Examiners' Report

Principal Examiner Feedback

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Pearson Edexcel International Advanced
Subsidiary in Economics (WEC02/01)
Paper 1: Macroeconomic Performance and Policy

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Introduction

Around 75% 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 3 and 8 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. An accurate definition of disinflation, for example, would have helped with Question 3. Candidates also need to have a suitable level of experience interpreting and analysing macroeconomic tables and charts so they are able to demonstrate full understanding of such data. Question 5, for example, needed candidates to use the numerical data provided to reach a correct answer

The use of data and context is similarly important in Section B. In some cases candidates were completing purely generic responses, making no reference to the data or even to their own examples, therefore not really answering the question. While using previous papers, mark schemes and 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 tend to lack application to the context provided.

There are also a fair number of candidates who simply copy out sections of the data, expecting to be credited for application. This is not application. It is the active use of the data to support an argument or explanation that is credited not the simple replication of data. Simply quoting two figures without explaining their significance, such as the difference between to two figures, would not be awarded application marks.

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 showing the shift of the curve and the change in real output and average price level.

Section A

Q1

This question was generally well answered. Candidates needed to identify the link between monetary policy, consumption/investment, AD and real output. Candidates who identified the change in interest rates as an example of expansionary monetary 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 C as direct tax rates are an example of fiscal policy would have been awarded 1 mark.

Q2

This question was generally well answered. Many candidates successfully identified a fiscal or budget surplus from the stem of the question, linking this to the concepts of a net withdrawal by the government sector 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 but more slowly. These also used the data from the graph to illustrate the changes.

Rejection marks were awarded for explaining why rejection 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 an increase in the value of imports on AD (net exports). The main problem for some candidates was the confusion of the word *value* with the word *price*. Thus some candidates mistakenly talked about an increase in the price of imports and the impact on SRAS.
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 and the impact on real output and average price level.

Q5

This question was generally well answered by those candidates who fully understood the concept of an output gap. 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 an accurate definition of a positive output gap.

Rejection marks were awarded for explaining why point B, C and D could not be correct with reference to the relevant data. For example, Option B could have been rejected by stating that the output gap would be positive and not negative as 2.7 %(actual growth) -2.4% (trend growth) = 0.3%

Q6

This question proved to be surprisingly challenging for many candidates. To find the correct answer and explain it, there had to be a sound understanding of real wage growth and how it is calculated using nominal growth and inflation.

The rejection points for this question had to be explained using the data. This could have been done in each case by stating the required rate of inflation and/or rate of nominal wage growth required for the given outcome.

Q7

Again, this question was generally answered well. It is important that candidates understand factors that determine both AD and LRAS and are able to explain the mechanism of such changes.

As with Question 4, there were 2 marks available for correctly and fully annotating the diagram to show an outward shift of AD and of LRAS, the impact on real output and on the average price level.

Q8

This question was generally not well answered, with many candidates seeming to possess a limited knowledge of the components of the current account and some even confusing the current account with the budget balance.

It is important that the current account of the balance of payments is not confused with the balance of trade. There was evidence of such confusion in a significant number of responses. This simplistic understanding led to a low marks for explanation and for rejection points.

Section B

Many more 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" with "effect" of changes in economic variables. There were some gaps in knowledge, including a persistent belief that rising inflation encourages saving. This is unlikely to be the case as if prices are rising, then consumers are likely to buy now, rather than buy at a later date when prices are higher.

Q9a

This was generally well answered. There were 4 marks available and many candidates accurately explained unemployment rate **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 the *highest* rate is in 2014 (7.3% approx.) and the *lowest* rate is in 2009 (3.4% approx.) would have been awarded 2 application marks.

Q9b

This was generally well answered, although some candidates did not focus on changes after 2014 which was demanded by the question. Also, some candidates confused cause and effect in the question.

There were many ways to achieve the marks, the most common of which was reference to exports and consumption as components of AD and the likely impact upon unemployment. Evaluation marks could be achieved by pointing to the likely inflationary effects of increasing AD in the short-run and how these might be offset by increasing LRAS through investment. The best responses demonstrated evidence of judgement as to the most likely and most significant causes and the use of the data provided.

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 (CA) and how rising exports might impact the CA. The less successful responses did not engage with the data, failing to comment on the use of the Euro or low inflation, both mention in the extracts.

Q9d

Again, the main problem with some responses to this question related to the confusion of cause and effect. The question asks about the impact of low and stable inflation on competitiveness and on investment. Not the causes of low and stable inflation. Both competitiveness and investment needed to be addressed, with data references, for 6 marks for be awarded.

Q9e

While many candidates were able to explain the likely conflict between economic growth and protection of the environment, few were able to explore other potential conflicts, or did so without developing analysis.

A surprising number of candidates discussed conflicting macroeconomic objectives in a generic way without even mentioning environmental protection. This showed a lack of engagement with the data and a failure to address the question set.

Q10a

This question was generally well answered. Most candidates were able to describe the components of HDI for 2 knowledge marks. 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 is to support explanation is rewarded; for example, the HDI ranking is falling for both Madagascar and Guinea-Bissau 2010-2015 and the HDI for Madagascar is higher than Guinea-Bissau in all years would have achieved 2 application marks.

Q10b

The biggest problem with responses to this question was the lack of engagement with the data. Few candidates identified that while there is a higher GNI per capita in Guinea-Bissau than in Madagascar there is a lower HDI (meaning lower standards of education and/or life expectancy).

While some candidates did talk about the link between economic growth and living standards, or the impact of inequality or inflation upon living standard, many also looked at increased real output, higher employment and living standards. The best responses then went on to consider some of the costs of growth, including environmental damage and a lack of sustainability upon living standards in the long-term.

Q10c

This question was well answered, showing an understanding of the impact of education upon productivity and growth.

In summary, while there were some gaps in understanding of how the education is linked to LRAS, most candidates appeared to understand the importance of education to employment, wages and general living standards more generally.

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 Guinea-Bissau, as evidenced by the data provided. There were many links that could have been made, for example: poor quality of roads increases inefficiency and costs for exporters and reduces geographical mobility of labour; lack of railway increases inefficiency of transporting goods as well as reducing geographical mobility of labour.

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 and the construction of a railway.

Q10e

Again, there were a range of responses to this question although they tended to be better than for Q10d. Many candidates provided a reasonable, if generic, response but did not use the data. The better responses were organised around the 3 components of HDI and looked at how economic growth, improved education and better healthcare might be achieved. The less successful responses tended to be generic and were often limited to an outline of supply-side policies.

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 asses your answer. In such questions, responses must not be one-sided. There needs to be some developed evaluative points, where possible with references to the data provided.
- 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 for Evaluation.
- Where possible, use the data provided to illustrate or support your analysis and evaluation. Remember to use the data and do not just copy it out.