



# Mark Scheme (RESULTS)

January 2019

Pearson Edexcel IAS  
In Economics (WEC02)  
Paper 01 Macroeconomic Performance  
and Policy

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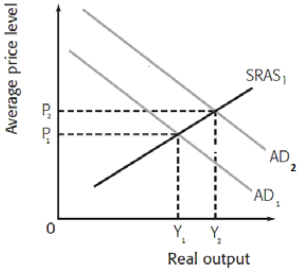
## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

## Section A: Supported multiple choice

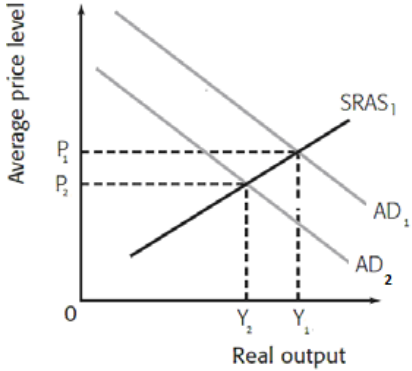
NB: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

NB: Candidates may achieve up to 3 marks (rejection marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Answer	Mark
<b>1</b>	<p><b>Answer B (1 mark)</b></p> <p><b>Explanation (up to 3 marks)</b></p> <ul style="list-style-type: none"> <li>Definition of fiscal policy: use of taxation and/or government expenditure to influence the level of economic activity/aggregate demand</li> </ul> <p><b>OR</b></p> <p>Definition of inflation: sustained rise in the general /average price level <b>(1)</b></p> <ul style="list-style-type: none"> <li>Mechanism by which lower income taxes would increase the rate of inflation (decrease rate of deflation) e.g. lower income tax increases household disposable income <b>(1)</b> leading to higher consumption /AD <b>(1)</b> and higher price level /reduce the rate of deflation <b>(1)</b></li> </ul> <p>Up to 2 marks for diagram showing outward shift in AD, rising real output and average price level</p>  <p><b>Rejection marks</b> <b>Do not double award</b></p> <ul style="list-style-type: none"> <li>Option A: incorrect as interest rate changes is an example of monetary policy not fiscal policy <b>(1)</b></li> <li>Option C: incorrect as a decrease in government spending (G) more likely to decrease AD and inflation <b>(1)</b></li> <li>Option D: incorrect as asset purchases are an example of monetary policy not fiscal policy <b>(1)</b></li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
2	<p><b>Answer D (1 mark)</b></p> <p><b>Explanation (up to 3 marks)</b></p> <ul style="list-style-type: none"> <li>• Definition of fiscal/budget deficit: government spending exceeds tax receipts/government revenue <b>(1)</b></li> <li>• Government spending is an injection into the circular flow of income <b>OR</b> taxation is a withdrawal from the circular flow of income <b>(1)</b></li> <li>• There is £69 billion more injected into the economy through Government expenditure than has been withdrawn through taxation <b>(1)</b></li> <li>• Net withdrawal occurs when government spending is less than tax revenue/net injection occurs when government spending exceeds tax revenue <b>(1)</b></li> </ul> <p><b>Rejection marks</b></p> <p><b>Do not double award</b></p> <ul style="list-style-type: none"> <li>• Option A: incorrect as a current account deficit implies value of imports is greater than the value of exports/current account is not related to government spending or taxation <b>(1)</b></li> <li>• Option B: incorrect as fiscal/budget surplus is a net withdrawal <b>(1)</b></li> <li>• Option C: incorrect as a current account surplus implies value of exports is greater than the value of imports/current account is not related to government spending or taxation <b>(1)</b></li> </ul>	(4)

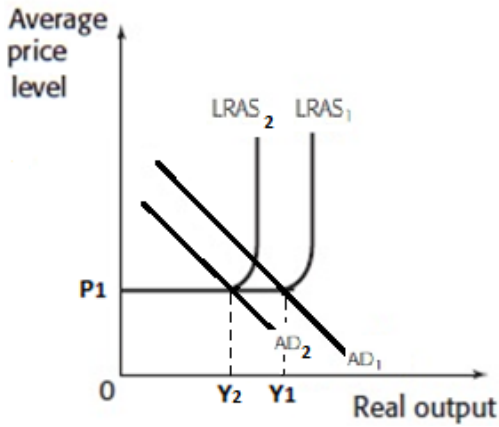
Question Number	Answer	Mark
3	<p><b>Answer C (1 mark)</b></p> <p><b>Explanation (up to 3 marks)</b></p> <ul style="list-style-type: none"> <li>• Real GDP growth is the rate of economic growth taking into account inflation <b>(1)</b></li> <li>• Although growth was higher in final quarter of 2016 growth continued in first quarter of 2017 <b>OR</b> Real output was growing but at a slower rate in quarter 1 of 2017 <b>(1)</b></li> <li>• Reference to actual data from the graph showing increase/decrease in real GDP growth <b>(1)</b></li> </ul> <p><b>Rejection marks</b> <b>Do not double award</b></p> <ul style="list-style-type: none"> <li>• Option A: incorrect as the data shows GDP growth and not inflation/average price level <b>(1)</b></li> <li>• Option B: incorrect as there was negative growth in two non-consecutive quarters in 2012 <b>OR</b> in 2016 there was only one quarter of negative growth <b>(1)</b></li> <li>• Option D: incorrect as the data does not contain any population data <b>(1)</b></li> </ul>	(4)

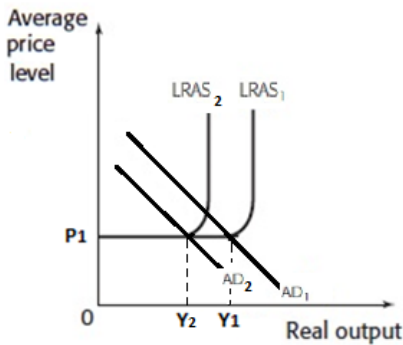
Question Number	Answer	Mark
4	<p><b>Answer A (1 mark)</b></p> <p><b>Explanation (up to 3 marks)</b></p> <ul style="list-style-type: none"> <li>• Net exports are a component of AD <b>OR</b>  <math>AD = C + I + G + (X-M)</math> <b>OR</b>  net exports are <math>(X-M)</math> <b>(1)</b></li> <li>• Therefore decrease in net exports <math>(X-M)</math>  reducing AD/shifting AD curve left <b>(1)</b></li> <li>• This reduces price level from <math>P_1</math> to <math>P_2</math> and  reduce real output from <math>Y_1</math> to <math>Y_2</math> <b>(1)</b></li> </ul> <p>Award up to 2 marks for correctly annotated diagram showing inward shift in AD <b>(1)</b>, lower equilibrium real output and lower average price level <b>(1)</b></p>  <p><b>Rejection marks</b>  <b>Do not double award</b></p> <ul style="list-style-type: none"> <li>• Option B: incorrect as AD likely to shift left due to falling net exports, reducing real output and average price level <b>(1)</b></li> <li>• Option C: incorrect as AD likely to shift left due to falling net exports, reducing average price level <b>(1)</b></li> <li>• Option D: incorrect AD likely to shift left due to falling net exports, reducing real output <b>(1)</b></li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
<b>5</b>	<p><b>Answer C (1 mark)</b></p> <p><b>Explanation (up to 3 marks)</b></p> <ul style="list-style-type: none"> <li>• Definition of CPI: CPI is a weighted price index/a weighted measure of the change in the average price of a basket of goods <b>OR</b> Definition of inflation: sustained increase in the average price level <b>(1)</b></li> <li>• Increase in CPI indicates increase in average price level <b>(1)</b></li> <li>• CPI index increase in every year from 2009-2015 <b>(1)</b></li> <li>• Correct calculation of inflation rate in any year e.g. 1.3 percentage points in 2011 <b>(1)</b></li> </ul> <p><b>Rejection marks</b> <b>Do not double award</b></p> <ul style="list-style-type: none"> <li>• Option A: incorrect as index higher in 2009 than in 2008 therefore there was inflation <b>(1)</b></li> <li>• Option B: incorrect as rate of inflation in 2011 was <math>(101.3-100.0)/100 = 1.3\%</math> whereas in 2010 it was <math>(100.0-97.7)/97.7 = 2.354\%</math> accept inflation in 2010 stated as 2.3% as <math>100-97.7</math> <b>(1)</b></li> <li>• Option D: incorrect as rate of inflation higher in successive years with example from 2012 – 0.7% to 2013 – 2.2% 2014 – 2.1% to 2015 – 2.3% 2009 – 2.197% to 2010 – 2.354% Condone 2009 – 2.1% to 2010 – 2.3% <b>(1)</b></li> </ul>	<b>(4)</b>



Question Number	Answer	Mark
<b>6</b>	<p><b>Answer C (1 mark)</b></p> <p><b>Explanation (up to 3 marks)</b></p> <ul style="list-style-type: none"> <li>• Nominal GDP growth defined: change in the money value of output/rate of economic growth that does not take into account inflation <b>(1)</b></li> <li>• Calculation 2016: <math>10.6\% - 7.1\% = 3.5\%</math> inflation <b>(2)</b> <b>OR</b> Inflation rate can be calculated from nominal growth minus real growth <b>(1)</b></li> </ul> <p><b>Rejection marks</b> <b>Do not double award</b></p> <ul style="list-style-type: none"> <li>• Option A: incorrect as would indicate positive real growth of 28.3% <b>(1)</b></li> <li>• Option B: incorrect as the real growth rate would have been 14.1% <b>(1)</b></li> <li>• Option D: incorrect as the two growth rates are not added together to calculate the inflation rate <b>(1)</b></li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
7	<p><b>Answer B (1 mark)</b></p> <p><b>Explanation (up to 3 marks)</b></p> <ul style="list-style-type: none"> <li>As government spending (G) is a component of AD then lower spending will decrease AD/shift AD curve left <b>(1)</b></li> <li>Spending on education also affects the quality of labour as a factor of production/lower spending on education may decrease skills of workforce and reduce labour productivity <b>(1)</b></li> <li>Lower labour productivity may decrease potential output and shift LRAS left <b>(1)</b></li> </ul> <p>Up to 2 marks for diagram showing inward/left shift in AD and inward/left shift of LRAS falling real output <b>(1)</b> fully correct and annotated diagram <b>(1)</b></p>  <p><b>Rejection marks</b> <b>Do not double award</b></p> <ul style="list-style-type: none"> <li>Option A: incorrect as AD curve likely to shift left as G is a component of AD<b>(1)</b></li> <li>Option C: incorrect as LRAS curve likely to shift left as labour productivity likely to decrease<b>(1)</b></li> <li>Option D: incorrect as both the AD curve (falling G) and LRAS curve (lower labour productivity) likely to shift left <b>(1)</b></li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
8	<p><b>Answer D (1 mark)</b></p> <p><b>Explanation (up to 3 marks)</b></p> <ul style="list-style-type: none"> <li>Economics growth is an increase in the output of a country, in either real or nominal GDP, or an increase in productive capacity <b>(1)</b></li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>Constraint on economic growth is any factor reducing AD or LRAS that reduces the rate of economic growth <b>(1)</b></li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>Real investment is the value of investment taking into account inflation <b>(1)</b></li> <li>Fall in real investment is likely to reduce productive potential of economy reducing LRAS <b>(1)</b></li> <li>Investment is a component of AD thus real output likely to be reduced <b>(1)</b></li> </ul> <p>Up to 2 marks for diagram showing inward shift in AD <b>and/or</b> LRAS, new equilibrium with lower real output</p>  <p><b>Rejection marks</b> <b>Do not double award</b></p> <ul style="list-style-type: none"> <li>Option A: incorrect as a strong and stable government is more likely to increase consumer/business confidence, increasing consumption/investment, increasing growth <b>(1)</b></li> <li>Option B: incorrect as an increase in productivity likely to shift AS/LRAS outwards, increasing economic growth <b>(1)</b></li> <li>Option C: incorrect as a surplus on the</li> </ul>	<p><b>(4)</b></p>

	current account is likely to increase AD and increase economic growth <b>(1)</b>	
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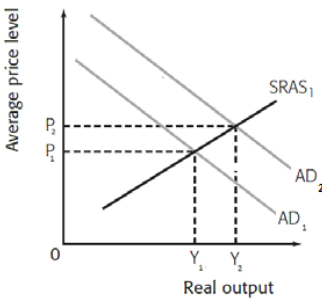
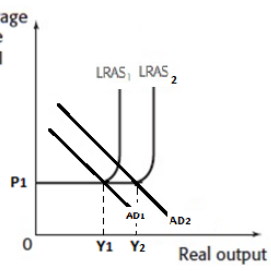
## Section B: Data response

NB: KAA marks relates to those awarded for AO1, AO2 and AO3

NB: Evaluation marks relates to those awarded for AO4

Question Number	Answer	Mark
<b>9 (a)</b>	<p><b>Knowledge and application (up to 4 marks)</b></p> <p><b>Up to 2 marks for knowledge:</b></p> <ul style="list-style-type: none"> <li>Current account – A record of all money flows to and from a country arising from exports and imports of goods and services, as well as transfers of income and other net transfers <b>(1)</b></li> </ul> <p><b>NB</b> also accept definition of current account as comprising trading goods, trading services and primary and secondary incomes</p> <ul style="list-style-type: none"> <li>Visible trade balance – The sum of visible (trade in goods) export revenue minus the sum of trade import expenditure. <b>(1)</b></li> <li>A positive value is a trade surplus; a negative value is a trade deficit <b>(1)</b></li> <li>Invisible balance – The net sum of invisible trade, consisting of services, flows of incomes and net transfers <b>(1)</b></li> <li>Services – The trade in services forms part of the invisible balance. Foreign tourists spending money in the country counts as invisible exports; the purchasing of foreign holidays counts as an invisible import <b>(1)</b></li> <li>Flow of Incomes – Repatriated profits, dividends from foreign shares and interest payments on foreign bank accounts count as invisible exports <b>(1)</b></li> <li>Net Transfers – Remittances, foreign aid and grants are counted in the invisible balance <b>(1)</b></li> </ul> <p><b>Up to 2 marks for application:</b> 1 mark for each valid reference to data in Figure 1 e.g.</p> <ul style="list-style-type: none"> <li>Current account deficit (as % of GDP) between 2009 (10.5%) and 2012 (2.0%) <b>(1)</b></li> <li>Current account surplus (as % of GDP) in 2013 (1.5%), 2016 (1.0%) and 2017 (6.0%) <b>(1)</b></li> <li>Current account is in balance 2014 and 2015 <b>(1)</b></li> </ul>	<b>(4)</b>



Question Number		Mark
<b>9 (b)</b>		<b>(14)</b>
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> <li>Investment is an injection and included in calculation of GDP</li> <li>Increasing invisible exports may increase AD, ceteris paribus, increasing real output and average price level</li> <li>Increasing investment may increase productive potential/capacity of tourist industry, increase LRAS</li> <li>Falling unemployment (Figure 2)</li> <li>Elimination of current account deficit from 2013 and surplus forecast for 2017 (Figure 1)</li> <li>Rising tax revenues (Extract 1)</li> <li>Increasing investment (Extract 1) leading to higher AD</li> <li>Multiplier effect of rising exports on AD</li> <li>Candidates should produce diagram(s) showing outward shift in AD, although some may also show outward shift in LRAS following rising investment in construction (Extract 1) and education (Extract 2)</li> </ul> <div style="display: flex; justify-content: space-around; align-items: flex-end;">   </div> <p>Positive impacts of increasing exports can be used for KAA and negative impacts for evaluation or vice versa</p>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible impacts <b>or</b> identification of one or more points. Definition/understanding or data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.

2	4-6	Identification and some explanation of impacts identified along with some development of analysis <b>or</b> some identification of possible effects and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the economic impact <b>and</b> data references Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – indicative content		
	<p>Negative impact of increasing investment in tourism include:</p> <ul style="list-style-type: none"> <li>• Impact on inflation of rising AD (inflation still less than 2% in Figure 2)</li> <li>• Seasonality of tourism</li> <li>• Tourism 17% of exports (Extract 1) Impact on trade balance will depend upon level of imports (X-M)</li> <li>• Size of multiplier will depend upon MPM</li> <li>• Greater demand for currency may increase pressure to appreciate, although actual value may not alter as a result, as Portugal uses the Euro</li> <li>• Time lag between investment made and improved exports</li> <li>• Investment may damage exports in short-run as building and construction work puts off tourists</li> <li>• Potential negative impact on the environment</li> <li>• Reliance upon overseas markets for demand</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.



Question Number	Answer	Mark
<b>9 (c)</b>	<p><b>Knowledge and application (up to 6 marks)</b></p> <p><b>Knowledge (up to 3 marks from):</b></p> <ul style="list-style-type: none"> <li>• Definition of unemployment rate such as: the percentage of the population of working age <b>(1)</b> actively seeking work but unable to find suitable employment/any other suitable definition <b>(1)</b></li> <li>• More temporary contracts for younger workers <b>(1)</b></li> <li>• Younger workers likely to be less skilled <b>(1)</b></li> <li>• High costs of making older workers redundant <b>(1)</b></li> <li>• Easier and less costly for firms to fire younger workers <b>(1)</b></li> <li>• More expensive to train younger workers <b>(1)</b></li> </ul> <p><b>Application (up to 3 marks):</b></p> <ul style="list-style-type: none"> <li>• Youth unemployment is 24.6% <b>(1)</b></li> <li>• Average unemployment is 9.4% <b>(1)</b></li> <li>• Youth unemployment in Extract 1 is defined as 15-24 years old <b>(1)</b></li> <li>• Award marks for reference to data in Figure 2 and use in answer e.g. average unemployment in 2013 was 16% and youth unemployment could have been 50% or higher</li> </ul> <p><b>If only one reason identified then award up to 3 marks (1 knowledge and 2 application)</b></p>	<p><b>(6)</b></p>

Question Number			Mark
9 (d)			(10)
Knowledge, application and analysis - indicative content			
	<p>Data references may include:</p> <ul style="list-style-type: none"><li>• Figure 2: Unemployment decreasing from 16% to 9% from 2013 to 2017</li><li>• Extract 1: Higher investment and exports</li><li>• Extract 1: 2% economic growth</li><li>• Extract 1: Improved budget balance (higher tax receipts and less government spending, including on unemployment benefits)</li><li>• Extract 1: Budget deficit target of 1.5% of GDP achievable</li><li>• Figure 1 Shows higher growth since 2014 and current account surplus since 2013</li></ul> <p>Economic impact might include:</p> <ul style="list-style-type: none"><li>• Higher disposable incomes, increased consumption, AD and economic growth</li><li>• Increased consumer and business confidence, leading to higher consumption, investment and economic growth</li><li>• Decreased government spending on benefits may release funds for investment in infrastructure and in human capital (e.g. investment in training and education)</li><li>• Higher investment may lead to increase LRAS/productive capacity</li><li>• Less crime, social unrest etc.</li></ul> <p>Positive impact may be presented as KAA but the negative impact may be accepted as evaluation or vice versa</p>		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-2	Shows some awareness of effects <b>or</b> data references.	
2	3-4	Understanding of effects <b>or</b> some awareness of effects and data references.	
3	5-6	Clear understanding of effects <b>and</b> linking to data.	

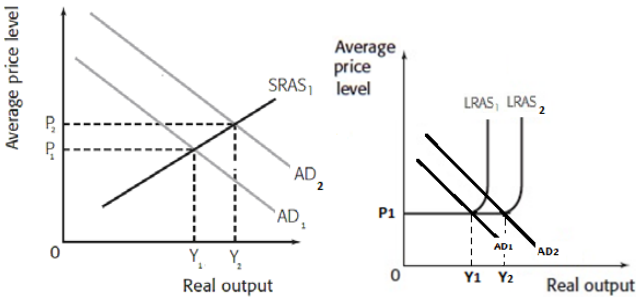
Evaluation – indicative content		
	<p>Requires evidence of awareness of possible negative impact of falling unemployment (answer is not one-sided):</p> <ul style="list-style-type: none"> <li>• Temporary and seasonal employment in tourism this impact may be short-term</li> <li>• Increased consumption and investment may create environmental degradation</li> <li>• Employment may be low skilled and low pay which may create rising inequality</li> <li>• Still high levels of youth unemployment, which may mean rising inequality</li> <li>• Falling unemployment may increase inflationary pressures</li> <li>• Possible impact on current account due to increase in imported goods as a result of higher disposable incomes</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
<b>9(e)</b>		<b>(14)</b>
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> <li>• Macroeconomic objectives include: increased economic growth, control of inflation, a reduction in unemployment, equilibrium of the Balance of Payments, balanced budgets, redistribution of income, protection of the environment</li> </ul> <p>Point to support avoidance of conflicts might include:</p> <ul style="list-style-type: none"> <li>• Growth in tourism suggests rapidly rising demand and tax revenues from the sector (Extract 1) improving budget balance (Extract 1)</li> <li>• Increasing economic growth since 2014 (Figure 1) and relatively low inflation (Figure 2)</li> <li>• 2% growth forecast for 2017 (Extract 1) and rising inflation but still low at 2% (Figure 2)</li> <li>• Improvement in the current account of the balance of payments (Figure 1) as a result of rising exports (Extract 1)</li> <li>• Higher incomes due to lower unemployment (Figure 2) may redistribute income as average incomes rise and there is investment in education (Extract 1)</li> <li>• Tourist industry can be regulated to limit environmental impact</li> <li>• Investment in the construction industry has multiplier effects</li> </ul> <p>Avoidance of conflicts used for KAA and conflicts for evaluation or vice versa</p>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible conflicts or identification of one or more conflicts. Understanding of conflicts <b>or</b> data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of conflicts identified along with some development of analysis <b>or</b> some identification of possible conflicts and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be

		present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the conflicts <b>and</b> data references. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – indicative content		
	Conflicts may include:	
	<ul style="list-style-type: none"> <li>Increasing demand may further increase inflation, increase costs and reduce international competitiveness</li> <li>Impact will depend upon how sustained the growth in tourism is – impact will be greater if long-term</li> <li>Impact of rising incomes will depend upon the size of the multiplier and the extent to which the goods and services required can be supplied domestically</li> <li>Increased construction may negatively impact upon environment</li> <li>Continued economic growth may negatively affect the current account balance</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number	Answer	Mark
<b>10 (a)</b>	<p><b>Knowledge and application (up to 4 marks)</b></p> <p><b>Up to 2 marks for knowledge:</b></p> <ul style="list-style-type: none"> <li>• Monetary policy is a macroeconomic policy instrument used by governments/central banks to help achieve macroeconomic objectives <b>(1)</b></li> <li>• Explanation of how higher interest rates are likely to/have affected the rate of inflation <b>(1)</b></li> </ul> <p>Monetary policy includes:</p> <ul style="list-style-type: none"> <li>• interest rates</li> <li>• asset purchases to increase money supply</li> <li>• reserve ratios <b>(1)</b></li> </ul> <p><b>Up to 2 marks for application:</b></p> <ul style="list-style-type: none"> <li>• The Monetary Policy Committee (MPC) of Angola is responsible for monetary policy <b>(1)</b></li> <li>• MPC monitors a range of macroeconomic indicators <b>(1)</b></li> <li>• The MPC decided to keep the base interest rate at 16% throughout 2017 <b>(1)</b></li> <li>• Increased to 12% in Feb 2016 and to 16% in July in response to very high inflation <b>(1)</b></li> <li>• High interest rate has begun to reduce inflation <b>(1)</b></li> </ul>	<b>(4)</b>

Question Number		Mark
<b>10 (b)</b>		<b>(14)</b>
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> <li>Investment is an injection and is included in calculation of GDP</li> <li>Increasing investment may increase AD, ceteris paribus, increasing real output and average price level</li> <li>Falling unemployment (Extract 1)</li> <li>550 employed/regional unemployment 70% to 20%</li> <li>Reduction of current account deficit from 2015 to 2017 (Figure 2) e.g. exports of concrete bars and processed fish</li> <li>Reduce slow-down in growth 2015-2016 (Figure 1)</li> <li>Diversify economy/reduce dependence upon oil (Extract 1)</li> <li>Multiplier effect of rising investment on AD</li> <li>Increase productive potential of economy as investment in infrastructure (Extract 1)</li> <li>Candidates should produce diagram(s) showing outward shift in AD, although some may also show outward shift in LRAS following rising investment</li> </ul> <div style="display: flex; justify-content: space-around; align-items: flex-end;">  </div> <p>Positive impact may be presented as KAA but the negative impact may be accepted as evaluation or vice versa</p>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible impacts <b>or</b> identification of one or more points. Definition/understanding or data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.

2	4-6	Identification and some explanation of impacts identified along with some development of analysis <b>or</b> some identification of possible effects and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the economic impact <b>and</b> data references Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – indicative content		
	<p>Negative impact of higher investment may include:</p> <ul style="list-style-type: none"> <li>• Higher inflation (already high at 35% in 2016)</li> <li>• Impact on inflation will depend upon effect upon LRAS/potential output</li> <li>• Impact will depend upon size of the multiplier</li> <li>• Investment may create environmental damage and decrease living standards for some</li> <li>• Imported capital equipment may further weaken currency (forecast of AKZ 166 to the US dollar in 2017) which may be inflationary due to reliance on imports</li> <li>• Impact on economy may be limited because many of the changes identified are regional</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.



Question Number	Answer	Mark
<b>10 (c)</b>	<p><b>Knowledge and application (up to 6 marks)</b></p> <p><b>Knowledge (up to 3 marks):</b></p> <ul style="list-style-type: none"> <li>• Current account defined as: record of all money flows to and from a country arising from exports and imports <b>(1)</b> of goods and services, transfers of income and other net transfers <b>(1)</b></li> <li>• Increased value of exports and/or lower value of imports likely to reduce current account deficit <b>(1)</b></li> <li>• Fall in value of currency makes exports more price competitive and imports less price competitive <b>(1)</b></li> <li>• Commodity price of oil. Angola's chief export product, has large impact on current account <b>(1)</b></li> </ul> <p><b>Application (up to 3 marks):</b></p> <ul style="list-style-type: none"> <li>• Current account deficit as a % of GDP reducing from 10% in 2015 <b>(1)</b> to 4% forecast in 2017 <b>(1)</b></li> <li>• Rate of inflation 35% in 2016 and 28% in 2017 <b>(1)</b></li> <li>• Steel production is above domestic requirements <b>(1)</b> reducing imports and increasing exports <b>(1)</b></li> <li>• Fish processing reduces imported food <b>(1)</b> and increases exports <b>(1)</b></li> <li>• Energy and water now supplied domestically <b>(1)</b> reducing imports <b>(1)</b></li> <li>• Value of Angola's currency has depreciated to AKZ 166 to US\$1 <b>(1)</b></li> </ul> <p><b>If only one cause identified then award up to 3 marks (1 knowledge and 2 application)</b></p>	<b>(6)</b>

Question Number		Mark
<b>10(d)</b>		<b>(10)</b>
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"><li>• Large fluctuations in the rate of inflation between 2009 and 2017 (Figure 1)</li><li>• Inflation 7% in 2014 and 35% in 2016 (Figure 1)</li><li>• Average rate of inflation 2009-2017 is around 15% (Figure 1)</li></ul> <p>Negative impact of high inflation may include:</p> <ul style="list-style-type: none"><li>• impact on income distribution and living standards of those on low and fixed incomes</li><li>• reduced international competitiveness as costs rise</li><li>• lower investment due to greater uncertainty</li><li>• further loss of value of currency (Figure 2) and this may increase inflation as import prices rise</li><li>• High interest rates (16%) reduce consumer borrowing/spending and firms’ borrowing for investment, reducing growth and employment</li><li>• Large fluctuation in rate of inflation make it difficult for firms to plan and reduce business confidence, investment and growth</li></ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of disadvantages <b>or</b> data references.
2	3-4	Understanding of disadvantages <b>or</b> some awareness of disadvantages and data references.
3	5-6	Clear understanding of disadvanatges <b>and</b> linking to data.

Evaluation – indicative content		
	<p>Positive impact and ways in which constraints of fluctuating/high inflation may be overcome include:</p> <ul style="list-style-type: none"> <li>• Positive relationship between inflation and employment</li> <li>• Investment in education/training and human capital to increase LRAS/productive potential</li> <li>• Investment in new energy and water infrastructure to improve productivity</li> <li>• Increase exports to strengthen currency and reduce import prices</li> <li>• High inflation reduces real value of debts and thus may encourage borrowing and spending</li> <li>• Inflation forecast to fall in 2017 and if this fall is sustained then negative impact may be reduced</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number			Mark
10(e)			(14)
Knowledge, application and analysis - indicative content			
	<p>Macroeconomic objectives which may conflict with higher interest rates might include:</p> <ul style="list-style-type: none"><li>• Control of base interest rate is part of monetary policy. MPC make decisions on base interest rate in order to influence the rate of inflation</li><li>• Rate increased to 12% in February 2016 and 16% in July 2016.</li><li>• Rate of inflation approximately 35% in 2016 and 28% in 2017</li><li>• Effective interest rate is to reduce consumption and to reduce investment. Therefore, AD reduces. This reduces inflationary pressure</li><li>• Lower inflation boosts international competitiveness, thus improving current account</li><li>• May also reduce inequality</li></ul> <p>Positive impacts can be used for KAA and complementary objectives or ways in which conflicts might be overcome for evaluation or vice versa</p>		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of possible impact or identification of one or more effects. Understanding of costs <b>or</b> data references Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.	
2	4-6	Identification and some explanation of impact identified along with some development of analysis <b>or</b> some identification of possible impacts and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.	
3	7-8	Clear understanding and analysis of the impact <b>and</b> data references. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.	

Evaluation – indicative content		
	<p>Evaluation might include negative impacts of higher interest rate</p> <ul style="list-style-type: none"> <li>• Lower AD leads to higher unemployment's and lower profits for firms</li> <li>• In the long-term the LRAS may shift left</li> <li>• Lower standard of living for Angolans as lower incomes</li> <li>• May create greater income inequality</li> <li>• Lower consumption may mean fewer imports or lower MPM</li> <li>• Less effect on environment</li> <li>• Government budget may be in deficit</li> </ul> <p>Impact upon environment may depend more upon the level of regulation/environmental laws and capacity to enforce these laws</p>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

