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Mark Scheme (Results)

Summer 2019

Pearson Edexcel IAS
In Economics (WEC12)
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

Question	Quantitative skills assessed	Answer	Mark
1	–	A	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical and tabular forms	B	**(1)**
3		C	**(1)**
4		D	**(1)**
5	**QS4**: Construct and interpret a range of standard graphical forms	C	**(1)**
6	**QS2**: calculate, use and understand percentages, percentage changes and percentage point changes	B	**(1)**

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Section B

Question	Explain one likely economic effect of this increase in the base interest rate.	Mark
7	**Knowledge 1, Application 1, Analysis 2** **Knowledge** 1 mark for defining the base interest rate, e.g: • the rate that the central bank will charge to lend money to commercial banks **(1)** • the cost of borrowing for commercial banks **(1)** **Or** 1 mark for identification of one effect of the increase in the base interest rate e.g. • reduction in investment **(1)** • reduction in consumption **(1)** • increase in savings **(1)** **Analysis** Up to 2 marks for development of identified factor e.g. • Reduction in investment – which reduces AD **(1)** which could lead to a fall in real output **(1)** • Increase in savings – MPS likely to increase **(1)** which reduces the value of the multiplier **(1)** **Application** 1 mark for applying to the South Korea, e.g.: • South Korea has increased interest rates by 0.25% **(1)**. • There is a small change in the interest rates in South Korea **(1)**.	**(4)**

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Question	Explain one possible impact on the level of unemployment of this net migration.	Mark
8	**Knowledge 1, Application 1, Analysis 2** **Knowledge** 1 mark for defining net migration or the level unemployment, e.g. • immigration minus emigration **(1)** • the number of people willing and able to work but unable to find suitable employment **(1)** **Analysis** Up to 2 marks for analysis points • Unemployment may rise **(1)** as the working population in the country is increasing **(1)** • If the higher population increases consumption **(1)** there may be a fall in unemployment **(1)** • Low skilled occupations may see a rise in competition for jobs **(1)** resulting in increased unemployment **(1)** **Application** 1 mark for applying this to the context of New Zealand, e.g.: • The population increase for New Zealand is significant **(1)** • Net migration accounts for 1.56% of the population **(1)** • 73 000 more people moved to New Zealand than left **(1)**	**(4)**

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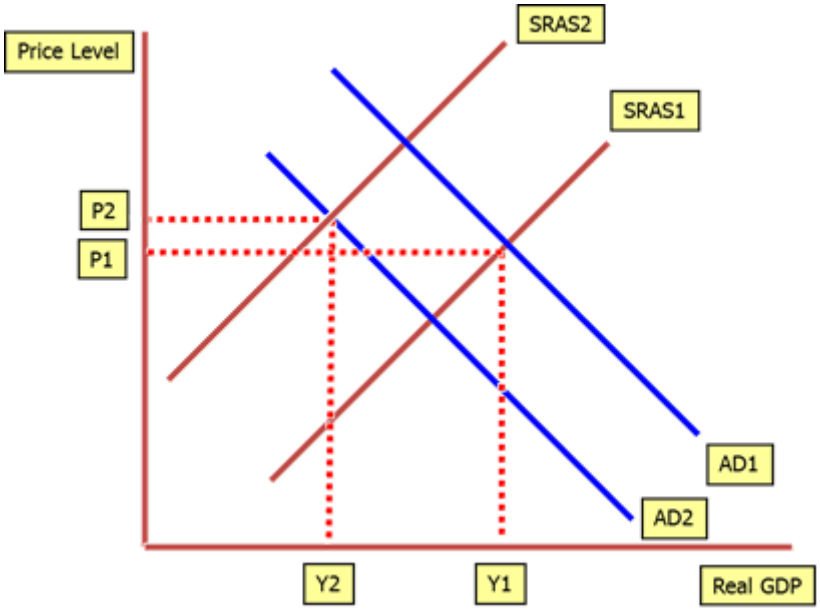
Question	Draw a short-run AS and AD diagram to show the effect of the increase in the price of oil on the price level and real output for France.	Mark
9	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms.  **Knowledge** 1 mark for drawing original AD and SRAS curves with correctly labelled axis **Application** 1 mark for shift in SRAS. 1 mark for shift in AD. 1 mark for new equilibrium with lower real GDP/output • **NB Price level may rise or fall depending on shift in AD and SRAS.**	**(4)**

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Question	With reference to the overall trend of the data, explain what is meant by 'the savings ratio'.	Mark
10	**Knowledge 2 Application 2** **Knowledge** Up to 2 marks for defining what is meant by the savings ratio: • Savings represent that part of income which is not spent **(1)** • The savings ratio is the proportion or % of total disposable income **(1)** that is saved **(1)** • Total savings/Total disposable income **(1)** **Application** 1 mark for explicit reference to the data and 1 mark for identifying the direction of the overall trend e.g.: • In Jan 2017 the savings ratio was 8.3% **(1)** it then fell **(1)** • By July 2017 the savings ratio fell **(1)** to 6.0% **(1)** • The change in the savings ratio was a 1.7 percentage points **(1)** decrease **(1)** • Between Jan 2015 and July 2017 savings ratio reduced **(1)** from 8.5% to 6% **(1)**	**(4)**

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Question	Ceteris paribus, calculate the final increase in the national income resulting from the LE11.9 billion investment.	Mark
11	**Knowledge 1, Application 3** **Quantitative Skill Assessed** **QS2:** calculate, use and understand percentages, percentage changes and percentage point changes **Knowledge** 1 mark for correct formula of multiplier **(1)** 1/(1-MPC) **OR** 1/MPW **Application** up to 3 marks for correct application MPW = 0.4 (1- 0.6) 1/0.4 = 2.5 **(1)** 2.5 x 11.9 **(1) =** LE29.75bn **(1)** **NB: If correct answer (LE29.75bn) is given, award full marks regardless of working.** **Award 3 marks if candidate misses either LE or billion.**	**(4)**

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Section C

Question	Define the term 'fiscal policy' (Extract A, line 6)	Mark
12 (a)	**Knowledge 2** • 1 mark for reference to taxation and government spending. • 1 mark for stating that it is set by the government as a means of influencing aggregate demand/the level of economic activity.	**(2)**

Question	With reference to Figure 1, explain the term 'real GDP growth'.	Mark
12 (b)	**Knowledge 2, Application 2** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for offering a definition of real GDP growth. The percentage annual increase **(1)** in the value of a country's output of goods and services over a period of time accounting for inflation **(1)**. **Application** Up to 2 marks for reference to Figure 1: • From Jan 2016-December 2017 Romania has seen economic growth **(1)** • The economic growth has been rapid from 4.3% in Jan 2016 **(1)** to 8.8% September 2017 **(1)**	**(4)**

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Question	With reference to Extract A, analyse one macroeconomic effect of the reduction in indirect tax.	Mark
12 (c)	**Knowledge 2, Application 2, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** **Award 1 for understanding of indirect tax, e.g:** • A tax levied by the government on goods and services that can be passed onto the consumer OR • An expenditure tax OR • Examples VAT, excise duty or another relevant example **(1)** **Award 1 for one relevant macroeconomic effect identified, e.g:** • Reducing tax leads to a fall in prices **(1)** • Falling prices increases demand for domestic goods **(1)** • SRAS shifts to the right due to reduced cost of production **(1)** • Correct shift of SRAS on diagram **(1)** **Analysis** Up to 2 marks for explaining the macroeconomic effect of lower VAT, e.g.: • Reducing tax leads to a fall in prices- incomes have a greater purchasing power **(1)** increased consumption **(1)** • Falling prices increases demand for domestic goods**-** so output of firms increases **(1)** resulting in a reduction in unemployment **(1)** • Higher consumption due to lower prices **(1)** shift along the AD **(1)** • Use of a diagram to analyse the impact on real output and price level (1) **Application** Up to 2 marks for reference to the data. • VAT has fallen **(1)** from 24% to 20% **(1)**	**(6)**

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Question	With reference to the information provided, examine the likely impact of increased investment on Romania's economy.	Mark
12(d)	**Indicative content** **Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge 2** • Definition of investment: increase in capital stock **(1)** • Investment is a component of AD **(1)** • Investment as an influence on LRAS **(1)** • AD shifted to the right OR LRAS shifted to the right on diagram **(1)** **Application 2** **Up to 2 marks for reference to the given sources, e.g.:** • Technology investment is expanding in the country **(1)** • Siemens and Ford have set up in the Romanian capital **(1)** • Output has increased leading to higher exports **(1)** • Investment in high internet speeds has attracted businesses to invest further **(1)** • Spending on education has led to a well-educated workforce, attracting further investment **(1)** **Analysis 2** •Increased production levels in the country, improving efficiency and output **(1)** Increased profits for technology firms **(1)** •Strong growth in exports, as products using high level technology is being produced for export, improving the balance of payment position **(1)** Higher levels of exports increase AD, increasing economic growth **(1)** •Falling unemployment as more investment leads to increasing demand for workers **(1)** this may also lead to higher wages as unemployment becomes very low, mention of employment shortages in Romania (links to Phillips curve) **(1)** •Higher levels of net migration as migrants return to Romania seeking better jobs as job prospects have improved. **(1)** Increase in productive capacity **(1)** Accurate AS/AD diagram showing new equilibrium, real output and price level **(1)** with supporting analysis **(1)** **Evaluation 2** Up to 2 marks for evaluative comments, either 2 evaluative points made or 1 developed e.g.: •Demand for exports will depend on the exchange rate **(1)** as technology is expensive a strong exchange rate may lead to a fall in demand for the product. **(1)** •Domestic firms may find it hard to compete with large firms such as Siemens **(1)** putting them out of business **(1)** •Increased growth has caused inflationary pressure in Romania **(1)** •Employment may not increase due to shortages of available labour **(1)** •Increase in AD from investment may be offset if other components of AD are falling **(1)** • Ford and Siemens may not agree to pay high taxes to the government **(1)**	**(8)**

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Question	Discuss the likely effects of the increase in the rate of inflation on Romania's economy.	
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (8) – indicative content** • Understanding of rate of inflation- linked to CPI • An increase in inflation to 3.2% will mean higher prices for consumers and a fall in standards of living/ real income • Inflation has been caused by a 3.8% increase in food prices and a 4.1% increase in non-food items- may have effect on those on lower incomes significantly • Inflation may increase costs of production, which is cost-push inflation which may reduce investment • Inflation could reduce the real value of consumer debt/ government debt • It may encourage consumers to demand more imports as domestic firms increase their prices • It may cause a reduction in international competitiveness, exports may fall causing a current account deficit • Demand for workers may decrease if they are demanding higher wages; this may lead to an increase in unemployment • If consumption falls, tax revenue would fall which may lead to a reduction in the level of government spending	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

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	Evaluation (6 marks) – indicative content • The current rate of economic growth may be generating a positive output gap so fall in growth may be beneficial in the long run • Inflation is only just over 3% therefore not significantly high, limiting the negative impacts on the economy • Since labour availability is low firms would be willing to accept higher wage costs • Investment in Romania may still be high as wages are relatively low and skills are high. This may offset other cost increase • The Government may be willing to finance an increase in its expenditure through borrowing; therefore government spending may remain high • Inflation preferable to deflation – refer to Figure 2 • Interest rates are rising so rate of inflation may fall

Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Section D

Question	Evaluate the view that conflicts between macroeconomic objectives are inevitable.	
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of macroeconomic objectives/ identification of relevant macroeconomic objectives • Inflation and unemployment including analysis of the Phillips curve • Economic growth and the environment • Inflation and pressure on prices reducing standards of living • Economic growth and income inequality • Inflation and demand for exports- changes to current account • Current account of the balance of payments may deteriorate as incomes rise due to growth and more imports are demanded • Growth should result in a higher average standard of living, but may not deliver a more equitable distribution of income and wealth	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

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	Evaluation (8 marks) – indicative content • Significance of the current state of the economy and its implications for elasticity of AS curve • If it is supply-side growth (rather than demand-side) then fewer conflicts with other objectives • Initial state and stability of inflation/deflation • The rate of actual economic growth in comparison to the growth of the productive capacity • Proximity to full employment (full output) • Full employment (or low unemployment) shouldn't conflict with economic growth • Short-run unemployment from introduction of new technology • Redistributive policies of the Government • Extent of the effectiveness of environmental policies • Extent to which the growth is in tertiary sector or in primary and secondary sectors • Current account of balance of payments may improve if it is export-led growth • Current account of balance of payments may improve if growth is generated through an increase in productivity (such as through investment) resulting in a shift in AS to the right • Growth may lead to higher government revenues and scope to improve public transport as well as tax polluting old technologies • Developed economies may employ green technology	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Question	Evaluate the view that rising consumer expenditure will always benefit an economy.	
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • An explanation of what is meant by consumer expenditure • Consumer expenditure a component of aggregate demand • Impact of rising consumption on AD (diagrammatic analysis) • Rising consumer expenditure may increase employment, reduce unemployment and reduce underemployment • Rising consumer expenditure may increase economic growth • Increased profits for firms • Incentive for increased investment • Increased tax revenues/ which may lead to increased public services • Improvements in standards of living • An increase in the MPC would lead to an increase in the value of the multiplier **Students may take the alternative view and evaluation becomes KAA**	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

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	Evaluation (8 marks) – indicative content • Other components of aggregate demand may be falling • The significance of consumption as a component of AD- some countries may rely on exports • Negative impacts of fall in savings ratio e.g. increase in personal debt may cause demand-pull inflation • It depends on the level of household incomes • Magnitude **–** it depends on how significant the level of consumption is • Negative impacts of growth on the environment e.g. negative externalities, resource depletion • Negative impact on current account of balance of payments • My cause demand-pull inflation	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.