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Mark Scheme (Results)

January 2014

Pearson Edexcel
International Advanced Level (IAL)
Economics (WEC02) Unit 2

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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.

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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 for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Indicative Content	Mark
1	**Answer B** • Definition of unemployment rate: % of workforce who are willing to work but unable to find employment **OR** Definition of unemployment: person actively seeking work but unable to find suitable work **(1)** • Definition of budget deficit: government expenditure greater than tax revenues **(1)** • Cutting budget deficit implies an increase in leakages relative to injections **(1)** • increase in taxes and/or a decrease in government expenditure **(1)** • development of mechanism by which changes in G or T lead to unemployment **(1)** • Application (explicit data reference): rise in unemployment of 10.6 percentage points increase linked to AD **(1)** • AD/AS diagram showing leftward shift of AD curve **OR** may be written reference to budget deficit reduction as reducing AD **(1)** **Rejection marks:** • A incorrect because a decrease in the exchange rate would increase the competitiveness of Spain's goods and services increasing exports and employment in export industries, reducing unemployment • C is incorrect because these increase in school leaving age would reduce the size of the workforce and thus reduce unemployment • D is incorrect because lower immigration would reduce the size of the workforce and thus reduce unemployment	**(4)**

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Question Number	Indicative Content	Mark
2	**Answer B** • Definition of fiscal policy: use of taxation and/or government expenditure to influence the level of economic activity **(1)** • Definition of inflation: sustained rise in the general price level **(1)** • Identification of contractionary or deflationary fiscal policy • Mechanism by which higher income taxes would reduce the rate of inflation e.g. reduction in disposable income leading reduced consumption **(1)** • Leading to fall in AD **(1)** and fall in price level /decreased inflationary pressure **(1) OR** diagram showing fall in AD **(1)** and fall in price level **(1)** **Rejection marks:** • A and D are incorrect because these are examples of monetary policy • C incorrect because price controls are an example of direct controls	**(4)**

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Question Number	Indicative Content	Mark
3	**Answer A** • Annotation of diagram to show rightward shift of LRAS curve **(1)**; causing a fall in the price level and rise in real output **(1)** • If no annotation or diagram and written description only: increased quality of education would lead to a rightward shift in the LRAS curve **(1)** • Improvements in education/training may increase productivity or potential output **(1)** further development of this point **(1)** • Identifying increased real output as economic growth OR lower price level as deflationary pressure **(1)** **If no diagram annotated or drawn cap at 2 marks for explanation** **Rejection marks:** • B and C incorrect because improvements in the quality of education would cause increased productivity and potential output reducing the price level • C and D incorrect because improvement in education and training will increase productivity shifting LRAS rightward to increase real output. **The rejection mark for C can only be awarded once.**	**(4)**

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Question Number	Indicative Content	Mark
4	**Answer D** • Definition of a recession: 2 or more consecutive quarters of negative economic growth **(1) OR** Definition of negative output gap: when actual growth is less than trend growth rate**(1) OR** real output below potential output **(1) OR** current output below full employment level **(1)** • Relevant diagram showing output gap either AD/AS, business cycle or PPF **(1)** • Analysis of impact of negative output gap on consumption and on unemployment (1 + 1) **Rejection marks:** • A is incorrect because output is unlikely to be rising in a recession (with explanation) • B is incorrect because profits would be falling in a recession (with explanation) • C is incorrect because unemployment would be rising in a recession (with explanation)	**(4)**

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Question Number	Indicative Content	Mark
5	**Answer D** • Definition of net withdrawal: reduction to the circular flow of income **(1)** • Definition of budget surplus: tax revenues greater than government expenditure **(1)** • Definition of circular flow of income: flow of goods and services between households and firms and their corresponding payments in money terms **(1)** or diagram **(1)** • Explanation/analysis: taxes are a leakage **(1)** whereas government expenditure is an injection **(1)** This implies that leakages were greater than injections **(1)** **Rejection marks:** • A cannot be correct because taxes (leakages) are greater than government expenditure (injections) • B incorrect because a budget surplus would not necessarily cause a rise in government expenditure in the following year • C incorrect as value of multiplier is determined by marginal propensity to import, consume etc	**(4)**

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Question Number	Indicative Content	Mark
6	**Answer C** • Definition of balance of trade: value of goods and services exported minus value of goods and services imported **(1)** • Application: Cyprus's balance of trade was negative throughout the period **(1)** • Explanation/analysis: this implies that the value of imports was greater than the value of exports **(1)** which implies a balance of trade deficit/negative net exports **(1)** **Rejection marks:** • A incorrect – if exports are greater than imports there would be a balance of trade surplus and positive number on graph • B incorrect because this data relates to trade rather than government revenue and expenditure • D is incorrect because the relationship between savings and investment does not relate to trade **Only accept data not relevant for one rejection mark**	**(4)**

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Question Number	Indicative Content	Mark
7	**Answer D** • Example of or definition of a commodity **(1)** • Explanation: an increase in commodity prices implies an increase in production cost **(1)** • In turn, this will cause (SR)AS to shift to the left **(1)** and change in equilibrium **(1)** • This may be illustrated by an aggregate demand/aggregate supply diagram showing a leftward shift in the (SR)AS curve **(1)** and change in equilibrium **(1)** **Rejection marks:** • A is incorrect because an increase in investment will cause an increase in AD increasing real output • B is incorrect because a reduction in indirect taxes will cause the SRAS curve will to shift to the right • C is incorrect because an increase productivity will cause a rightward shift in the AS curve (as more can be produced at each price level)	**(4)**

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Question Number	Indicative Content	Mark
8	**Answer B** • Definition of inflation: sustained increase in the average price level/percentage increase in the average price level **(1)** • Identification of inflation over the period **(1)** • Specific use of data: inflation rate was 6% in 2008 and below 2% in 2010 **(1)** disinflation was occurring **(1)** • This implies that prices were still rising **(1)** but at a slower rate **(1)** **Rejection marks:** • A incorrect because inflation rate was 4% in 1999 but 2% in 2011 • C incorrect because average prices were rising at a slower rate in both these periods • D incorrect because the rate of inflation was positive throughout the period so average prices must have been higher in 2010 than in 2000.	**(4)**

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Question Number		Mark
9(a)		

	2011	**2012**
Trade in goods	73 524	65 256
Trade in services	3 175	- 7 353
Income (interest, profits and dividends)	-12 695	- 20 296
Current transfer	10 372	- 9 937
Total	**RM47 282m**	**RM27 670m**

(1+1) for the above calculations

Therefore, change in current account balance: surplus has decreased by **RM19 612m** (2) **OR** change given as % change **41.47% / 41.5%** then award (2)

If error in either of the annual calculations then 2 marks awarded for correct calculation (error carried forward)

If the answer is given as 19 612 without millions then maximum of 3 marks

Definition of current account balance: value of goods and services exported minus value of goods and services imported plus investment income plus current transfers **(1)**

(4)

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Question Number		Mark
Knowledge, Application and Analysis – Indicative content		
9(b)	Accept **two** possible reasons. Factors might include: • 'Strong domestic activity': implies increasing demand for imports • Economic growth of 5%: implies increasing real incomes/ higher demand for imports • 'More challenging external environment' implies lower demand for Malaysia's exports because e.g. very slow growth in export markets because of depth of recession • Trade in goods fallen- surplus reduced RM8 268M- may be goods exported becoming less attractive/ more attractive imports • Trade in services fallen- deficit worsened RM4 178M- may be services exported becoming less attractive/ more attractive imports • Income fallen RM7 601M- may be less interest, profits and dividends earned abroad • Increased government spending- if on capital goods from abroad/ increases imports • Savings falling **to** 32.7% suggesting people marginal propensity to save has fallen and the marginal propensity to import may have risen.	**(6)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of reasons and/or data references.
2	4-6	Understanding of reasons of change in Malaysia's current account and/or data references.

Evaluation on next page

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Evaluation – Indicative content		
	• Prioritisation with reason • Data use to help prioritise factors- e.g.biggest fall in trade in goods RM8 268M • Could be a short run fall in the current account surplus only e.g. if and when global economy recovers • Current account still in surplus, although it has fallen • Current account balance expected to improve in 2013 • Consumer confidence may be fragile/volatile	**(4)**

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.

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Question Number	Indicative Content	Mark
Knowledge, Application and Analysis – Indicative content		
9(c)	Consumption growing strongly, at 7% in 2012. Possible causes include: • Increase in disposable incomes • stable labour market conditions: greater job security would help to stimulate consumption • falling savings ratio • increase consumer confidence • lower interest rates Investment also growing steadily, at 11.7% in 2012. Possible causes include: • Lower interest rates • Growth in exports • Increased business confidence related to growth in consumption and exports • Infrastructure projects- making returns on investment higher	**(8)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the factors influencing either consumption and/or investment or identification of one or more points. 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 the factors influencing either consumption and/or investment. 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 factors which were expected to affect both consumption and investment. 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.

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Question 9c

Evaluation – Indicative content		
	• Increase in consumption might be short-lived if there is a decline in consumer confidence • The 'more challenging external environment' might limit the growth of investment in the future • Exports grow relatively slowly • Investment tends to be volatile so could be a sharp downturn if business confidence falls • Awareness that the rate of growth of C & I may be slowing – Consumption growth falling 0.1%, Investment 0.5%	**(6)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comment(s) without explanation.
2	3-4	For evaluative comment(s) supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number	Indicative Content	Mark
9(d)	An injection is an inflow into the circular flow of income **(1)**. Injections include investment, government expenditure and exports. **(1)** A withdrawal is an outflow from the circular flow of income **(1)**. Withdrawals include savings, taxes and imports. **(1)** The above could be illustrated by a circular flow diagram. **(4)** Specific data references from Figure 3 or Extract 1, one for savings and one for investment. **(1 + 1)** Data reference- increased government spending, slow growth in exports, imports grow **Maximum 4 marks if no data references.**	**(6)**

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Question Number	Indicative Content	Mark
Knowledge, Application and Analysis – Indicative content		
9(e)	Effects might include: • Increase in productive capacity of the economy • Investment as an injection into the circular flow; consideration of the multiplier effect • Use of AD/AS diagram to illustrate how increased investment would cause a rightward shift in aggregate demand curve and in the aggregate supply curve • Investment and PPF (unit 1 but acceptable) • Increase in real output • Increase in employment/reduction in unemployment • Impact on inflation: depends on relative shifts of AD & AS curves and their gradients • Productivity likely to increase making Malaysia's goods more competitive so leading to an improvement in the trade balance	**(8)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects or identification of one or more points. 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. **If no data reference then cap response at level 3**
2	4-6	Identification and some explanation of effects of an increase in investment in Malaysia. 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 effects of investment on Malaysia. 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 on next page

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Question 9e

Evaluation – Indicative content		
	Factors might include: • Effect depends on the magnitude of the increase in investment and on the... • Size of the multiplier • Also much will depend on the gradients of the AD and AS curves • Malaysia's competitiveness improved if other countries have not also increased investment • Depends on what invsted in- prestige projects or low productivity items e.g. housing or high productivity technology • Full impact of the increase in investment will only be felt in the long run	**(6)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comment(s) without explanation.
2	3-4	For evaluative comment(s) supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

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Question Number	Indicative Content	Mark
10(a)	Real wages: nominal wages minus the inflation rate **(1 mark)** Calculation 2010: 11.7% - 12.11% = -0.41% **(2 marks)** Calculation 2011: 12.6% - 8.97% = +3.63% (**2 marks)** **Therefore, change in real wages is approximately +3.22% (2 marks)**	**(4)**

Question Number	Indicative Content	Mark
10(b)	Two costs identified **(1 + 1)** and for each explanation award up to 2 marks **(2 + 2)** **Costs may include:** • greater uncertainty **(1)** and fall in business confidence **(1)** leading to lower investment **(1)** • redistribution of income **(1)** borrowers benefit and savers suffer **(1)** if the inflation rate is greater than the rate of interest **(1)** • loss of competitiveness **(1)** of the country's exports **(1)** if its inflation rate is higher than that of its major competitors **(1)** • real burden of debt **(1)** both public and private **(1)** would fall **(1)** • inflation may increase firms costs **(1)** causing profits to fall/profit margins to fall **(1)** if they cannot increase revenue **(1)** • real incomes could fall **(1)** if wage rises do not keep pace with inflation **(1)** thus falling living standards **(1)** • Inflationary spiral **(1)** rising prices **(1)** lead to rising wage demands **(1)**	**(6)**

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Question Number	Indicative Content	Mark
Knowledge, Application and Analysis – Indicative content		
10(c)	• For almost all years, nominal and real wages are rising • Therefore, consumption is likely to increase • This will cause aggregate demand to increase • With a subsequent rise in real output and the price level. This may be illustrated with an AD/AS diagram • Higher nominal wages would increase the costs of firms • This would cause a leftward shift of the AS curve causing.. • A rise in the price level and fall in real output. This may be illustrated with an AD/AS diagram.	**(6)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of reasons and/or data references. Clearly explains the mechanism by which rising wages effects **either** the price level and real output in India OR offers some development of how rising wages effects **both** the price level and real output
2	4-6	Understanding of effects of rising wages in India and data references. Clearly explains the mechanism by which rising wages effects **both** the price level and real output in India

Evaluation – Indicative content		
	• If AD approach is offered as KAA, the AS approach could be evaluation and vice versa • Reference to gradients of AD and/or AS curves • Significance of size of multiplier • Magnitude of wage rises	**(4)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comment(s) without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

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Question Number		Mark
Knowledge, Application and Analysis – Indicative content		
10(d)	Factors might include: • Expected rate of economic growth: suggestion that this will fall so case for a stimulus by reducing interest rates • Stagnating industrial output • Lower forecast growth in nominal wages: suggests that cost-push pressures are declining • Fall in gold and commodity prices: again this suggests lower cost-push pressures • Inflation rate appears to be on a downward trend- reference to data Cutting budget deficit- cutting government spending- contractionary- interest rate counters this	**(8)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible arguments for an interest rate cut or identification of one or more points. 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 arguments for an interest rate cut. 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 arguments for an interest rate cut. 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 on next page

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Question 10d

Evaluation – Indicative content		
	Factors might include: • Difficulty of making accurate forecasts • Fall in commodity prices might be short-term • Inflation rate still nearly 8% • Difficulty of determining impact on the exchange rate of a change in interest rates • External factors might change suddenly e.g. oil prices • Growth already likely to improve • Government investment more useful/ supply side policies • Magnitude of interest rate change important • Short run or long run impact of interest rate cut	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comment(s) without explanation.
2	3-4	For evaluative comment(s) supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

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Question Number		Mark
Knowledge, Application and Analysis – Indicative content		
10(e)	Effects might include impact: • on real output: investment is an injection into the circular flow; will have a multiplier effect on GDP • on unemployment: likely to fall because of the increase in GDP • on the price level or inflation: both AD & AS will increase so difficult to determine • on fiscal balance: higher GDP is likely to result in an increase in tax revenues and lower government expenditure on benefits to the unemployed. • diagram demonstrating effect on AD and/or AS	**(14)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects or identification of one or more points. 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 effects of an increase in public investment in India. 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 effects of an increase in public investment in India. 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 on next page

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Question 10e

Evaluation – Indicative content		
	• Long term or short term effects • Relative importance each effect • Low consumer and/or business confidence might limit the effect on economic growth • Other factors are more important - ceteris paribus might not hold • Effects depend on the level of spare capacity/shape of the AS curve/elasticity of AD • Different effects in different industries or parts of the country	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comment(s) without explanation.
2	3-4	For evaluative comment(s) supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

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