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Mark Scheme (Results)

Summer 2016

Pearson Edexcel International Advanced Subsidiary 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.

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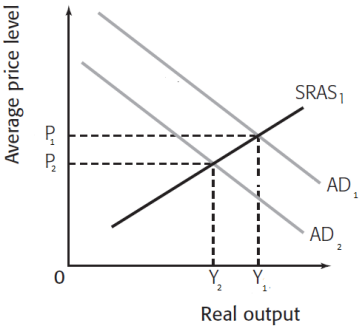
Section A: Supported multiple choice

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

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

Question Number	Answer	Mark
1	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Interest rate is the price paid for borrowing money/reward for saving **(1)** • Identifying this is an example of contractionary monetary policy/ demand side policy **(1)** • 2.5% increase will raise cost of borrowing • 2.5% increase will raise reward for saving **(1)** • Less borrowing and spending may reduce AD due to lower consumption/ investment reducing real output and employment **(1)** • more saving may decrease AD as withdrawal from circular flow reducing real output and employment/increasing unemployment **(1)** • Accurate AD/AS diagram showing inward shift in AD award up to 2 marks  **Rejection marks** • A incorrect as economic growth likely to be lower with less spending, investment and higher saving **(1)** • B incorrect as higher interest rates may reduce AD due to lower consumption and investment **(1)** • D incorrect as in short run higher rates impact upon AD however in long run may lower LRAS **(1)**	

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	NB do not double award for rejection marks B and D – each must be fully explained for 2 marks	**(4)**

Question Number	Answer	Mark
2	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Youth unemployment - ILO defined as the number of unemployed youth (typically 15-24 years) divided by the youth labour force **(1)** • Unemployment defined as available for work but unable to find suitable employment (or similar) **(1)** • Example of a supply side policy shift LRAS right/outward **(1)** • reduced benefits increase incentive to work increasing supply of labour **(1)** • reduce disincentive to work **(1)** • For correct diagram award 1 mark showing increase in LRAS (vertical or Keynesian) and 1 mark for impact on output/employment **Rejection marks** • A incorrect as higher cash ratios likely to decrease lending and thus AD, real output and increase unemployment but decrease average price level/inflation **(1)** • C incorrect as asset sales by ECB likely to decrease AD as sale of central bank assets diverts bank funds from lending and reduces real output, decreases inflation but increases unemployment **(1)** • D incorrect as exchange appreciation may increase imports and reduce exports, decreasing AD (x-m), reducing real output and inflation but increasing unemployment **(1)**	**(4)**

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Question Number	Answer	Mark
3	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Negative output gap defined – where economic growth rate is below trend/potential growth rate **(1)** • Spare capacity – actual GDP growth is below trend/potential GDP growth **(1)** • Point B is where actual GDP growth is below trend/potential GDP growth rate **(1)** • Diagram shows economic cycle where GDP growth fluctuates above and below trend/potential growth **(1)** • Economic recovery beginning at Point B **(1)** **Rejection marks** • A shows actual GDP growth on trend/potential GDP growth (no output gap) **(1)** • C shows actual GDP growth above trend/potential growth (positive output gap) **(1)** • D shows actual GDP growth on trend/potential GDP growth (no output gap) **(1)**	**(4)**

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Question Number	Answer	Mark
4	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of HDI: a composite statistic of life expectancy/health, education/literacy, and income indices **(1)** • HDI used to rank countries into four tiers of human development **(1)** • The higher the HDI ranking the higher the level of development **(1)** • HDI measures more than GNI per capita **(1)** • Denmark has higher GNI per capita than Netherlands but lower HDI**(1)** • Reward any accurate calculation on difference in GNI per capita **(1)** • GNI per capita does not tell us about quality of life and/or wealth distribution of a country **(1)** • In this case Netherlands' higher HDI index and lower GNI per capita would suggest that Netherlands must have higher standards of education and/or health than Denmark **(1)** **Rejection marks** • A incorrect because the HDI index for Netherlands is 0.910 (closer to 1.0) and Denmark 0.895. Netherlands thus has higher human development on this measure as it is closer to 1.0 **(1)** • B incorrect because the HDI and GNI per capita does not include access to clean water in the calculation **(1)** • C incorrect because the HDI and GNI per capita does not include energy consumption in the calculation **(1)**	**(4)**

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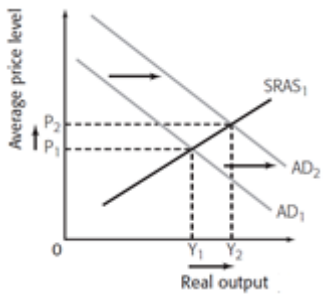
Question Number	Answer	Mark
5	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Demand-side shock unpredictable, rapid and sizeable increase or decrease in AD **(1)** • Change in AD, fall/rise in real output and in average price level and employment **(1)** • Demand-side shocks cause unpredictable changes in aggregate demand which lie outside normal macroeconomic models **(1)** • Positive impact on C in GDP calculation **(1)** • Rise in house prices means positive wealth effect **(1)** • Rise in inflation **(1)** • Rising wealth means increasing consumer spending and AD **(1)** • Increase in disposable income, increase in real consumer spending increasing the original rise in AD **(1)** • Accurate diagram showing right shift of AD (must be AD) correctly labelled **(2)** •  **Rejection marks** • B incorrect because supply side shock/ reducing SRAS not AD **(1)** • C incorrect because reduce SRAS as cost for business not AD **(1)** • D incorrect because supply side shock/as change in technology relates to supply-side rather than demand-side **(1)**	**(4)**

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Question Number	Answer	Mark
6	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Balance of payments on the current account defined 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 **(1)** • Current Account Balance –The sum of visible and invisible trade balances **(1)** • Increase in inflation loss of price competitiveness of exports/more price competitive imports **(1)** • Increase in exchange rate loss of price competitiveness of exports/more price competitive imports **(1)** • Decrease in unemployment, higher income may lead to more consumption of imports **(1)** • Impact of lower unemployment will depend on MPM **(1)** **Rejection marks** • A incorrect because decrease in exchange rate likely to make exports more competitive/imports cheaper worsening BoP **(1)** • B is incorrect because decrease in inflation likely to increase exports **OR** increase in unemployment likely to decrease imports improving BoP **(1)** • D is incorrect as all likely to improve balance of BoP **(1)**	**(4)**

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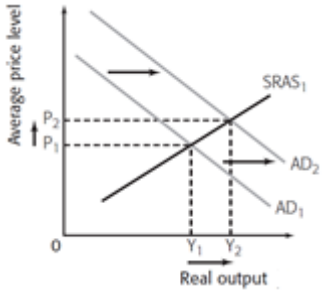
Question Number	Answer	Mark
7	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Demand-pull inflation occurs when total demand for goods and services exceeds total supply **(1)** • As the economy approaches full employment (or full capacity), labour and raw material shortages **(1)** • More difficult for firms to expand production to meet rising demand **(1)** • Government spending is component of AD **(1)** as AD increases so does average price level and real output **(1)** • Impact will depend upon value of the multiplier **(1)** • Accurate diagram showing right shift of AD (must be AD) correctly labelled **(2)**  **Rejection marks** • A is incorrect as increase interest rates likely to decrease spending and increases savings reducing AD **(1)** • B is incorrect as this is a supply factor and will decrease SRAS **(1)** OR this would create cost-push inflation • C is incorrect as increase in income tax reduces disposable income and reduces AD **(1)**	**(4)**

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Question Number	Answer	Mark
8	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of multiplier: either taken from specification 1/(1-MPC) **(1)** OR 1/(1-MPS+Tax+MPM) • Multiplier calculate the final impact of increased spending on aggregate demand **(1)** • MPC measures the proportion of extra income that is spent on consumption OR ΔC/ΔY **(1)** • Purchasing more domestic goods is an injection into circular flow and likely to increase multiplier **(1)** • As MPC is factor in calculation of the multiplier therefore increase in this likely to increase value **(1)** • The larger the increase in MPC the larger will be the increase in the size of the multiplier **(1)** • Correct worked example of multiplier **(1)** • Increased MPC would have opposite effect if spent on imported goods as this would be withdrawal from circular flow **(1)** • If MPM high then may outweigh increase in MPC **(1)** • One person spending is another person's income **(1)** **Rejection marks** • A incorrect because increase in MPM likely to decrease multiplier **(1)** • B incorrect because increase in income tax likely to reduce multiplier **(1)** • D incorrect because increase in MPS likely to decrease multiplier **(1)**	**(4)**

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Section B: Data response

Question Number	Answer	Mark
9 (a)	**Knowledge and application (up to 4 marks):** • Definition of GDP real per capita growth: Increase in the ratio of GDP to population **(1)** • Real per capita GDP growth means adjusted for inflation **(1)** • Can be caused by increase in GDP and less than proportionate increase in population **(1)** • Can be causes by GDP remaining the same or falling but a decline in population **(1)** • GDP per capita is GDP divided by the population of a country **OR** GDP per person **(1)** • Figure 1: GDP per capita growth fluctuates **(1)** throughout 2007-2013 **(1)** • Use of Figure 1 data: • Growth of 2.5% in 2007 **(1)** • No growth/zero growth 0 in 2008 **(1)** • Negative growth -3.0% in 2009 **(1)** • Growth of 2.% in 2010**(1)** • Negative growth -3.2% in 2011 **(1)** • Negative growth -1.5% in 2011 **(1)** • 2007-2013 GDP per capita growth negative **(1)** as negative growth exceed positive growth **(1)** **Examples do not have to come from Figure 1 to be rewarded EG:** • Extract 1 Net migration **(1)** suggesting decrease in population thus increase in GDP per capita **(1)** • Extract 1 Net migration of more productive workers **(1)** likely to have greater negative impact on GDP per capita growth **(1)** • Extract 2 Low GDP per capita growth **(1)** linked to high levels of business regulation and low productivity **(1)**	**(4)**

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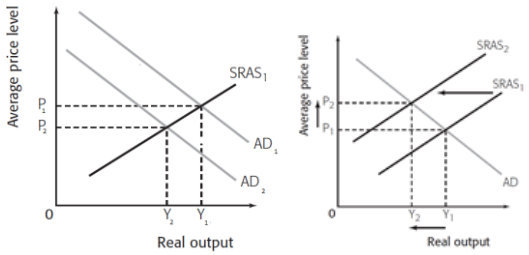
Question Number		Mark
9 (b)		**(10)**
Knowledge, application and analysis – indicative content		
	Possible causes may include: • reduced government spending, falling AD and output linked to lower employment • "austerity" fiscal policies • cuts in public employee wages, falling AD and output linked to lower employment • lower pension payments and unemployment benefits, falling AD and output linked to lower employment • budget cuts in previous protected areas like education • lower AD, falling average prices and real output thus lower employment • higher income tax, falling AD, falling average prices and real output thus lower employment • higher purchase tax (SRAS) falling output, rising average prices and lower employment • data reference (EG rate doubled between 2007 and 2013) • Lower subsidies (Extract 2) increases costs for firms and reduced SRAS (in long term may reduce LRAS) • supply-side factors (Extract 2) include structural problems of hiring/firing workers, as well as regulation hindering business start-up and growth • Accurate diagram showing decrease in AD or decrease in SRAS causing decrease/increase in average price level and fall in real output (only award same diagram for each reason if accompanied by explanation an context)  	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of reasons **or** data references
2	3-4	Understanding of reasons **or** some awareness of reasons and data references
3	5-6	Clear understanding of reasons **and** linking to data

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Evaluation – indicative content		
	Here we are looking for development and evidence of judgement as to the most significant factors • Long term deficit reduction more important than short term unemployment • Damage to economy as a whole from reduced potential output can be inflationary in the long term • Long term unemployment can reduce productivity of labour as workers become de-skilled • Reduced unemployment benefits may increase incentive to work. • Some evidence (Extract 2) that growth is relatively high thus might expect to see unemployment fall in the near future • Long term impact may be to reduce real wages, make exports more price competitive and unemployment may fall • Low AD and low inflation may make Portugal's goods more price competitive, reducing unemployment in the long term • Decreasing regulation may worsen working conditions and increase job insecurity, lowering productivity	

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		Mark
9 (c)		**(14)**
Knowledge, application and analysis – indicative content		
	• Deflation defined – sustained decrease in the average price level It is normally associated with falling AD causing a negative output gap (actual GDP < potential GDP) • Costs of deflation might include: • Consumers may postpone demand if they expect prices to fall further in the future. Reduced AD. • Firms may postpone investment. • Lack of investment can impact upon LRAS (as well as AD) • The real value of debt rises when the general price level is falling, consumer confidence and people's willingness to spend falls. Reduced AD. • The real cost of borrowing increases: Real interest rates will rise if nominal rates of interest do not fall in line with prices. EG if Eurozone policy interest rates were to 0.5% in 2014 but realistically they cannot go any lower. If inflation is negative (deflation), the real cost of borrowing increases. • Deflation may increase unemployment/reference to Phillips Curve • Lower profit margins: Lower prices can mean reduced revenues and profits for businesses - this can lead to higher unemployment as firms seek to reduce their costs by reducing labour (this in turn leads to reduced AD) • Confidence and saving: Falling asset prices in the housing market hit personal sector wealth and confidence – leading to further declines in AD • Negative impacts of deflation can be used for KAA and positive impacts for evaluation or vice versa	

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Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible causes or identification of one or more impacts. Understanding of impact **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 **or** 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 impacts **and** 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		
	• Here we are looking for development and evidence of judgement as to the most significant factors or the possible benefits • 'Good deflation' (EG falling commodity prices) versus 'bad deflation' (EG falling AD) distinction • Low inflation can make an economy more competitive as prices rise more slowly than competitor countries • Deflation may need more than monetary policy to fix • Net migration of workers can impact upon productivity (Extract 1) • Depends upon how sustained deflation is – if only short-term can be a rapid re-adjustment of prices and this can be an advantage when AD recovers with higher growth and output • Low domestic demand may boost exports (Extract 1) creating economic growth • "secular stagnation" – sustained low growth and low inflation	

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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
9 (d)	**Knowledge and application (up to 6 marks)** • De-regulation is an example supply-side policy **(1)** • Valid data reference **(1)** • Can encourage enterprise by **(1)** reducing restrictions on business set-up **(1)** • Can encourage enterprise by **(1)** reducing restrictions on business growth **(1)** • Reduce labour laws **(1)** to make labour market more flexible/easier to hire and fire **(1)** • If businesses allowed to grow with less regulation **(1)** then may be able to benefit from economies of scale **(1)** benefit from division of labour **(1)** • Too much regulation likely to decrease productivity **(1)** and increase average price level and reduce real output (shift SRAS/LRAS inwards) **(1)** • Reduced regulation likely to reduce costs of production **(1)** and decrease average price level and increase real output (shift SRAS/LRAS outwards) **(1)** • Award up to 2 marks for an accurate diagram showing rising SRAS or LRAS, decrease in average price level and rise in real output	**(6)**

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Question Number		Mark
9(e)		**(14)**
Knowledge, application and analysis – indicative content		
	• Waste of resources • Poverty and inequality • Government budget rising government budget deficit decreased tax receipts (direct and indirect) (and increased government spending • Social effects (eg increased crime, increased suicide) • net migration • Migration of more skilled workers • Migration of younger workers (decreasing potential labour force and potential output) • Lower AD and lower trend growth • Deflationary spiral • Reference to extract – comparison between Portugal and Japan – deflation and high unemployment become endemic • Diagram(s) - AD falling, lower real output and falling average price level • AS falling, lower real output and higher average price level rising • Phillips curve – lower inflation and higher unemployment • Costs of unemployment can be used as KAA and benefits of unemployment used as evaluation or vice versa	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible costs or identification of one or more impacts. Understanding of costs **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 costs identified along with some development of analysis **or** some identification of possible costs 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 costs **and** 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.

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Evaluation – indicative content		
	• Requires evidence of awareness of possible benefits of unemployment (answer is **not** one sided) • Higher unemployment may reduce inflation thus make Portugal economy more competitive internationally • Higher unemployment may reduce wages and costs for business improving efficiency and international competitiveness • Contraction of inefficient sectors may make economic growth more a balanced • Time scales - risk of deflation and stagflation may only be short term	

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.

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Question Number	Answer	Mark
10 (a)	**Knowledge and application (up to 4 marks)** • Exchange rate defined: rate one currency expressed in terms of another **(1)** • Appreciation is increase in value of one currency expressed in terms of another **(1)** • Depreciation is decrease in value of one currency expressed in terms of another **(1)** • USD is dominant foreign exchange currency **(1)** • Commodities bought and sold in USD **(1)** • In this case USD expressed in terms of Mozambique Metical **(1)** • Depreciation/falling value of Metical 2007-2010 **(1)** • Depreciation/falling value of Metical 2012-2013 **(1)** • Metical is weakening against US dollar **(1)** • Appreciation/rising value of Metical 2011 **(1)** • Over all depreciation/falling value of Metical 2007-2013 **(1)** • Specific data reference such as: • 23 560 Metical to USD in 2007 **(1)** • 24 990 Metical to USD in 2008 **(1)** **Examples do not have to come from Figure 1 to be rewarded EG:** • Extract 1: Coal and gas exports likely to be traded in USD **(1)** • Extract 1: Depreciation/fall in value of Metical may increase competitiveness of exports (1) • Extract 1: Depreciation/fall in value of Metical may increase inward investment as costs for investors decrease	**(4)**

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Question Number		Mark
10 (b)		**(10)**
Knowledge, application and analysis – indicative content		
	• Balance of payments account: A record of the value of all the transactions between the residents of Mozambique with the residents of all other countries in the world over a given period of time (in this case a year) • Current account: A measure of the flow of funds from trade in goods and services, plus other income flows expressed here as % of GDP • Balance of trade in goods (visible balance): A measure of the revenue received from the export of tangible (physical) goods minus the expenditure on the imports of tangible goods in a year – in this case increasing deficit in visible trade balance • Balance of trade in services (invisible balance): A measure of the revenue received from the export of tangible services minus the expenditure on the imports of services over a given period of time – in this case increasing deficit in invisible trade balance • Net income flows, Net investment incomes, Net transfers: Payments made between countries where no goods or services change hands, e.g. government foreign aid and foreign workers sending money back to their home country • Possible causes for Mozambique include: • fall in coal prices • lack of competitiveness (low levels of education/low productivity) lack of appropriate infrastructure, • exchange rate movements • low productivity	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of reasons **or** data references
2	3-4	Understanding of reasons **or** some awareness of reasons and data references
3	5-6	Clear understanding of reasons **and** linking to data

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Evaluation – indicative content		
	• Here we are looking for development and evidence of judgement as to the most significant factors • Increasing coal exports may improve current account balance in long term • Depreciation of currency may improve current account balance (exports more competitive and imports more expensive) • Impact will depend upon PED for exports (likely to be inelastic for commodities such as coal) and imports (manufactures likely to be elastic) • Investment in infrastructure may improve current account balance in long-term (attract inward FDI)	

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		Mark
10(c)		**(14)**
Knowledge, application and analysis – indicative content		
	Factors might include: • Inflation defined – sustained increase in the average price level • Disinflation – falling rate of increase in average price level • Demand-pull inflation: • This is when inflation originates from rightward shifts in aggregate demand (AD) • Accurate diagram showing impact of increasing AD on real output and average price level • Cost-push inflation: • This is when inflation originates from leftward shifts in aggregate supply (AS) • Also known as supply-side inflation • If firms face a rise in costs, they respond partly by raising prices and passing the costs on to consumers and partly by cutting back on production • Accurate diagram showing impact of decreasing SRAS on real output and average price level • With cost-push inflation, output and hence employment tend to fall (demand-pull output and employment tend to rise) • Wage-push inflation is where wages are pushed-up, independently of the demand for labour • Import-price-push inflation is where import prices rise independently of the level of AD • Tax-push inflation is where increased taxation adds to the cost of living • The exhaustion of natural resources is where major natural resources become depleted and so their prices rise and the AS curve shifts to the left • Reasons for increase and/or reasons for decrease • Currency depreciation against USD increasing price of imports (imported inflation) • Growing trade deficit and weak currency importing inflation • Low labour productivity increasing costs • Dominance of unskilled labour and thus low productivity • Relatively high levels of economic growth creating demand-pull and cost-push inflation	

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	• Diagram showing inward shift in SRAS and/or LRAS with explanation in context OR outward shift in AD (SRAS/inelastic section of LRAS curve) • Fluctuations in CPI EG 12.7 % (2010) 2.09%(2012) cross referenced to exchange rate data (Figure 2) and rising imports (Figure 1)	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible causes or identification of one or more causes. Understanding of causes **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 causes identified along with some development of analysis **or** some identification of possible causes 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 causes **and** 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		
	• Here we are looking for development and evidence of judgement as to the most significant factors or ways in which inflation might be stabilised/lowered • Long term development of coal and gas exports may appreciate currency, reducing import prices and inflation • Investment in infrastructure (transport) may boost SRAS and LRAS reducing average price level • Diagram showing outward shift in LRAS following investment in infrastructure	

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.

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Question Number	Answer	Mark
10 (d)	**Knowledge and application (up to 6 marks)** **Policies to improve employment situation include:** • Unemployment particular problem for young people (Extract 2), new to job market **(1)** therefore policies intended improve employability of young people **(1)** such as government spending on education **(1)** • National labour policy (Extract 2) **(1)** designed to remove barriers to employment for young people **(1)** such as the requirement to have experience **(1)** • National labour policy (Extract 2) **(1)** designed to remove barriers to employment for young people **(1)** remove language barriers (must speak English) **(1)** • Unemployment higher in groups with low levels of professional qualifications **(1)** therefore investment needed in training **(1)** provide by Government or subsidised for private firms **(1)** • Labour market failing to recruit most suitable workers therefore lower productivity **(1)** meaning lower real output and employment **(1)** more regulation required **(1)** • Informal working **(1)** no incentive for firms to invest in training and education lowering productivity **(1)** therefore employers need to regulated to ensure formal contracts issued **(1)** • Dominance of short-term, informal contracts reduces job security and productivity **(1)** increases size of unofficial economy **(1)** and reduces tax receipts, reducing investment in education **(1)**	**(6)**

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Question Number		Mark
10(e)		**(14)**
Knowledge, application and analysis - indicative content		
	• Impact upon government macroeconomic objectives including employment and living standards/HDI. • Net exports component of AD thus increase in net exports increase real output • Increased investment component of AD this likely to increase real output • Inflationary pressures from GDP growth of 8% (higher than average for Africa) • Reliant upon import of capital and expertise for infrastructure developments may be at the expense of development of other sectors of economy • Commodities (coal and gas) subject to price fluctuations caused by changes in global demand • Currently low coal prices (Extract 1) • Tax revenues from coal and gas can be invested in education and training, improving productivity • Tax revenues could be used to invest in development of secondary sector, increasing value added and real output • Tax revenues could also be used to increase spending to reduce income inequalities. • Benefits can be used as KAA and costs as evaluation or vice versa	

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 **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 impact identified along with some development of analysis **or** 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 **and** 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.

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Evaluation – indicative content		
	• Here we are looking for development and evidence of judgement as to the most significant effects or ways in which these effects might be reduced • In short term global coal and gas prices falling this impact upon growth may be reduced • In long term coal and gas prices predicted to increase thus may have positive impact on growth • Rapid growth may be inflationary if increase in AD (net exports) not accompanied by increased capacity • If profits are exported (invested overseas) this may be a net withdrawal and thus impact on growth may be limited • Reliance upon commodity exports for growth may create imbalanced economy reliant upon overseas markets for exports • Environmental costs of primary sector may be high • Unsustainable growth based upon natural resources • As growth increases imports (of manufactures and services) may continue to increase and current account deficit may not be reduced • Impact of value of currency – if appreciation then exports less competitive and imports cheaper, worsening balance of trade deficit • Wealth may be unequally distributed and inequality increased	
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.

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