost of production ~~and~~ has reduced ~~such as to~~ ~~by~~ ~~the~~ As more profits available to firms would mean that they are able to ~~give~~ their ~~employees~~ increase wage rates to their employees and this would reduce income inequality in the UK economy.

One of the policy the UK govt. could use to reduce wealth inequality is to ~~to~~ ~~the~~ ~~price~~ ~~of~~ ~~the~~ ~~houses~~ ~~and~~ ~~to~~ create deflationary pressure in the economy by reducing the Aggregate demand in the economy such as by increasing taxes which leads to fall in consumption and Investment as fall in AD leads to house prices falling ~~back to~~ where individuals are able to buy houses or lands at a cheaper price.

~~Second policy~~ However, ~~providing~~ putting a minimum wage legislation depends on how much it is set. If there is no much ~~rise in~~ ~~the~~ minimum wage legislation income inequality could still arise.

Subsidies provided to firms ~~and~~ increases profit but there could still be income inequality

because the increase in profits, the firms could use the profit for future investment rather than increasing the wage rate of the workers.



(a) This answer only explains two causes – unemployment and lack of education – and does not carry sufficient depth. There is one well developed evaluative comment on unemployment benefits (lifestyle choices). Another attempt of evaluation on solutions is not awarded. Overall, the candidate gets a Level 3 score for this answer.

(b) Although the candidate has identified a few points there is only one reasonable explanation on minimum wage. The diagram given is incorrect and it is not used in the explanation either. There is only one evaluative comment identified. There is very little depth and breadth, and hence the answer only achieves a Level 2 score.



Both questions require reference to a country. To access Level 5, you must integrate your context in your answers.

Question 2



This was another popular question among candidates. Many candidates were able to effectively answer the question but there were some candidates that did not read the question carefully and answered it in the context of a developing country.

The majority of the candidates were able to successfully evaluate the case for cutting public expenditure. They used reducing inflationary pressures, lowering crowding out and reducing fiscal deficit/debt as their main arguments. They were able to provide logical chains of reasoning often associating their points to an accurately labelled AD/AS diagram. This gave them high scores, putting them in Level 3 for analysis.

They also made a couple of well developed evaluative comments on the case against cutting public expenditure and were able to access Level 5. Although some candidates revealed well developed analysis points, they were unable to explain their evaluative comments in depth and could not access many further marks.

A few candidates were able to identify factors but not develop them in context of the question. Some candidates drew an accurately labelled AD/AS diagram but did not use it in their explanations. This was only credited as Level 1 and hence, they were not able to access the higher levels.



Many candidates were able to access higher levels as they have presented a sound assessment of the likely macroeconomic effects of an increase in indirect taxes. A few good answers were seen for this question, particularly where candidates were able to write their arguments in the context of a country (although not required) in a positive way. Many candidates were able to include sufficient detail and integrate their analysis and application to a greater extent.

Responses that received higher levels had strong analysis and evaluation points. Many discussed points on tax revenues, FDI, impact on AD and economic growth and income distribution. These were well developed and many used AD/AS analysis to support their arguments. Only a few responses analysed the impact on incentives to work.

Evaluation points were commonly well written and in context of countries. They presented good terminology and understanding of the question. Some candidates drew on these concepts to a lesser extent in their answers but they often did not develop their arguments further and needed to show more breadth and depth to their answers.

Those candidates who listed points were not able to access any more than Level 1. Few candidates were able to explain their points but had weak development, and were not able to achieve more than Level 2 for their analysis. Some of these candidates did show diagrams in their answers, but this was not credited unless it was used in their explanation (which many stronger candidates demonstrated).

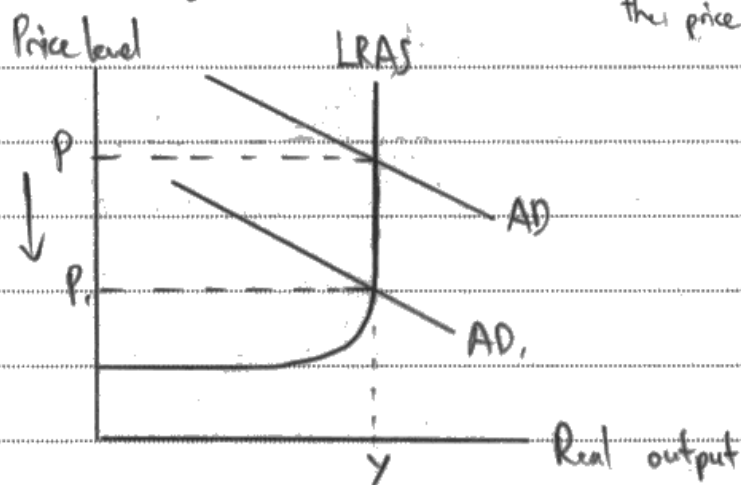
9) There are 3 types of public expenditure, that is capital expenditure, current expenditure and transfer payments. Capital expenditure refers to the expenditure on large or long-term projects such as schools and hospitals. Current expenditure refers to the expenditure ~~on services~~ for the day-to-day running of public services such as wages. Transfer payments, however, is the expenditure that has no productive return such as unemployment benefits and pensions.

One reason of cutting public expenditure is because of the government facing a budget deficit. Budget deficit occurs when government spending exceeds tax revenue. ~~At~~ Taking UK as an example, it is a country that has an aging population. As such, there are less people who are working and so lesser income tax revenue will be earned. Furthermore, the government's budget face greater pressure due to higher ~~in~~ payments of unemployment benefits and construction of hospitals to treat the elders. All of these result in the government facing a budget deficit and so in order to reduce it, G spending has to be reduced.

However, it is known that UK has been putting effort to reduce its income tax rate and corporate tax rate. In 2015, UK's corporate tax rate has fallen to 20% and it is planned to be further reduced to 17% by 2020. In this case, ~~it~~ it will

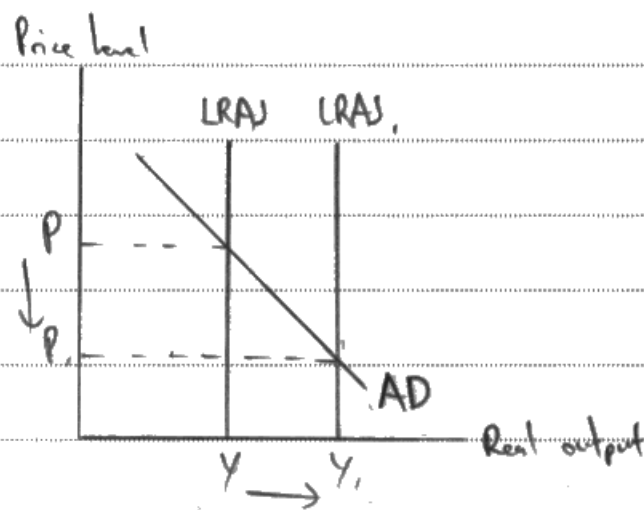
attract more firms ~~from starting~~ ^{to start} up business, and therefore the government can earn greater tax revenue through firms despite gaining less income tax revenue. In this way, the government can then increase its public expenditure once again.

~~As~~ The cutting of public expenditure is also due to rising inflation. As G spending is a component of AD. An increase in G spending will result in AD shifting to the right. By reducing G spending, such as cut backs on building schools and hospitals, lesser jobs are created and income levels will fall. As such, with lesser disposable income for consumers, C spending will fall and thus, it reduces inflationary pressures. AD will shift ~~to~~ to the left and ~~real GDP~~ ^{the price level} will fall.



However, this depends on whether the country is at full employment level of output. In UK's case, since the financial crisis in 2007, the economy fell into a recession and it needs to recover. ~~While~~ Although it is true they are, but it is not reaching full employment level of output and so cutting back public spending will not give a major impact on reduction in inflationary pressures.

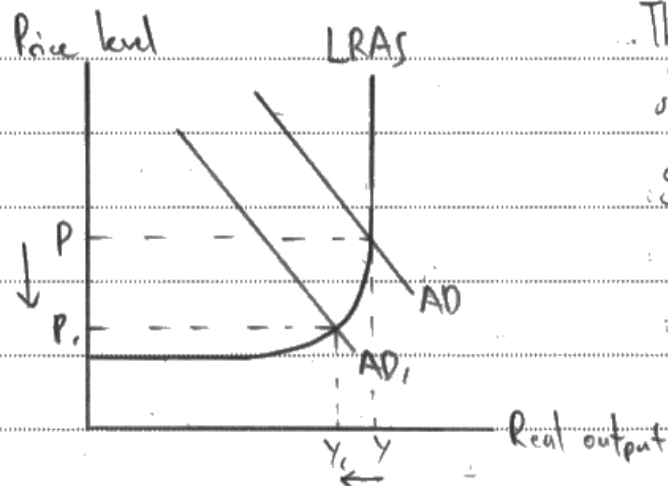
Thirdly, the government has to cut back ^{costs} ~~operations~~ in its public sector such as retrenching workers to reduce wage costs as its workforce is too bloated. By reducing wages and retrenching workers, it makes the workforce more efficient and it helps the government to rationalise its costs by using its funds for other sectors like building schools, providing subsidies on healthcare and whatnot. This will help to reduce opportunity costs in the process. As the public sector becomes more efficient, productivity will increase and so will potential output, shifting the AS curve to the right.



However, if cut backs on wages are done, it will reduce the income levels and therefore reduce consumer's disposable income. With UK having a high cost of living, it increases income inequality in the country and consumers may not be able to afford certain basic necessities in the future.

b) Indirect tax is tax levied on expenditure. VAT is an indirect tax and it is a regressive tax, meaning the higher the tax rate, the greater the effect on consumers in the lower income bracket.

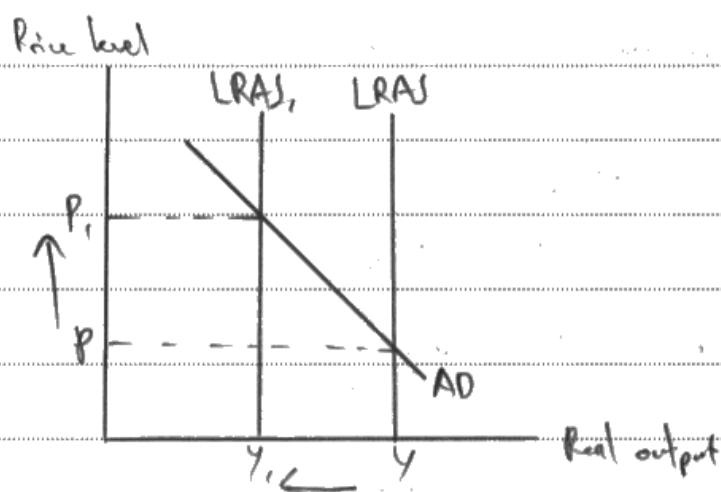
A rise in indirect taxes like VAT will make prices of goods and services to be more expensive. As such, it will reduce C spending as consumers can buy less of a certain product now. As Greece increased its VAT from 2009 to 2015, it will result in a fall in C spending, therefore causing a fall in real GDP.



... This will cause a slowdown in economic growth.

However, there are other methods in ~~influence~~ influencing income level such as the manipulation of income ~~tax~~ tax rates as well as interest rates. By reducing income tax rates, it increases consumers' disposable income, and so, they can increase their spending on goods and services. If this helps to offset the rise in VAT, then the impact of falling C spending may not be so severe. However in Greece's case, its debts are soaring and they had to reduce its public expenditure, so it would pose that they will not be reducing their income tax rate anytime soon if they are constantly facing a budget deficit.

Next, a fall in C spending results in a fall in government tax revenue. As the government gains less VAT revenue, ~~it~~ they will not have enough funds to allocate for building schools and hospitals to create jobs and increase income levels of consumers. They will also be not able to provide free healthcare for people. All of this will result in a fall in productivity in the workforce as due to less workers entering the workforce due to less jobs created and ~~it~~ higher absences arising from health issues and treatment not provided by the government, it reduces potential output and therefore AS shifts to the left.



On the contrary, the shifting of AD could also be affected by costs of importing raw materials. If such imports are so cheap that they help offset the fall in workforce, then the change in AD may not be so significant. On the other hand, the AD is also influenced by I spending, G spending and $(X - M)$. So even if ~~it~~ C spending falls, other components could rise and offset the fall in C spending. However seeing Greece's case where they cut their public expenditure, it may seem to say otherwise.

Also, a rise in VAT or indirect taxes will increase the income inequality in the country. As people in the lower income bracket could not afford to purchase basic necessities such as food and water, poverty will increase within the country and as such, it reduces the standard of living of the country. As people face losses in purchasing power, it could also detract FDI from coming into the country since taxation in the country ~~are~~ is high. As such, less job opportunities are found, less spending is faced and will shift AD to the left. MNCs not coming over to start up business may very well slow down economic growth in the country.

However, if income tax rates are raised on the higher income bracket, then it could help leverage the imbalances in income inequality and help to improve it. This way, it may also help to raise a country's rating in order to attract ~~invest~~ foreign investment as its poverty levels are reduced. Still, increasing income tax would disincentivize people to join the workforce and may very well reduce the country's potential output and productivity.



(a) The points discussed in this answer are very well developed and in the context of the UK. They are supported by accurately labelled diagrams which are integrated in the analysis made. This answer therefore receives full marks as the candidate has effectively explained their three analysis points and written well developed evaluative comments.

(b) There are 3 well developed analysis points in this answer: slowdown of economic growth, increase in income inequality and falling FDI. There are only 2 well developed evaluative comments. Although there is good depth to the answer, it lacks sufficient breadth and hence only **achieve** a Level 4 score.

(a) When a government reduces their public expenditure it's referred to as contracting fiscal policy.

For example in Greece which is a developed country they have cut public expenditure from €132.21 bn in 2009 to €90.03 bn in 2015.

By doing so the government can have more money which can be allocated more effectively. The opportunity cost for the government reduces.

As Greece has a very high debt and in order to resolve this the government can use the money that they have saved by reducing public expenditure to stabilize their economy. This will provide huge benefits to the economy on the long run.

However this depends on the government objectives and how they are implemented. As the government could be corrupt and the funds would be used for personal benefits.

Another aspect is that ~~it~~

Again on the negative side there are lots of drawbacks by the government ^{reducing public spending} doing this.

Basic requirements of the economy would be overloaded. Basic expenses such as Education and health care which has the

potential to stimulate the economy in the long run by creating a productive and skilled labour force that can boost the ~~economy~~ ^{economy} in a large way. ~~by~~

However this would only be on the long run. And at present things would worsen.

Another impact of this government decision is that ~~it~~ infant industries would not have government support to ~~the~~ expand and they would have a smaller incentive as there won't be government subsidies to obtain. This will reduce the productive capacity of the economy.

On the contrary these firms become less dependent on the subsidy and strive harder and become more efficient.

As a result domestic markets in Greece will become more competitive and which might possibly let them expand to the international market due to their price competitiveness and allocative efficiency.

Therefore a reduction in government spending in Greece does have its positives.

~~(b) An increase in indirect tax.~~

(b) Indirect tax is the tax levied upon goods and services. For example VAT.

An increase in indirect tax will have a large effect on the macro economy.

One point to note is the fact that the price of exports will rise and this will make them less attractive in the international market as they will be less price competitive. As a result the export revenue will decline and cause a negative impact on the current account of a country and possibly worsen or create a deficit.

However this depends on the marginal propensity to export (mpe) of the country, because if it is low the impact would be insignificant. ~~Another reason why this might not affect the exports~~

Another reason why the exports won't be affected will depend on the nature of the product being exported and its demand.

If the demand is price inelastic there won't be much change ~~in the exports~~ by the increase in tax.

A rise in indirect tax will also mean goods and services in the domestic

markets ~~is~~ will fall as the people would ~~only~~ not be capable of affording ~~the quantity~~ ~~more~~ ~~of~~ ~~goods~~ the quantity of goods they purchased before, because their disposable income reduces meaning their standard of living will fall. Consumer surplus also falls.

on the bright side there will be less impact on the aggregate demand which will lower inflation. However this also depends on the marginal propensity to consume of the economy.

When talking about the reduction in disposable income due to the high taxes, the amount which the people used to save previously will fall as they will have higher expenditure to satisfying their needs. And according to the Harrod-Owner model when the savings fall there will be less investments which lead to a slower growth ^{rate}.

Again this depends on the marginal propensity to save. Because if it is high the savings would be unchanged.

One of the main positions of the higher interest rates ~~is~~ is that the government will receive a higher revenue which they can ~~utilize~~ utilize effectively for the benefit of the economy.

They can increase public expenditure

and invest in the future of the economy by investing in capital goods, healthcare and education etc

They can also pay off government debt and stabilise the budget deficit of the country.

With the additional income the government can increase injections in the circular flow of income which will stimulate aggregate demand but this depends on the multiplier.

Another valuable thing is that they can provide unemployment benefits to the unemployed people and assist them in finding a job which can not only make their standards of living better but also ~~star~~ make the economy more productive as they will get closer to full employment.

However this depends on the tax collection system of the government. Because if it is inefficient the revenue gained won't be much.


Especially for developing countries. For example India does not have an ~~computerised~~ ^{effective way of} tax ~~coll~~ collecting tax as they do not have adequate technology and thinking.

The government can also spend this excess revenue of developing the rural areas with basic infrastructure such as electricity, transport and water which may attract FDI's who will bring about new ways to uplift the economy.

~~There is~~ ~~Therefore~~ ~~an~~ ~~increase~~
Therefore an increase in taxes has its benefits
as well as downsides but it all depends on
~~how~~ how the government uses it and how
the other macro economic factors react to it.



(a) This response starts with one reasonably explained point on reducing high debt. There is also one very well developed analysis point on firms becoming more efficient. In between, there are two evaluative comments which are not very well developed but there is some understanding. Hence the answer gets a low Level 4 score.

(b) The analysis and evaluation point on the first page  not get any credit. The rest of the points discussed are not highly developed and do not carry sufficient depth or breadth. There is limited explanation and therefore the answer gets a low Level 3 score.




Please ensure that you read the question carefully before answering. Some candidates have answered this question as a case against cutting public expenditure and the effects of an increase in direct taxes.

Question 3




There were few candidates who attempted this question. Candidates were not always able to analyse their arguments in the context of a developing country to answer this question. They were not able to assess the view that economic growth is the most important factor influencing economic development. The candidates could not access Level 5 if they did not refer to a developing country in their answer.

Many candidates discussed the benefits of economic growth in their analysis. No reference was made to economic development and hence, candidates were not able to access more than Level 2 for analysis. Moreover, they were not able to link their arguments to a developing country. This meant the candidates often found it difficult to access Level 3.

Only a few candidates discussed why growth is important to improve development. They were able to explain how more tax revenue will be available for spending on infrastructure, human capital and housing. They also linked the  to a developing country of their choice. This allowed them to access higher levels for analysis.

In evaluation, candidates explained other factors that have more of an impact on economic development. However, most arguments lacked breadth and the depth of their points were relatively limited. They also struggled to evaluate in context.

Across scripts, there was little application to a developing country of their choice. Applying answers with country references may provide candidates with a framework in which to base more in-depth analysis and evaluation. Candidates who answered this question, therefore, found it difficult to access  highest levels.



Candidates produced some good answers to this question, and in particular were able to apply their answers to a developed country. It was clear that when the candidates chose to discuss their own countries they were able to include far more detail and integrate their analysis and application to a greater extent. Candidates could not access Level 5 if they did not refer to a country in their response.

The majority of the candidates analysed the view that the monetary policy is the most effective way of stimulating economic growth. Several candidates also discussed other policies increasing growth as further analysis. They were able to evaluate each of the policies analysed in the context of a developed country.

Responses that received higher levels made good analysis points. They showed good depth to their analysis but often lacked the necessary depth in their evaluative comments. Some candidates were not able to develop their points on the analysis arguments that they made, often just listing them. Many candidates applied their arguments in the context of a developing country and hence, did not attain higher levels.

Economic development is the measure of standards of living in a specific area using literacy level, life expectancy and G.D.P per capita.

Economic growth is achieved when there is an increase in the aggregate demand of an economy. Components of aggregate demand include consumption, government expenditure, investment and net exports (exports minus imports).

Economic growth is an important factor of economic development because ~~it could~~ economic growth could be brought about by an increase in consumption. Consumption rising means people in the economy ~~are~~ could be doing well in terms of earning income or there is deflation in the economy. Whichever it is, a rise in consumption will lead to ~~a~~ ~~rise~~ rise in ~~the~~ standards of living. People will have a greater variety of goods and services available for consumption. For example healthcare services in Kenya have increased over the years (e.g. hospitals and clinics/dispensaries). By people having more access to healthcare services, the mortality rate would decrease and ~~standard~~ life expectancy of Kenyans would increase. Being a

component of HDI, a rise in the life expectancy would lead to a rise in HDI and increase in human development.

However, in order for the people to have a variety for consumption, the government must have enough funds to run such projects. Therefore if the economy is in recession or ~~is~~ the country is facing budget deficits, it would be difficult to achieve economic growth thus making it not an important factor influencing economic development.

Another reason why economic growth ~~greatly~~ could be the most important factor is because it is achieved when exports are greater than imports. This leads to a budget surplus because the economy/country is earning more than is being spent. The government could therefore focus on increasing/improving merit goods in the country such as education. People would greatly benefit as more education would ~~also~~ raise their literacy levels, making them more productive and increasing their chances of ~~being~~ becoming employed. An ~~increase~~ rise in literacy levels would therefore lead to an increase in economic development.

However, it depends on the size of the surplus. This is because, a large surplus would lead

to a greater level of economic growth, thus making it (if not the most) a very important factor to achieving economic development. Although if the size of the surplus is relatively small, economic growth would ~~not~~^{still} be achieved but it would not be the most important factor influencing economic development.

Also, a reason economic growth could be the most important factor influencing economic development ~~is~~ could be a rise in government expenditure. Economic growth ~~is~~ could be brought about due to an increase in government expenditure. If the government were to have increased expenditure on improving/increasing merit goods in the society (e.g. health & education), work-forces would be more productive due to higher literacy levels or better health. An increase in productivity would lead to an increase in G.D.P per capita, hence increasing HDI and a rise in economic development.

However it may depend on the time period because in the short-run, government expenditure on merit goods may not have an immediate effect/response. ~~eg For exa~~ Although in the long-run, such measures may take effect and improve economic development. For example in Kenya, the average years one must complete in schools and institutions in order to be recognised as a productive

individual is approximately 16 years. Therefore in the short-run, economic growth is not the most important factor influencing economic development. Although in the long-run, it could be.

In conclusion, I think there are other factors that are important in achieving economic development such as free trade. However economic growth is the most important.

b) Monetary policies are regulations set by the government that influence the rate of investment and net exports ($x-m$)

A monetary policy that could be used which would prove effective to stimulating economic growth is increasing investment through lowering interest rates. By lowering interest rates, other countries would be attracted in investing and this could bring about Foreign Direct Investment (FDI). An increase in investment (being a component of aggregate demand) would lead to an increase in economic growth.

Another monetary policy that could stimulate economic growth is deflation in export prices. The country could do this by devaluing their currency meaning the purchasing power parity (PPP) of foreign countries would be great. Exports will therefore increase as demand ~~for~~ will rise due to lower prices or 'weaker' currency. Since ^{net} exports are a component of aggregate demand, a rise in net exports will cause the aggregate demand to rise, causing an increase in economic growth.

Also, the government could impose tariffs on imports. Tariffs are additional costs/taxes implied on imports by a government. A government would do this in order to protect the domestic producer/supplier and also regulate the difference if imports were greater than exports. For example in the USA, the government has imposed tariffs in order to discourage people from importing and to encourage domestic consumption. By doing this, imports fall, making ~~net~~ exports larger (net exports) which therefore leads to a rise in aggregate demand and an increase in economic growth.

However, it depends on the size of the currency devalue. This is because if the currency loses its value by a large margin, then exports will greatly increase, causing a relatively large increase in economic growth, proving to be the most effective ~~policy~~ policy (monetary) that could stimulate economic growth.

Also it depends on the time factor. This is because in the short-run, reducing interest rates would not gain immediate effect, making ~~therefore~~ this monetary policy relatively ineffective in stimulating economic growth ~~very~~ greatly. Although in the long-run more and more investors may be attracted to the low interest rates and ~~therefore~~ gradually increase Foreign Direct Investment. Eventually, a relatively high level of investment would lead to a relatively great increase in economic growth, making monetary policies the most effective stimulus.

~~III~~ Conclusion

Monetary policies may not be the most effective way of stimulating economic growth as there are other ways such as fiscal policies. These are policies that deal with consumption and government expenditure, causing a change in tax. This policy could prove to be more effective than the monetary policy as they tackle different components of aggregate demand which would lead to economic growth.

In conclusion, I think that it would depend on the size of economic growth the policies bring. Therefore monetary policies would be the most effective way of stimulating economic growth to the extent it achieves more economic growth than other policies such as fiscal policies.



ResultsPlus
Examiner Comments

(a) There are three well developed analysis points where there has been a link made between economic growth and healthcare, education and GDP per capita. Evaluation points have also been well explained but there is no consistent application to a developing country. Hence the answer gets top of Level 4.

(b) The answer explains a range of policies that can be used to stimulate economic growth. Policy on protectionism is highly developed whereas the explanation of the monetary policy instruments is not as well explained. Two evaluative comments on size and time are reasonably developed. As there is no reference to a developed country, the answer receives a Level 4 score and cannot access Level 5.

(a)

Economic development refers to the multi-dimensional process through which standards of living improve as poverty, inequality and unemployment fall.

Economic growth is the annual percentage increase in the real gross domestic product (GDP) in a country.

Economic growth influences economic development since an increase in economic growth will lead to economic development. Economic growth increases when consumers are able to afford basic goods and services as their incomes increase. When there is a fall in poverty due to an increase in incomes, this leads to a sustainable economic growth leading to an increase in economic development.

Although, there are other factors that influence economic development. A country such as Kenya is much dependent on the primary products, these are raw materials extracted from the gifts of nature. The primary product prices fluctuate often leading to uncertainties in the economy. Producers are unable to plan their future productions. According to the prebisch-singer hypothesis, primary products have low prices leading to low export prices. Developing countries such as Kenya, import expensive manufactured goods. This leads to an unfavourable terms of trade (TOT). The low

Export prices leads to low export earnings leading to a fall in economic development.

However, in recent years primary product prices have increased which may lead to an improvement in TOT leading to an increase in export earnings leading to an increase in economic development.

Many developing countries have a high chance of households getting infected by HIV aids. This will reduce the productivity per labour leading to a decrease in wages leading to a fall in the ~~st~~ incomes per head leading to an increase in poverty leading to ~~an~~ a decrease in economic development in the country.

However, healthcare is improving in developing countries, people ~~are~~ are able to live with the disease for longer enabling them to be productive in the work area improving the economic development.

Overall, economic growth may be ~~be~~ an important factor but there are other factors that influence economic development. Also, different factors are more important in different countries at different times.

(b)

Monetary policy is a demand-side policy that uses interest rates and money supply to help stimulate the economy.

A developed country like example US, can use monetary policy to stimulate economic growth. They can reduce interest rates which will lead to a fall in cost of borrowing for households which will encourage borrowing leading to an increase in consumption and investment since consumer and business confidence will increase leading to an increase in aggregate demand (AD) because consumption and investment are a component of AD leading to an increase in economic growth. ~~which can further lead~~ Also, ~~as~~ a reduction in the interest rates will increase ~~to an increase in employment~~ ~~since there will be an~~ consumption by households leading to an increase in the demand for goods and services which will lead to an increase in demand for labour since demand for labour is derived demand, derived from the demand of goods and services that the labour produces. This will increase employment leading to an increase in incomes leading to a fall in poverty. living standards will improve as households will be able to afford goods and services leading to an increase in economic growth.

US ~~can~~ government can purchase assets through quantitative easing to increase money supply. ~~banks will be~~ this will lead to a depreciation of the currency leading to

a fall in export prices and a rise in import prices leading to an increase in net exports since demand for exports will increase and demand for imports will fall. This will increase AD leading to an increase in economic growth. Net exports are a component of AD.

Also, due to the increase in money supply will lead to banks lending out more money. There will be an increase in demand for the local goods and services since people will be able to afford it increasing economic growth of the economy.

However, an increase in money supply may lead to an increase in demand for imports leading to a fall in AD which may also lead to a current account balance of payments deficit leading to unsustainable economic growth.

Moreover, the demand for imports and exports will depend on the Marshall-Lerner condition, ^{and on} ~~the demand~~ the J-curve effect.

For the net exports to increase demand for exports and imports should be price elastic, though in the short-run demand is price inelastic, ^{thus} ~~hence~~ may not have much effect in the short-run.

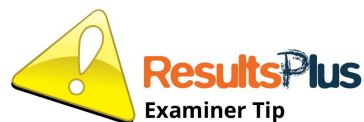
In addition, it will also depend on how much the interest rates fell by. A small fall will have a small impact on economic growth.

Overall, other policies such as supply-side policies could be used which would be more effective.



(a) The answer explains why economic growth is important for economic development, and then moves on to other factors that would be more significant – primary products and health. The points are not significantly developed and hence the answer gets a Level 3 score.

(b) Monetary policy instruments on interest rates and QE are very well developed. There are no further analysis points made. Only one evaluative comment on money supply is reasonably developed. As there is no breadth to the answer, the response only gets a Level 3 score.



In these types of questions, it is beneficial if other factors / policies are discussed. Examiners take these as either analysis or evaluation depending on whichever gives the candidates more credit.

Question 4 (a)

This question was generally not answered well and candidates were not able to accurately explain what is meant by a free trade area. They were often confused with a customs union. Some candidates offered the correct definition and hence, obtained full marks for knowledge. Examiners are looking for two separate pieces of data reference and only a few candidates were able to access both application marks as they correctly identified these from the extract.

(a) With reference to Extract 1, explain what is meant by a free trade area.

(4)

A free trade area is a type of trading blocs that there is free trade between member countries and they can use different policy to restrict trade with non-member countries. In Extract 1, it says 'NAFTA lowers trade barriers between the USA, Canada and Mexico.' and 'The supporters of NAFTA claim that it ~~is~~ has helped the US economy by opening up export markets.'



This response gets 4/4 marks. The answer gets two full knowledge marks for explaining free trade area and two full marks for application for identifying two data references from Extract 1.

(a) With reference to Extract 1, explain what is meant by a free trade area.

(4)

A free trade area is where a country trades with no trade barriers with other countries for goods or services being provided to them. example NAFTA lowering trade barriers between the USA, Canada and Mexico.



ResultsPlus
Examiner Comments

This answer gets 1/4 marks. The definition of free trade area is incomplete and needed some element of free trade between *member* countries. Only one mark for application for identification of one piece of data.



ResultsPlus
Examiner Tip

Learn accurate definitions as they carry two marks. You have to include 2 pieces of data for a 4 mark question.

Question 4 (b)

Most candidates have been able to discuss the economic case for protectionism and have added reasonable depth to all their answers. By listing various points, candidates could only access Level 1. Many were able to add development of their points but did not get Level 3 if they did not write it in the context of the question given. Hence candidates were only able to get Level 2. For 16 mark question, 8 marks are available for knowledge, application and analysis and 8 marks for evaluation.

Level 1 would be identification of a reason, Level 2 would be the identification of a reason and use of data from the extract OR development of the point, and Level 3 would be identification of a reason, use of data AND development of their point. For arguments which do not contain any relevant data in the extract, candidates needed to develop their point effectively to access the higher levels.

Candidates used a wide range of points – improving the current account position, to prevent dumping and protecting domestic industries/employment.

Evaluation points were similarly well written, mostly discussing the economic case against protectionism. Many candidates made an attempt to evaluate the analysis points they had argued. Candidates who listed their points without any development accessed only Level 1. To access the higher levels, candidates need to show sound levels of both depth and breadth in answers. Typically, examiners are looking for 3 well developed analysis points and 3 well developed evaluation points in 16 mark questions.

Additional practice in reading and understanding the kind of extracts found in data response questions would be beneficial, as would practice on how to integrate application with candidates' own analysis to make a complete and well explained argument.

(b) With reference to the information provided and your own knowledge, discuss the economic case for protectionism.

(16)

Protectionism is the practice of ~~to~~ placing trade barriers to imports and promoting exports ~~of~~ in a country to improve its balance of payment.

Protectionist measures include tariffs, ~~and~~ quotas and export subsidies.

One reason why countries should use protectionist measures is to protect infant industries. Larger companies have greater economies of scale and lower costs of production so lower prices on the global market. Infant industries are unable to compete with these larger companies and so ~~don't~~ do not survive. A country may impose protectionist measures to allow ~~the~~ firms to grow under less competition so they can increase their output levels and their ~~gove~~ market share so they earn more revenue. ~~a~~ higher revenue means higher profits and therefore greater a higher ^{level} proportion of corporation tax is earned as government revenue.

Another reason why countries should use protectionist measures is to improve employment levels. ⁺

Protectionist measure help firms maintain their levels of outputs or even increase it as they

face less ~~comp~~ pressure from competitors. Some firms reduce their level of output in the face of competition to cut costs. Protectionist ~~measures~~ ~~avoid firms~~ help firms retain employees without making the same level of losses or any losses at all.

However, on the other hand, infant industries are less likely to be economically efficient as they face less pressure so they are more likely to be allocatively efficient. Also, firms are less likely to spend on research and development as opposed to other firms operating with no trade barriers.

Therefore foreign firms are more likely to be efficient, ^{They can possibly} and have lower prices than the infant industry is operating at with protectionist measures protecting it. ~~So the~~ This would cause demand for local goods to decrease causing less output and ~~also firms~~ ~~also a firm's~~ might consequently less labour required and greater unemployment levels. ~~As~~
~~Also as demand~~

~~In order for protectionist measures to have ~~to~~ lead to the desired effects, they need to be large enough to cause~~

* "50,000 factories and coal mines have closed and millions of jobs have been lost".



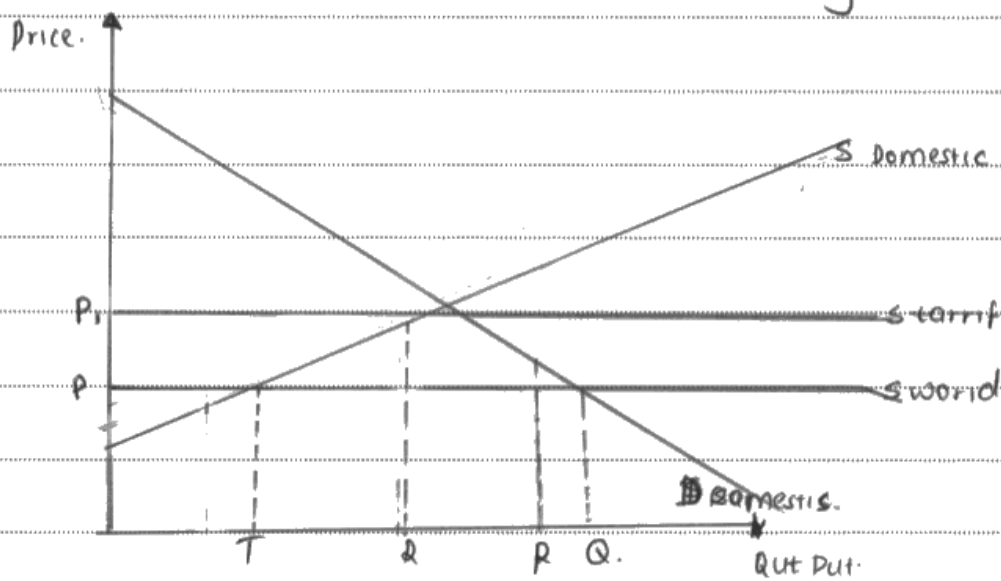
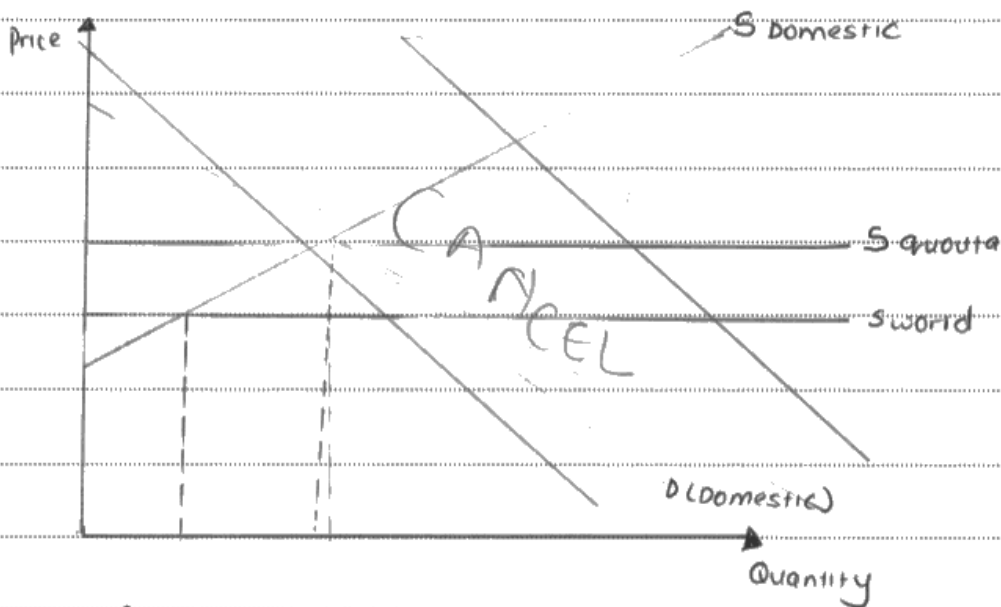
There are two very well developed analysis points – protecting infant industries and improving employment levels. There is only one well developed evaluative comment on efficiency. As there is no sufficient breadth to the answers, this response got 12/16 marks.

(b) With reference to the information provided and your own knowledge, discuss the economic case for protectionism.

(16)

Protectionism these are barriers that a country take into account to protect to protect her economy.

Protectionism has a number of benefits to her the economy, firstly ^{imposing} ~~charging~~ ^{tariffs} ~~tariffs~~ ~~to~~ this are charged on imports, it is a source of revenue to the governments and also leads to a fall in demand for the good or service as the price tends to rise. It also increases exports.



The graph above shows the area TRPQ Deadweight loss as there is a fall in demand for imports due to increase in price.

Another reason why ~~country~~ a country like USA is ^{imposing} ~~using~~ protectionism, is to protect her infant industries, ~~and~~ and Senile industries, ^{infant industries} These are industries that are new in the market and have scope of economies of scale in the future, ~~this~~ Senile industries these are industries that are old but are into losses as cheaper imports are leading them to drive out. ~~protectionism to~~ ~~that the~~ ^{protectionism} ~~protectionism~~ is imposed as to protect the infant industries ~~to~~ not to drive out of market early before they experience economies of scale. Thirdly, USA is also using protectionism to increase the rate of employment in the country, due to cheap imports, which leads to fall in demand for domestically produce goods as they are expensive, This will lead to domestic firms laying off workers to cover up the costs of productions incurred.

However, quotas and tariffs charged leads to a fall in exports, this is because if USA is imposing ~~the~~ them on imports the countries ~~exporting would~~ that will buy goods from USA will not buy as it imposing extra tariffs will find

It expensive, ~~and also because of~~

Moreover, ~~the use of~~ there protectionism it is not sure that the unemployment rate will ~~rise~~ fall. This will lead to ~~more~~ increase in the rate as the consumers have no choice but to buy the domestically produced good, this will lead to a fall in demand and increased cost of production hence leading to laying off workers.

In contrary to protectionism of infant industries or domestic industries, this will make the industries inefficient as they are dependant on the ^{Protectionism} ~~Protetanism~~ barriers, it makes them to get all the facilities and raw materials in a cheaper price.

In conclusion, protectionism is ~~not only~~ helpful to most developed countries, it will not benefit less developed countries as it tends to be expensive and they can lose their exports if they impose, so it is not being fair to the whole economy.



ResultsPlus
Examiner Comments


This answer indicates two developed analysis points, but these are not as well explained as they could have been integrated with the data available in the extract. There are only two evaluative comments identified and these are not developed. Therefore the response gets a score of 7/16 marks.



If an answer can be supported with an accurately labelled diagram, integrate its explanation in the analysis. This will add further depth to your answer.

Question 4 (c)

Candidates were able to analyse the effects of two protectionist measures that the Chinese government has been accused of adopting, but often found it difficult to develop their points. They had to refer to the information provided and hence, were expected to either explain currency manipulation, dumping and paying unfair subsidies to its manufacturers.

Some candidates explained tariffs and quotas which were not given in the extract and did not receive any marks. Most candidates added sufficient depth to their answers and explained them well, allowing them to get all 3 marks for each point.  candidates made references to other data from the extract and this was not awarded as it was not in the context of the question given.

(c) With reference to Extract 1, analyse the effects of any **two** protectionist measures that the Chinese Government has been accused of adopting.

(8)

Protectionism measures are policies aimed at reducing the imports coming into an economy. They increase the prices of imports & hence making them less attractive in local market. The Chinese government has been accused of using the protectionist measure of currency manipulation, dumping and unfair subsidies to its manufactures.

If the Chinese market manipulates its currency downwards, it will lead to devaluation of Chinese currency. A depreciation will lead to exports of China becoming cheaper and imports becoming expensive. This will drive the Chinese economy to use imports and they will be able to benefit from export led growth due to cheaper prices of exports. Hence, making its market to protect from imports. This increased demand for exports will demand more labour and thus increasing employment and higher living standards, which would ultimately lead to more tax revenue for the govt. and thus positive multiplier effect, making the economy to grow.

Alongside, Chinese govt. providing subsidies to its manufactures will help the local firms to reduce its cost. Subsidies are grants given by the govt. to firms to lower its cost of production. Reduced cost of production means the Chinese firm can charge lower prices for its products in the ~~the~~ global market. This will make the exports more competitive. Alongside, the locals will choose domestic products as they will be cheaper as compared to imports, hence protectionism leading to improved growth for Chinese market.



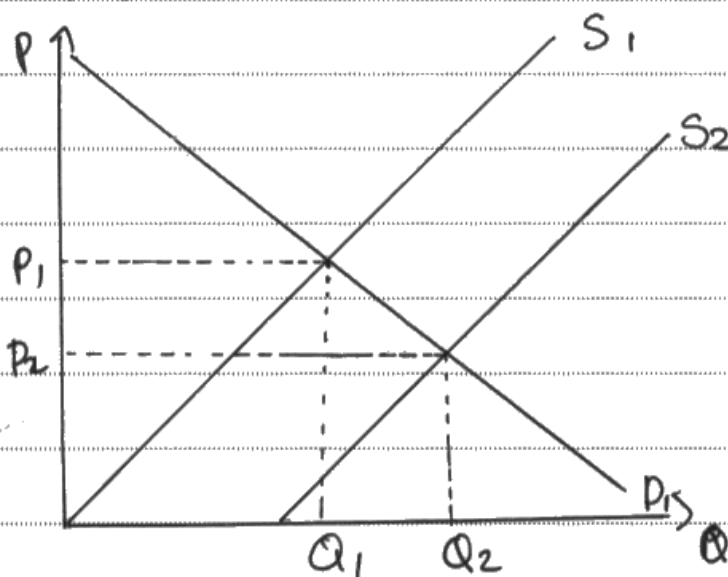
This response gets 8/8 marks. They get two marks for application in the first paragraph and three marks each for explaining currency devaluation and subsidies.

(c) With reference to Extract 1, analyse the effects of any **two** protectionist measures that the Chinese Government has been accused of adopting.

(8)

Protectionist measures are the policy that the government adopt to protect local industry.

One of the protectionist measures that the Chinese Government has been accused of adopting is providing subsidies to ~~local businesses~~ its manufacturers. ~~The~~ Subsidy will helps the manufacturers to lower their cost of ~~a~~ productions and gives them more ~~inv~~ incentives of producing more and increase the supply, thus leading to a fall in the price, and therefore attracts more demand for exports and also attracts local consumers switch from importing to buying local manufacturing product.



The second protectionist measure that the Chinese Government has been accused of

adopting is currency manipulation. This means Chinese Government will buy and sell its foreign currency reserves to control the exchange rate. This may help the country has a relatively highly competitive price in the international market, and also make the price of import relatively high. Therefore consumers will choose to buy cheaper local product instead of ~~high~~ more expensive imports.

In Extract 1, it says 'The Chinese Government has been accused of using the protectionist measures of currency manipulation, dumping and paying unfair subsidies to its manufacturers.'




ResultsPlus
Examiner Comments

This answer gets 7/8 marks. The answer starts with explanation of subsidies and this point gets all three marks. The second point on currency manipulation only gets two marks as there is no mention of devaluation. There are two marks for the application at the end.



ResultsPlus
Examiner Tip

Only one application is required for an 8 mark question. Make sure you include it, exactly as given in the extract, when writing  your answer.

Question 4 (d)

Although candidates were able to use the extract to assess the potential benefits of investment in infrastructure to the US economy they were unable to consistently apply it in context. They struggled to account for suitably detailed explanations to earn Level 3 marks for knowledge, application and analysis. For every 12 mark question, 8 marks are available for knowledge, application and analysis and only 4 marks for evaluation.

Level 1 would be identification of a benefit, Level 2 would be the identification of a benefit and use of data from the extract OR development of their point, and Level 3 would be identification of a benefit, use of data AND development of their point. For arguments which do not contain any relevant data in the extract, candidates needed to develop their point effectively to access the higher levels.

Some candidates' answers often lacked depth and breadth. They were able to apply the data from the extracts but with no further development and this got credited at Level 2 if mentioned along with the identification of a benefit.

Evaluation was limited, and candidates did not explain their arguments well. Some candidates listed basic evaluation points without development and this gave them access to Level 1 only. Typically, examiners are looking for 3 very well developed analysis points and 2 very well developed evaluation points in 12 mark questions.

This question could not be fully or meaningfully answered without reference to the data provided, and many candidates failed to appreciate this and tried to write answers solely from their own knowledge. Those who did try to make reference to the data were able to offer sound analysis of the evidence.

(d) With reference to the last paragraph of Extract 1, assess the potential benefits of investment in infrastructure to the US economy.

(12)

Investment in infrastructure is a long term investment as ~~is~~ it is a form of capital. This tends to have large effects in the economy provided there is a strong multiplier effect. ~~The~~

The first benefit of Trump's \$1 trillion investment is the improvement in quality of public services such as transportation networks and healthcare. Both of these will improve productivity, increase standards of living, and shift aggregate demand to the right. This will boost employment, preferably from the workers of the 50,000 factories and coal mines, while increasing the rate of economic growth. Stronger ~~ports~~ transport networks will increase FDI, which is an inflow ~~of the~~ into the financial account of the balance of payments. However, there is a significant time lag to this investment.

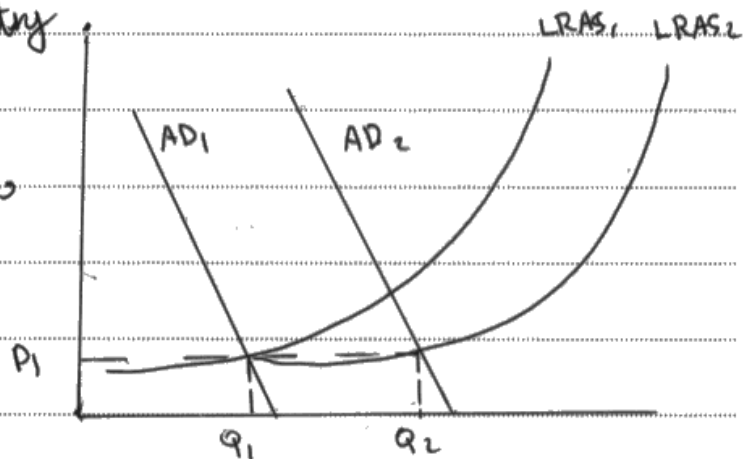
~~Both~~ The combination of planning time and construction time will ~~mean~~ ~~time~~ ~~can~~ mean the net result and full force of the investment will not be seen ~~at~~ for decades into the future.

Secondly, the additional purpose of the investment is ~~to~~ see that the ~~or~~ multiplier effect can operate and create benefits in other sectors of society as well. However, if there is ~~no~~ ~~not~~ a weak multiplier effect, the benefits would be less than planned.

Another benefit of investment into infrastructure would be the increase in productive capacity of the country.

As both demand and supply increase, economic growth will once again see a fast growth and boost.

This could reduce the ~~not~~ \$19.5 trillion national debt.



However, if the supply or demand increases by too much, inflation could be created, as supported by the diagram as well as the Phillips curve, which would have a long term detrimental effect.



ResultsPlus
Examiner Comments

This response starts by explaining three benefits but only two are reasonably developed. There is only one developed evaluative comment on time lag. There is nothing of credit on the second page and as such, this answer gets 8/12 marks.



ResultsPlus
Examiner Tip

Always try to integrate application (data from the extract) with the analysis. It will help to add depth to your points.

(d) With reference to the last paragraph of Extract 1, assess the potential benefits of investment in infrastructure to the US economy.

(12)

One benefit of investment in infrastructure would be an increase in employment or decrease in unemployment. This ~~could~~ would come about due to a rise in demand for labour to create/build the infrastructure and to continue running it. For example the employment rate in the teaching industries would need to increase if more schools requiring teachers have been built. An increase in the rate of employment leads to a fall in ~~the~~ poverty as more of the population would be earning income. Therefore standards of living ~~is~~ for the employed population would increase. Also, an increase in employment would lead to an increase in productivity. For example if productivity was at 50 units per hour, an increase in the workforce could mean an increase ~~increase~~ in output of 70 units per hour depending on the size of the increase in employment. The US exports could increase with an increase in output, leading to a rise in aggregate demand and ~~increase in~~ ~~the~~ US growth in the US economy.

Another benefit of investment in infrastructure could be a rise in the literacy rate. By building more schools, a larger population in the US would have a higher literacy rate, making them a more productive country. By increasing literacy rate, HDI would also rise and the US economy would face economic development.

Also, a benefit of investing in infrastructure is there would be an increase in mobility of labour. When transport systems are improved, people would have better access to different parts of the country where ~~there~~ their skills could be used. Also, investing would need a great deal of government expenditure. Therefore, being a component of aggregate demand, an increase in the US government expenditure would lead to the ~~US~~ US experiencing economic growth.

However, it depends on the size of investment. ~~Investment~~ \$1 trillion is a great amount of investment and would therefore have more ~~and~~ and greater potential benefits. ~~Although~~ Although if size of investment was relatively small, investment would have less potential benefits.



The answer starts by discussing three benefits which are very well developed. The analysis point shows good depth and breadth. There is only one evaluative comment discussed and hence the candidate gets 11/12 marks.

Question 5 (a)

This question was answered well and candidates were able to explain the difference between absolute poverty and relative poverty. Most candidates were able to gain full knowledge marks, but a few got confused between the two. Examiners are looking for two separate pieces of data and almost every candidate used the given extract effectively to access both application marks.

- (a) With reference to Extract 1, explain the difference between absolute poverty and relative poverty.

(4)

Absolute poverty is when people cannot afford basic necessities needed for survival (e.g. food, water and shelter).

Relative poverty is when people are poor compared to others in society (e.g. earning less than 50% of median income).

Absolute poverty in Venezuela fell from 21% in 1998 to 5.4% in 2015.

Relative poverty in Venezuela also fell from 50% of the population in 1998 to 30% in 2013.



This response gets 4/4 marks. The definitions are correctly explained there are two pieces of data to obtain application marks.

(a) With reference to Extract 1, explain the difference between absolute poverty and relative poverty.

(4)

Absolute poverty is where people is below the standard wage per day.

According to the case study, extract 1, the number of people in Absolute poverty fell to a record low, from 21% in 1998 to 5% in 2015.

Relative poverty means where people are still poor, but at the standard wage rate.

According to the case study, extract 1, economic growth and redistribution policies led to a decline in relative poverty from 50% of the population in 1998 to 30% in 2013.



ResultsPlus
Examiner Comments

The answer only gets two marks for application and no marks for definitions. So overall it gets 2/4 marks.



ResultsPlus
Examiner Tip

Remember to write accurate definitions. Always include two pieces of data from the extract for a 4 mark question.

Question 5 (b)

Not all candidates were able to analyse two possible reasons for the change in the value of the Venezuelan bolivar against the US dollar. Most of them were able to only identify reasons from the extract, and only a few made reference to Figure 1. For further development, only a few candidates linked their points to demand and supply of the currency, and this gave them access to 3 marks per point made.

Not many candidates were able to access the two application marks as they did not refer to Figure 1 as indicated by the question. Some candidates made reference to their own knowledge and this was not credited.

(b) With reference to Figure 2 and Extract 1, analyse **two** possible reasons for the change in the value of the Venezuelan bolivar against the US dollar since 2015.

(8)

The Venezuelan bolivar has depreciated against the US dollar since 2015. According to figure 2, the value of the Venezuelan bolivar fell from

1 USD = 175 Venezuelan bolivars in ~~20~~ January 2015 to

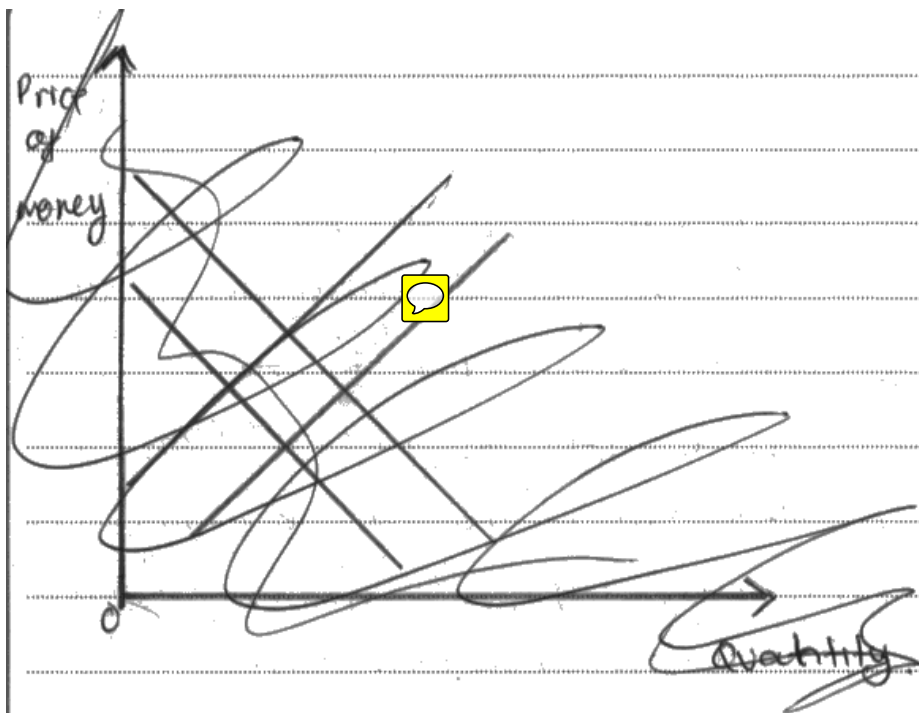
1 USD = 1050 Venezuelan bolivars in June 2016.

~~One reason for this depreciation was the fall in international oil prices. The fall in oil prices~~

One reason for this depreciation was the fall in both absolute and relative poverty levels. This meant that people had higher incomes that would increase their demand for imports which would lead to an increase in the supply of Venezuelan bolivars. ~~and~~ Also the demand for Venezuelan bolivars would fall as the surplus available for exports falls. This led to a depreciation of the Venezuelan bolivar.

Another reason for this depreciation was the increase in supply of the bolivar as the government printed money in order to respond to the fiscal deficit. This increase in supply ~~lead~~ led to the depreciation of the bolivar.

~~The following diagram illustrates this:~~



ResultsPlus
Examiner Comments

This answer gets two application marks for using data from Figure 2. Three marks are awarded for the first analysis point as it was well explained and there was a link made to the supply of currency. Only two marks were awarded for the second point as it lacked further development. So overall, this response achieves 7/8 marks.

(b) With reference to Figure 2 and Extract 1, analyse **two** possible reasons for the change in the value of the Venezuelan bolivar against the US dollar since 2015.

(8)

The Venezuelan bolivar has shown to have depreciated in its value against the US dollar greatly. ~~Which is a~~ bad which will lead to a negative impact on the economy.

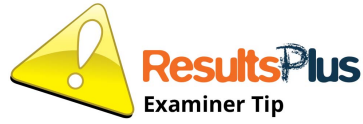
One of the possible reasons is due to collapse in international oil prices which has greatly damaged Venezuela's economy. As the oil accounts to 96% of its exports. As the price of oil fell by 50% after 2014, which resulted in Venezuela's current account worsening significantly. And led to deficit recorded of over \$4 billion in 2016.

Another possible reason is due to the debt which needs to be paid. As Venezuela now faces an increasing fiscal deficit, ~~forecast~~ forecast to be 20% of GDP in 2020. The country's gold reserve has also been used to service debt and to pay for some basic imports. And the government just managed to avoid defaulting on its massive ~~debt~~ foreign debt by selling its foreign assets on huge discounts.



ResultsPlus
Examiner Comments

This response gets two marks for each of the points explained. To access the final mark, there needs to be a link to either demand or supply of the currency. No application marks awarded as there was no use of Figure 2. So overall, this answer gets 4/8 marks.



Ensure you use the figures given to gain application marks.

Question 5 (c)

This question required the candidates to assess the likely effects of the collapse in international oil prices on Venezuela's economy. Candidates were not able to answer this question well – most of them copied the information from the given extract and did not develop these points. This gave them access to Level 1 only. Some candidates discussed the impact on exchange rate and this was not credited.

Few candidates were able to provide sufficiently detailed explanations of the reasons to earn them Level 3 mark for knowledge, application and analysis. For every 12 mark question, 8 marks are available for knowledge, application and analysis and 4 marks for evaluation.

Level 1 is the identification of an impact, Level 2 would be the identification of an impact and use of data from the extract OR development of their point, and Level 3 would be identification of an impact, use of the data AND development of their point. For arguments which do not contain any relevant data in the extract, candidates needed to develop their point effectively to access the higher levels.

Evaluation points were relatively weak across all scripts. Many candidates were able to draw upon short run and long run considerations but this was not always developed. Some candidates listed points and only accessed Level 1.

This question could not be fully or meaningfully answered without reference to the data provided, and many candidates failed to appreciate this and tried to write answers solely from their own knowledge. Those who did try to make reference to the data were able to offer sound analysis of the evidence.

(c) Assess the likely effects, apart from the impact on the exchange rate, of 'the collapse in international oil prices' (Extract 1, line 8) on Venezuela's economy.

(12)

~~It~~ Venezuela tends to be a country heavily dependent upon oil exports. ~~since 1967~~.

since oil accounts for 59% of fiscal revenue.

~~Oil tends to have a price~~ Due to the

fall in oil prices by 50% in 2014 the ~~the~~ current account of Venezuela deteriorated significantly. as a

deficit of over \$4 billion was recorded in

2016. This is because oil ~~has~~ tends to have an

inelastic demand due to ~~the~~ oil having a lack

of substitutes therefore as oil prices fell, quantity

demanded for oil would have risen less than

proportionately causing the export revenue to plunge

as a result. This may in turn cause ~~cause~~

accounted for the BOP deficit in the year 2016.

Furthermore due to falling oil prices

the country's gold reserves have been used to pay

debt therefore the country may ~~not~~ have less

foreign currency to purchase ~~import~~ capital goods

from imports as because the amount of imports

which can be bought with a given level of

exports has deteriorated due to the fall in oil prices.

This may limit the scope for the Venezuelan

economy to diversify in the future into the

manufacturing sector as a result.

The fall in oil price has caused a fall in tax revenue therefore may reduce the public expenditure on economy. Therefore as 2014 showed negative growth rate, a fall in tax revenue may further deteriorate the financial situation of Venezuela.

However oil tends to be a necessity in the production process therefore due to reserves running out in the future the oil price may rise in the future causing Venezuela to gain its lost competitiveness.

Furthermore as the Venezuelan government has encouraged MNCs to set up in the country by establishing private sector confidence, ^{thus} may ~~reduce~~ ~~and~~ ~~therefore~~ reduce on negative impacts from the fall revenue from oil price by the ~~at~~ ~~contribution~~ of MNCs on ~~the~~ increasing the AD of the country. Therefore the effect ~~of~~ of the fall in oil price on export earnings could be mitigated by the rise in export earnings through the influx of MNCs.



ResultsPlus
Examiner Comments

The response has three well developed analysis points which have been supported by the data given in the extract. There are also 2 well developed evaluative comments. Hence the answer gets 12/12 marks.

(c) Assess the likely effects, apart from the impact on the exchange rate, of 'the collapse in international oil prices' (Extract 1, line 8) on Venezuela's economy.

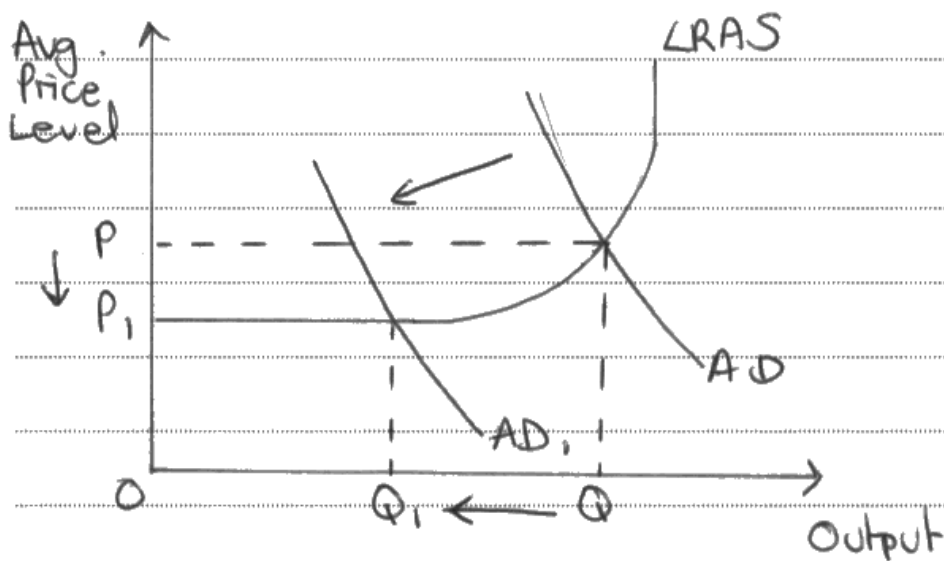
(12)

Oil prices fell by 50%. Oil accounts for 96% of exports. This led to a Balance of Payment current account deficit by over \$4 billion. This is because the fall in export prices caused a fall in the value of exports. This will also worsen the Terms of Trade. This is because the export prices have fallen. ~~This will drain the~~ This will reduce the foreign currency reserves in Venezuela.

There will be a fall in Economic Growth. After oil prices fell in 2014, the annual real GDP growth rate from around -3.9% in 2014 to -7.5% in 2016. The fall in ~~export~~ the value of exports led to a fall in Aggregate demand which led to a fall in Economic Growth. This will increase unemployment, as labour has derived demand, which will cause a fall in incomes, a fall in standards of living and a rise in poverty.

Next, there will be a fiscal deficit. Government revenue will fall because Oil provides 59% of

fiscal revenue. This will reduce spending which will lead to a fall in provision of social and merit goods.



A fall in AD from AD to AD_1 will cause a fall in inflation from P to P_1 .

However, inflation has increased by to a staggering 482% in 2016. The fall in Aggregate demand due to fall in exports and fall in government spending did not reduce inflation. The inflation increased due to printing more money which increased money supply. This depreciated the Bolivar, hence imported raw materials and inputs became more expensive which increased costs of production thereby increasing Cost-push inflation.




The initial paragraph has two analysis points which are reasonably developed. The explanation of the impact on economic growth is very well explained. There is only one well developed evaluative comment and hence the response gets 10/12 marks.




Incorporate your diagram in your analysis/evaluation. This will help you add further depth to your arguments.

Question 5 (d)

This question was answered reasonably well in terms of analysis, with candidates showing good evaluation of the possible economic benefits of an increase in FDI in the Venezuelan economy. Many candidates used extract 2 for their analysis and evaluation arguments. The most common points explained were impact on financial account, savings gap, and economic growth and unemployment. For a 16 mark question, 8 marks are available for knowledge, application and analysis and 8 marks for evaluation.

Level 1 is the identification of a benefit, Level 2 would be the identification of a benefit and use of data from the extract OR development of their point, and Level 3 would be identification of a benefit, use of the data AND development of their point. For arguments which do not contain any relevant data in the extract, candidates needed to develop their point effectively to access the higher levels.  candidates copied paragraphs from the extract as their points and this meant they were unable to access higher levels.

Evaluation was a little generic, but a few candidates offered the drawbacks of each point they discussed. These candidates were able to access the higher levels as they answered  their questions in the context of the question. To get the access to the higher levels, candidates need to be consistent with the context and should show good depth and breadth in their answers. Typically, examiners are looking for 3 well developed analysis and 3 well developed evaluation points in 16 mark questions.

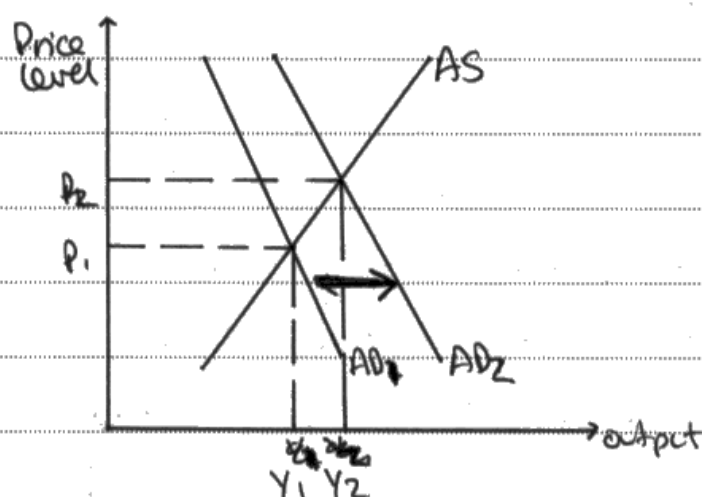
Additional practice in reading and understanding the kind of extracts found in data response questions would be beneficial, as would practice in how to integrate application with candidates' own analysis to make a complete and well explained argument.

(d) With reference to the information provided and your own knowledge, evaluate the possible economic benefits of an increase in FDI in the Venezuelan economy.

(16)

FDI is overseas capital investment into a country. The Venezuelan government could create special conditions for TNCs willing to relocate to Venezuela. There are both benefits and costs of increased FDI.

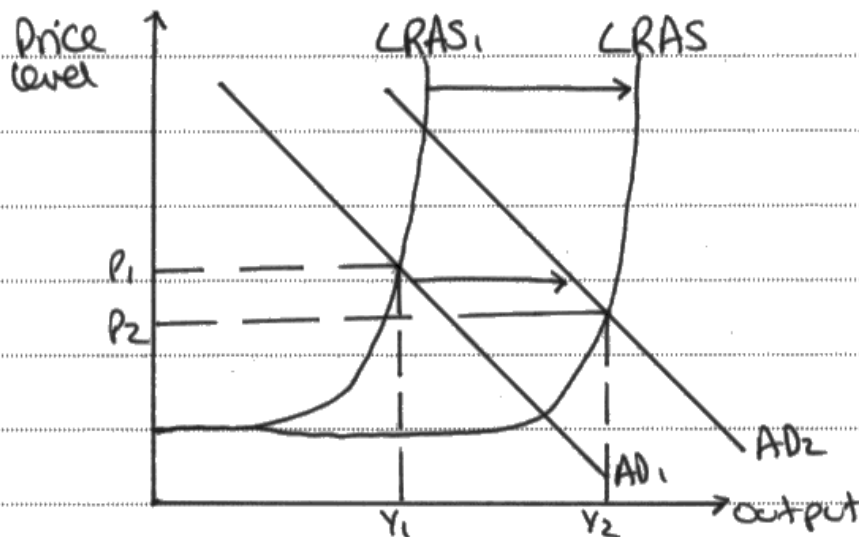
Firstly, FDI is an injection into the circular flow of income. This ~~increase~~ is multiplied and increases aggregate demand in ~~the~~ Venezuela. As shown below.



The injection causes AD to shift from AD_1 to AD_2 , this causes price level to increase from P_1 to P_2 and output to increase from Y_1 to Y_2 . Thus, resulting in higher economic growth.

Another benefit of FDI is the development of the supply side by the TNCs. They may construct infrastructure in the country or provide training.

Schemes for local workers. Similar to the action of Chinese firms in Africa, they have constructed a railway in Ethiopia and trained over 15000 locals. The effects of this are shown on the diagram below.



The development of the supply-side causes LRAS to increase from $LRAS_1$ to $LRAS_2$ and the spending of the TNC increases AD from AD_1 to AD_2 , this has resulted in price level falling from P_1 to P_2 and output increasing from Y_1 to Y_2 . This is non-inflationary growth, which is needed in Venezuela due to the very high rates of inflation.

Another benefit of FDI is that it is an inflow on the capital and financial ~~account~~ account. And it causes the current account to improve in the long run as exports increase, which is needed due to Venezuela's current account deficit of US\$4 billion in 2016.

As well as this, FDI overcomes the issues of a savings gap and lack of capital because the TNC provides the capital and funds needed. Therefore, helping Venezuela establish a secondary sector and reduce its reliance on oil. This could ~~see~~ result in an increase in Venezuela's non-oil exports and diversify the economy to some extent.

However, TNCs may exploit local ~~working~~ workers by forcing them to work in unsafe & conditions ~~for~~ for very low pay. & possibly to similar to in Bangladesh where 1000 workers died in 2013 due to a factory collapsing.

Also, the TNC may use its influence to exert political power over the Venezuelan government. Venezuela is "now the ninth most corrupt country in the world" so they may take bribes from the TNCs to change regulations or tax policy in the TNCs favour.

~~As~~ As well as this, the TNCs may try to offshore profits, therefore they will have no major benefit to Venezuela. Although, this may not be possible as TNCs in

Venezuela face an inability to repatriate profits abroad.

And there could be major environmental consequences as TNCs pollute the air, water and land.

In conclusion, the economic benefits of FDI far outweigh the costs. Because it increases £ AD and develops the supply side, which may have been unable to do.



This is a very able response and there are four very well developed analysis points. These are well supported with accurately labelled diagrams and data from the extract. There are also four well explained evaluation points. This gives the answer 16/16 marks.

(d) With reference to the information provided and your own knowledge, evaluate the possible economic benefits of an increase in FDI in the Venezuelan economy.

(16)

An increase in the FDI's would do lots of good to the Venezuelan economy.

One of the benefits is that jobs will be created and the country can be less dependent on loss making industry.

Unemployment will fall leading to better living standards and a fall in crimes as people will have a stable income.

Further more a FDI will bring upon new technology and innovations for the economy helping domestic industries become more efficient and productive.

An increase in these FDI's would help the government stabilize the economy by the improvement of infrastructure and other services needed for the FDI. For example transport, electricity and other auxiliary services.

The government will also be able to generate more tax revenue and this can be used to further attract other FDI's or by stabilizing the economy or by subsidizing local infant industries to expand and compete with larger foreign MNC's.

→ PTD.

However there are ~~the~~ negatives that might prevent ~~the~~ further ~~FDI~~ ~~to~~ FDI's or even demotivate the current FDI's such as being the 186th of 189 countries in the world bank doing business index and the according to transparency international the ~~most~~ 9th most corrupt country in the world.

Along with these FDI's there are negative implications such as the repatriation of profits to their country and the over utilization of natural resources which will have ~~to~~ a negative impact in the long run by depleting the natural resources.

They might have power over the labour by paying the workers less and providing poor working conditions.

And if they are large companies they would have ~~to~~ power over the government as and avoid ~~paying~~ paying all the taxes etc.

~~There are~~

So with all the positives there are ~~no~~ harmful negatives but an increase in FDI's would greatly help Venezuela improve their economy.



The first page of the response explains four benefits of an increase in FDI, but these are not well developed. Similarly, there are four evaluative comments which are explained but also not well developed. Hence the candidate gets 12/16 for this answer.



Instead of writing a range of points, focus on developing 3 points for analysis and evaluation for a 16 mark question.

Paper Summary

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

- Candidates must read all the questions carefully, and make sure that they have addressed all parts of a question in their response. In a few different questions on this paper, not understanding the requirements of the questions, in terms of depth and breadth, was the main reason for low scores.
- Application is a key assessment objective, and a skill that all candidates should aim to show throughout their responses, even when a question does not explicitly ask for it. Particularly in response to essay questions in Section A, reference to particular countries and examples would help to improve the quality of responses and allow candidates to add depth and breadth to their points.
- Evaluation is the highest level assessment objective and on this paper in particular, the ability to evaluate was the main discriminator between the weaker and stronger responses. Indeed, in some cases, candidates did not even attempt any evaluation which immediately constrained their scores on the questions that required this.
- There are no evaluation marks for 8 mark questions. Please use the time given effectively and avoid assessing the analysis points made. Candidates need to be aware that they need to use the information as indicated by the question to get application marks, wherever applicable.
- To access the highest level, candidates must show sufficient depth and breadth to their analysis and evaluation points. These points must be consistently written in the context of the question. Material also needs to be presented in a relevant and logical way.
- Candidates are highly encouraged to have better structure to their answers. They must avoid writing essays and higher mark questions in bullet points or in long blocks/paragraphs without making a distinction between their analysis and evaluation points.

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>

