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Mark scheme (Result)

October 2021

Pearson Edexcel International Advanced Subsidiary Level in Economics (WEC12)
Unit 2: 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	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as there is no data on real wage rates* ***C*** *is not correct because the changes in the table show a short-term increase in unemployment and structural unemployment is a long-term issue* ***D*** *is not correct because the increase is linked to the fall in real GDP*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because this policy would cause an increase in AD* ***C*** *is not correct because the Bank of England is using monetary policy* ***D*** *is not correct because the Bank of England is using monetary policy*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because AD would increase* ***B*** *is not correct because government spending is an injection into CFI* ***C*** *is not correct because AS is likely to increase*	**(1)**
4	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because we do not know about the primary and secondary income balances* ***B*** *is not correct as there is a balance of trade deficit not surplus* ***D*** *is not correct as the value of exports is likely to have risen*	**(1)**
5	-	**The only correct answer is B** ***A*** *is not correct as this would reduce investment* ***C*** *is not correct as this would reduce investment* ***D*** *is not correct as banks would have less money available for investment*	**(1)**

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6	**QS1:** Calculate, use and understand ratios and fractions **QS3:** Understand and use the terms mean and median **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** **A** *is not correct as this takes the GDP in Pakistan and divides by the population in India* **B** *is not correct as this is the GDP per capita for Pakistan and not India* **D** *is not correct as this has taken the GDP in India and divided by the Pakistan population*	**(1)**

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Section B

Question	With reference to the chart, explain **one** likely impact of trend in the unemployment rate on Jamaica's economy.	Mark
7	**Knowledge 1, Analysis 2, Application 1** **Quantitative skills assessed:** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and Analysis** 1 mark for definition or formula of unemployment rate, e.g.: - The percentage of the workforce who are without work, willing and able to work but unable to find suitable employment - Number of unemployed people x 100 Total number in the labour force - Award ILO definition of unemployment *OR* 1 mark for identification of one likely impact of a decrease in the unemployment rate **and** up to 2 marks for development of the identified impact, e.g.: - Living standards increase **(1)** as average incomes rise **(1)** and people can afford more goods and services/consumption rises **(1)** - The government budget balance is likely to improve **(1)** as government spending on means-tested/unemployment benefits falls **(1)** and tax revenue, e.g. income tax, rises **(1)** - Average wage rates rise **(1)** as there is a smaller pool of unemployed labour/more competition for unemployed workers **(1)** leading to cost-push inflationary pressures **(1)** - Firms' profits rise **(1)** as consumers are spending more money **(1)** because their incomes/confidence has increased **(1)** - Resource utilisation becomes more efficient **(1)** and hence the economy moves closer to the production possibility frontier **(1)** as less of the labour factor of production is unemployed **(1)** - The rate of inflation increases **(1)** as wage rates rise decreasing SRAS/consumption rises increasing AD **(1)** as shown by short-run Phillips curve (may be illustrated with a diagram) **(1)** - Less external costs/negative externalities **(1)** e.g. better health, lower crime rates **(1)** leading to less political instability **(1)** **Application** 1 mark for appropriate use of the Figure, e.g.: - Jamaica's unemployment rate fell over the period shown **(1)** - Jamaica's unemployment rate fell from 15.3% in 2013 to 8% in 2019/20 **(1)** - Jamaica's unemployment rate fell by 7.3 percentage points over the period shown **(1)**	**(4)**

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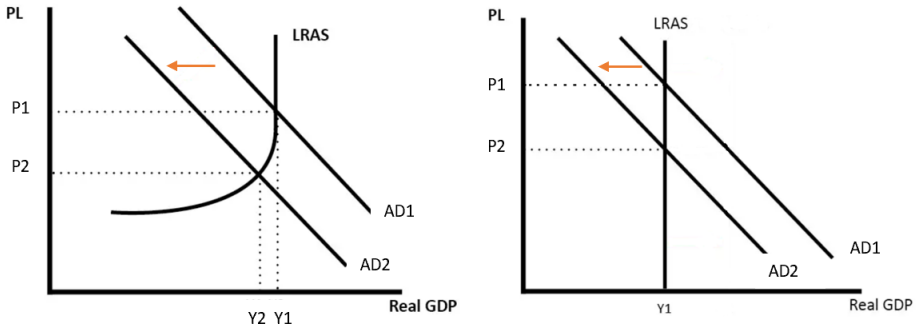
Question	Draw a LRAS and AD diagram to show the possible impact of this change in consumer confidence on the average price level and real output level in Australia.	Mark
8	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** 1 mark for drawing the original AD and LRAS curves (accept either Keynesian or Classical) with correctly labelled axes **Application** 1 mark for leftward shift in AD 1 mark for new real GDP/output level 1 mark for new price level **NB Depending on level of spare capacity shown on a diagram using a Keynesian LRAS curve, price level and real output level may decrease or stay the same.** **NB If SRAS drawn but labelled LRAS, award 1 mark for correct leftward shift in AD only** **NB If both AD and LRAS curves are shifted, award 1 mark for Knowledge and 1 mark for correct leftward shift in AD only**	**(4)**

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Question	Based on this information, calculate the marginal propensity to consume (MPC) in Malaysia. Show your workings.	Mark
9	**Knowledge 1, Application 3** **Quantitative Skill assessed** **QS1:** Calculate, use and understand ratios and fractions **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for knowledge of multiplier formula • Multiplier = 1/(1-MPC) or 1/MPW *OR* 1 mark for understanding of marginal propensity to consume (MPC) • MPC = ΔC/ΔY • MPC is the proportion of one additional unit of income which is spent by households **Application** Calculation that the multiplier ratio = RM150bn / RM30bn = 5 **(1)** Calculation that (1-MPC) or MPW = 0.2 **(1)** Calculation that the MPC = 0.8 **(1)** **NB If the correct answer is given (0.8), award full marks regardless of working.** **NB If the answer is given as 0.8 billion/RM 0.8/RM 0.8 billion, award only 3 marks.**	**(4)**

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Question	Explain **one** likely impact of a negative output gap on Brazil's economy.	Mark
10	**Knowledge 1, Analysis 2, Application 1** **Quantitative Skill assessed** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge and Analysis** 1 knowledge mark for understanding of a negative output gap, e.g.: when actual GDP is less than potential GDP (this may be shown via an accurately drawn/labelled diagram) *OR* 1 knowledge mark for identification of one characteristic of a negative output gap **(1)** Up to 2 analysis marks for development of the identified impact, e.g.: - The government is likely to have a budget deficit **(1)** as government spending on means-tested/unemployment benefits is high **(1)** and tax revenue, e.g. income tax, is relatively low **(1)** - There is likely to be unemployment **(1)** as some of the labour factor of production is unemployed **(1)** leading to spare capacity **(1)** - Low inflation/disinflation/deflation **(1)** as there is low cost-push inflationary pressure **(1)** because high levels of spare labour reduce wage rates **(1)** - Low inflation/disinflation/deflation **(1)** as there is less demand-pull inflationary pressure **(1)** because AD is relatively low **(1)** **Application** 1 mark for appropriate reference to Brazil or another economy, e.g.: - The size of Brazil's negative output gap was 5.6% of its GDP in Q1 2019 **(1)**	**(4)**

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Question	With reference to the data, explain the difference between disinflation and deflation.	Mark
11	**Knowledge 2, Application 2** **Quantitative Skills Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **QS10:** Distinguish between changes in the level of a variable, and the rate of change. **Knowledge** Up to 2 marks for defining disinflation and deflation, e.g.: - Disinflation occurs when the average price level rises more slowly than previously/the rate of inflation falls but is still positive **(1)** - Deflation occurs when the average price level falls/the rate of inflation is negative **(1)** **Application** 1 mark for correctly identifying a period when Canada was experiencing disinflation, e.g.: - In August 2019, the inflation rate fell from 2.0% to 1.9% **(1)** - In February 2020, the inflation rate fell from 2.4% to 2.2% **(1)** - In March 2020, the inflation rate fell from 2.2% to 0.9% **(1)** 1 mark for correctly identifying a period when Canada was experiencing deflation, e.g.: - In April 2020, the inflation rate was -0.2% **(1)** - In May 2020, the inflation rate was -0.4% **(1)**	**(4)**

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Section C

Question	Define the term 'recession' (Extract A, line 7).	Mark
12 (a)	**Knowledge 2** A period of two or more consecutive quarters **(1)** of negative economic growth/falling real GDP **(1)**	**(2)**

Question	With reference to Figure 2, explain how the CPI inflation rate is calculated.	Mark
12 (b)	**Knowledge 2, Application 2** **Quantitative Skill Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for explaining how the CPI inflation rate is calculated, e.g.: • It uses a weighted basket of goods and service **(1)** • The weights are in proportion to the amount of money spent on each item **(1)** • Monthly price surveys are undertaken **(1)** • An annual survey of household spending is used to set the weights/the contents of the basket **(1)** • In the base year the index number is set at 100 **(1)** **NB:** No marks for definition of inflation/inflation rate/inflation target **Application** Up to 2 marks for relevant references to Figure 2, e.g.: • Services have the highest weighting of the item groups shown at 48.9% **(1)** meaning they account for 48.9% of average household expenditure in France **(1)** • Tobacco has the lowest weighting of 2% **(1)** so the 13.9% increase in the price of tobacco will have a relatively small effect on the CPI **(1)** • Food has a weight of 16.1% / the percentage price change of food is 2.3% **(1)**	**(4)**

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Question	With reference to Figure 3 and Extract A, examine **two** likely effects on the French economy of the trend in the inflation rate in 2020.	Mark
12 (c)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Quantitative Skill Assessed** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and Analysis** 1 mark for defining the inflation rate or inflation, e.g.: • The annual percentage change in the average price level OR • Sustained increase in the price level of an economy *AND/OR* Up to 2 marks for identifying two likely effects of disinflation and up to 2 analysis marks for developing the identified effect(s), e.g.: • May improve trade balance **(1)** as the price of French exports may rise more slowly than the price of other countries' goods / and the price of domestically produced goods and services may rise more slowly than the price of imports **(1)** • May improve standard of living for those on fixed incomes **(1)** such a welfare payments/minimum wage/as the real value of their incomes may rise **(1)** • The real value of debt may be eroded more slowly **(1)** so consumers and firms with outstanding loans may find these more difficult to repay **(1)** • May increase investment **(1)** as firms' confidence may rises/as they may be more able to plan/predict future costs and prices **(1)** • May reduce income inequality **(1)** as price of food and utilities may rise more slowly/so households may spend a lower proportion of their income on these essentials **(1)** **Application** Up to 2 marks for reference to the data, e.g.: • Between January 2020 and June 2020 there is disinflation **(1)** • In June 2020 the inflation rate 'was at its lowest level in over four years' **(1)** • The CPI inflation rate fell from 1.5% in January 2020 **(1)** to 0.1% in June 2020 **(1)** • France was running a trade deficit of €5 billion in April 2020 **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • Effect on trade balance depends on other countries' inflation rates **(1)** • Effect on real incomes also depends on the change in nominal incomes **(1)**; given that France is in recession, these may have fallen **(1)**	

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	• Business confidence is likely to be low given that the economy is in recession/inflation is very low and falling **(1)** so investment is likely to fall rather than rise in France **(1)** • ECB may be unlikely to lower the interest rate further **(1)** as it has been very low in 2020 **(1)** • Only a relatively short period of six months is shown in Figure 3 / there is no data provided for July to December 2020 **(1)** • Effects may be short-term **(1)** given, for example, the French Government's expansionary fiscal policy may be temporary as a result of the financial crises **(1)**	**(8)**

Question	With reference to Extract A, analyse the likely effect of France's trade balance in April 2020 on its circular flow of income.	**Mark**
12(d)	**Knowledge 2, Application 2, Analysis 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 mark for understanding of 'circular flow of income', e.g., • a model showing how money flows between households and firms in an economy/ • diagrammatic representation of the circular flow of income **(1)** 1 mark for understanding of 'trade balance', e.g., • the value of a country's exports minus the value of its imports/ • (X-M) **(1)** **Analysis** Up to 2 marks for explaining the impact on the circular flow, e.g., • There will be a <u>net</u> withdrawal **(1)** from France's circular flow • *Ceteris paribus*, the flow of money in the circular flow would have decreased **(1)** • *Ceteris paribus*, there would have been a negative multiplier effect **(1)** • Less injections / less withdrawals from France's circular flow **(1)** **Application** Up to 2 marks for use of the data or reference to context, e.g., • France was running a negative trade balance/trade deficit **(1)** of €5 billion **(1)** in April 2020 • Exports fell at a quicker rate than imports **(1)** increasing the size of the trade deficit **(1)** • Value of exports from France fell by 32.4% / to €23.7 billion **(1)** • Value of imports into France fell by 25% / to €28.7 billion **(1)**	**(6)**

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Question	With reference to Extract A and your own knowledge, discuss the likely effects of the ECB's monetary policy on the French 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.
	
	Quantitative Skill Assessed
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms
	
	Knowledge, Application and Analysis (8 marks) – indicative content
	
	• The ECB's monetary policy involved keeping interest rates 'very low' at -0.5% and expanding 'the size of its asset purchase scheme (quantitative easing) by €600 billion in June 2020 and €500 billion in December 2020'.
	• A very low base interest rate should increase AD as it will:
	  ○ increase consumption, as it will:
	  ▪ incentivise spending on credit as the cost of borrowing is low
	  ▪ disincentivise saving as the return on/reward for saving is low
	  ▪ increase spending as consumers/firms with variable rate loans /mortgages see their monthly interest repayments fall, raising their discretionary income
	  ○ increase investment, as the cost of borrowing to finance investment is very low
	  ○ increase the net trade balance as it will put downward pressure on the euro exchange rate, meaning French exports become relatively cheaper, and imports into France become relatively more expensive
	• An expansion of the ECB's asset purchase scheme should:
	  ○ increase money supply, making banks more able and willing to lend to consumers and firms
	  ○ reduce the return investors get on French Government bonds, causing investors to hold other assets, such as shares, property and corporate bonds
	  ○ increase the price of shares and property, creating positive wealth effects in the economy and increasing consumption
	  ○ reduce the return investors get on French corporate bonds, lowering borrowing costs for French firms, leading to increased investment
	• Shifting outwards of the AD curve should create (may be shown diagrammatically):
	  ○ actual economic growth in France, helping the economy to recover from recession
	  ○ increased demand-pull inflationary pressures, helping to end the period of disinflation/avoid deflation
	  ○ reduce unemployment in France as the level of spare capacity falls, indicating that more of the labour factor of production is being used

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	NB To access Level 3, candidates should focus on low interest rate or the ECB's asset purchase scheme	
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.
	Evaluation (6 marks) – indicative content • Consumption and investment may not rise if consumer and business confidence are low, as is likely given France was in recession • The very low central bank interest rate may not to be passed on to consumers by high street banks, meaning its effects are reduced • High street bank profitability may be reduced by the very low interest rate, making banks less willing to lend to consumers and firms • If France does a significant proportion of trade with other euro area economies, the trade balance may not improve, as there is no change in the exchange rate • Changes in monetary policy may be subject to a time lag before their full effects are felt • Those who most benefit from an increase in property and share prices are high income earners who have a relatively low MPC, implying any positive wealth effects may be very small • Significance of the size of the expansion of the asset purchase scheme (€600 billion represents an 80% increase)/by December 2020 QE was €1.85 trillion • We cannot assume *ceteris paribus*, e.g. French Government implemented expansionary fiscal policy	

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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 whether the exchange rate of a country's currency is the main factor influencing the country's balance of trade.
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 an exchange rate • Understanding of trade balance • Over a 10-year period, Cambodia's trade deficit has increased significantly • From 2009 to 2019 the value of Cambodia's currency significantly increased The exchange rate of a country's currency is a significant factor: • As the value of the country's currency increases, as Cambodia's did: o imported goods and services become cheaper to Cambodian residents. They are therefore likely to increase the quantity of imports bought, increasing the value of imports coming into the country o Cambodian exports of goods and services become more expensive to residents of other countries. They are therefore likely to decrease the quantity of exports bought, decreasing the value of exports leaving the country o as the value of imports rises, and the value of exports falls, Cambodia's trade balance worsens • Reference to Cambodia or another country, where a change in the exchange rate has influenced the trade balance. Other significant factors may be: • Real incomes in the country • The state of the global economy • The degree of protectionism • Non-price factors **NB Candidates have to analyse why exchange rate is a significant factor and discuss other factors which may influence trade balance as further analysis; then evaluate each of these.** **NB Award a maximum of Level 3 for answers with no application.**

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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.
	Evaluation (8 marks) – indicative content • It depends on the size of the change in the value of the currency, and how long it is maintained for • Factors might be different for different countries and at different times • The exchange rate is likely to be more significant in the long-run than the short-run due to pre-agreed contracts for imports and exports • It depends on how sensitive consumers are to price changes for imports and exports, which depends on a range of factors, such as non-price issues, the degree of competition in the market etc. • It depends on firms' responses to the change in the exchange rate, e.g. domestic firms may respond to an increase in the value of their currency by lowering the price of their goods in their own currency to keep the price constant in the importer's currency etc. • The impact of real incomes depends on how sensitive consumers are to income changes, which depends on a range of factors, such as whether the goods are inferior goods, essential products, or luxuries	

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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 whether the costs of economic growth outweigh the benefits.
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** • Understanding of economic growth • High rate of economic growth in Ethiopia has been accompanied by a high rate of deforestation The costs of economic growth include: • Environmental costs: o deforestation has made climate change worse and caused soil erosion o increased use of non-renewable resources, including fossil fuels o climate impacts from the burning of fossil fuels • Inflation – increases in AD as consumption, investment, government spending and possibly exports increase, will increase demand-pull inflationary pressures in the economy, leading to a range of possible issues. • Opportunity costs – production of consumer goods may need to be sacrificed in the short term so that capital goods can be produced. This may lead to lower living standards in the short term. • Balance of trade deficits: o as average incomes rise, consumers are likely to respond by buying more imported goods, worsening the country's trade balance o increased production of goods and services may require more raw materials and components to be imported, worsening the country's trade balance • Increased inequality as the returns to economic growth are unequally distributed, with those who already own more factors of production receiving a greater increase in income • Lower living standards, for e.g. related to environmental costs such as pollution, congestion, over-development **NB Candidates may use costs of growth as analysis and the benefits of growth as evaluation, or they may analyse both costs and benefits, and then evaluate the significance of the points made.** **NB Award a maximum of Level 3 for answers with no application.**

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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.
		Evaluation (8 marks) – indicative content Significance of costs of growth: • It depends if it is actual or potential economic growth • Increased government tax revenues may not translate to improved public services: the government may have to pay off debt, have other priorities, or suffer from corruption • Discussion of how sustainable the economic growth is, e.g. to what extent are non-renewable resources being used; or is it the manufacturing or services sector of the economy which are growing most • Trade balance may not worsen if it is export-led growth • Effects on income inequality depend on government fiscal policy responses also • Effects on inflation depend on: o the original level of spare capacity in the economy (possible discussion of Keynesian vs. classical LRAS curves) o the extent to which the growth leads to higher levels of investment o the government/central bank's monetary policy response • Short-run vs. long-run effects, e.g. changes in Ethiopia were over a 14-year period • The answer may be different for different countries and at different times • It depends on the level/speed of economic growth, e.g. economic growths of over 10% for 14-year period are relatively extreme

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	The benefits of economic growth:
	• Higher average incomes leading to higher living standards as consumers can buy goods and services, or afford to send their children to school, as in Ethiopia
	• A higher value of goods and services being produced, which are available for consumption
	• Lower unemployment rates meaning that:
	  ○ the country is utilising its resources more efficiently, moving closer to its PPF and closing the negative output gap
	  ○ higher average incomes leading to higher living standards, as in Ethiopia
	  ○ social benefits such as lower crime rates and better health
	  ○ lower levels of government spending are required on means-tested/unemployment benefits, improving the government's budget balance or allowing this money to be allocated elsewhere, e.g. improving access to clean water, as in Ethiopia
	  ○ less loss of skills/workers becoming inactive due to long term unemployment
	• Increased sales/revenues/profits for firms meaning that they may:
	  ○ expand and take on more workers, further reducing the rate of unemployment
	  ○ undertake more investment, boosting AD and LRAS, leading to non-inflationary economic growth in the future
	  ○ pay more tax on profits to the government
	• Higher levels of investment, leading to:
	  ○ more jobs being created
	  ○ better quality products being produced
	  ○ increased AD and LRAS, meaning non-inflationary economic growth in the future
	• Increased tax revenues from a wide range of taxes, leading to an improved government budget position, or increased government spending, e.g. improved access to clean water in Ethiopia
	• Improved public services financed by the increased tax revenue, for example education or healthcare

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.