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Mark Scheme (Results)

October 2020

Pearson Edexcel International Advanced Subsidiary In Economics (WEC12/01)
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 Number	Quantitative skills assessed	Answer	Mark
1	**QS1**: Calculate, use and understand ratios and fractions	**The only correct answer is D** ***A*** *is not correct because the value of the multiplier ratio is 2* ***B*** *is not correct because the value of the multiplier ratio is 2* ***C*** *is not correct because the value of the multiplier ratio is 2*	**(1)**
2	**QS5:** Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because the rate of inflation was 3%* ***C*** *is not correct because additional factors affect the standard of living* ***D*** *is not correct because the CPI does not measure the price of exports alone*	**(1)**
3		**The only correct answer is B** ***A*** *is not correct because savings is a withdrawal* ***C*** *is not correct because imports is a withdrawal* ***D*** *is not correct because taxation is a withdrawal*	**(1)**
4	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because the part-time workers are in employment* ***B*** *is not correct because protectionism aims to protect jobs* ***D*** *is not correct because labour is being under-utilised*	**(1)**

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5	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because welfare payments would fall when unemployment decreases* ***C*** *is not correct because demand for exports is affected by unemployment rates overseas, not in Spain* ***D*** *is not correct because we cannot tell what happened to economic inactivity rates*	**(1)**
6	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because the Canadian dollar depreciated making exports more competitive in the USA* ***B*** *is not correct because the Canadian dollar depreciated making Canadian import from the USA less competitive* ***C*** *is not correct because the Canadian dollar depreciated*	**(1)**

Section B

Question Number	Answer	Mark
7	**Knowledge 1, Analysis 2, Application 1** **Knowledge** 1 mark for definition of subjective happiness **OR** real income, e.g.: • Value people place on wellbeing **(1) OR** Income adjusted for inflation **(1)** **Analysis** Up to 2 marks for effect of this increase in real incomes e.g.: • Higher incomes may lead to a greater ability to afford goods and services **(1)** improvement in their sense of wellbeing/ increasing happiness **(1)** **Application** 1 mark for applying to stem e.g.: • 5.3% increase in real GDP per capita **(1)**	**(4)**

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Question Number	Answer	Mark
8	**Knowledge 2, Application 2** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for definition of deflation, e.g.: • Deflation is the sustained fall in the general price level/a negative rate of inflation **(1)** 1 mark for definition of disinflation, e.g.: • Disinflation is fall in the rate of inflation/average price level increasing at a slower rate **(1)** **Application** 1 mark for relevant application to deflation, e.g.: • Deflation occurred in January and March 2018 **(1)** 1 mark for relevant application to disinflation e.g.: • There was disinflation between October and December 2018 **(1)**	**(4)**

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Question Number	Answer	Mark
9	**Knowledge 1, Analysis 2, Application 1** **Knowledge** 1 mark for definition of investment **OR** availability of credit, e.g.: • Increase in capital stock **(1) OR** Increase in willingness for banks to lend **(1)** **Analysis** Up to 2 marks for explaining the impact of the increase in the availability of credit, e.g.: • If available credit rises there are more funds available for loans **(1)** • Ceteris paribus, banks will be able to lend more money to businesses, increasing the level of investment in the economy **(1)** • If available credit rises investment should rise **(1)** • Firms are more willing to borrow as business confidence rises **(1)** **Application** 1 mark for applying to the data, e.g.: • The money supply increased by 8.4%, increasing available funds **(1)**	**(4)**

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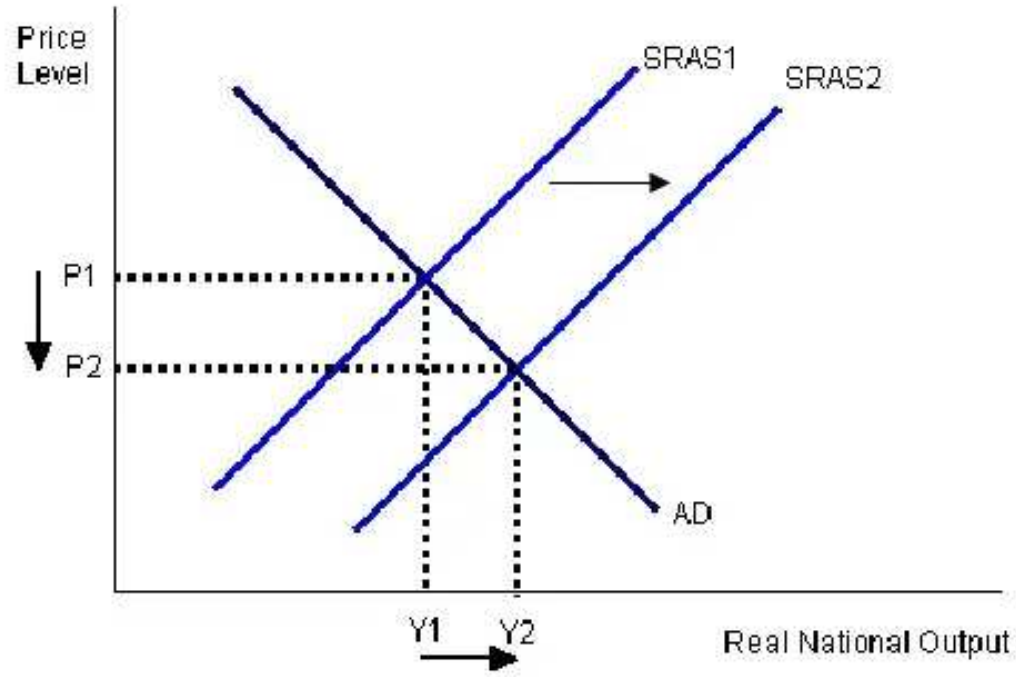
Question Number	Answer	Mark
10	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.  **Knowledge** Correctly drawn original AD/SRAS diagram with correctly labelled AD/SRAS curves **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing SRAS shifted to the right **(1)** • New equilibrium showing correct lower price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct higher real output/income/GDP/Y **(1)** (not rewarded if 'quantity' is used on axis) **NB: also allow an AD/SRAS diagram showing and/or an increase in AD (as value of oil imports falls)**, as follows: • Drawing AD shifted to the right (1) • New equilibrium showing correct price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct higher real output/income/GDP/Y **(1)** (not rewarded if 'quantity' is used on axis)	**(4)**

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Question Number	Answer	Mark
11	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS1:** Calculate, use and understand ratios and fractions. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for correct definition/formula/implicit understanding, e.g.: • GDP per capita is a measure of a country's economic output that accounts for its number of people **(1)** • GDP ÷ population **(1)** **Application** Up to 3 marks for use of the data in calculation from the following, e.g.: $2597.5 billion /1.2836 billion = $2023.60 **(1)** $2023.61 - $1506.20 **(1)** = $517.41 **(1)** **NB: if correct answer ($517.41) is given, award full marks regardless of working** **NB: accept answers to any sensible number of decimal places, e.g.:** • **$517 (0 d.p.)** • **$517.4 (1 d.p.)** • **$517.41 OR $517.42 (2 d.p.)** **NB: if candidate calculates percentage change correctly (34.4%) but does not state the change in money terms, award a maximum of 3 marks.**	**(4)**

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Section C

Question Number	Answer	Mark
12 (a)	**Knowledge 2** Up to 2 marks for offering a definition of real wage growth e.g.: • The increase/change in wages **(1)** • Adjusted for inflation **(1)**	**(2)**

Question Number	Answer	Mark
12 (b)	**Knowledge 2, Application 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for definition of a trade surplus in goods and services, e.g.: • The value **(1)** of goods and services exported is greater than the value of goods and services imported **(1)** • X>M **(2)** • (X-M) is positive **(2)** • 'Exports more than imports' **(1)** • The value of goods exported is greater than the value of goods imported **(1) OR** the value of services exported is greater than the value of services imported **(1)** **OR** 1 mark for definition of trade balance, e.g.: • The value of exports minus the value of imports **(1)** • X-M **(1)** **Application** Up to 2 marks for reference to Figure 2 e.g.: • Trade balance was in a surplus for the entire time period **(1)** • Trade surplus was at its highest at the beginning of 2016 **(1)** • The trade surplus fell in 2016-2017 **(1)** • The trade surplus rose from US$25bn in 2013 **(1)** to approximately US$63bn in 2016 **(1)** • The value of the trade surplus increased by approximately 150% between 2013 and 2016 **(1+1)** **NB Reference must be to Figure 2 for Application marks**	**(4)**

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Question Number	Answer	Mark
12 (c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge** 1 mark for definition of net migration, employment **OR** unemployment e.g.: • Total immigration minus total emigration **(1)** • Total number of population employed **(1)** • Total number of population out of work and actively seeking employment **(1)** Up to 2 marks for identifying impacts on employment and/or unemployment, e.g.: • Increase in employment **(1)** • Existing labour force may struggle for work, increasing unemployment **(1)** • Mismatch of skills required creating structural unemployment **(1)** • Increase in frictional unemployment **(1)** **Application** 2 marks for reference to Extract A e.g.: • There is a significant level of net migration, up to 190 000 individuals per year **(1)**. • Over 28% of the population are immigrants **(1)** • Highly skilled migrants **(1)** **Analysis** Up to 2 marks for explaining the impact of net migration on employment **OR** unemployment in Australia e.g.: • Increased skilled labour force increases productivity **(1)** this increases the demand for labour increasing employment **(1)**. • The increase in the population increases consumption **(1)** increasing aggregate demand and further demand for labour increasing employment **(1)** • Higher migration has made it more difficult to find jobs as the supply of workers has increased **(1)** increasing the number of citizens who are unemployed **(1)**	**(6)**

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Question Number	Answer	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge** Up to 2 marks for knowledge of base rate of interest e.g.: • Interbank lending rate **(1)** • Usually passed on by high street banks to consumers **(1)** • Interest rate is the return on saving/cost of borrowing **(1)** • Interest rate is a tool of monetary/demand-side policy **(1)** **Application and Analysis** Up to 2 marks for identification of the case for a reduction in interest rates and up to 2 marks for linked explanations e.g.: A cut in the base rate of interest is justified as: • Real wage growth fell between 2013 and 2018 **(1 Ap)** meaning wages have been rising more slowly than previously **(1 Ap)** a cut in interest rates should increase household borrowing **(1 An)** increasing consumption and AD to compensate for this **(1 An)** • China's economic growth has slowed **(1 Ap),** reducing the demand for Australia's commodity exports **(1 Ap)** reducing interest rates reduces firms' costs **(1 An)** maintaining investment and production levels in spite of this **(1 An)** • House prices have fallen **(1 Ap)** by 2.4% in Q1 2019 **(1 Ap)** leading to a negative wealth effect **(1 An)** which would lead to a fall in confidence and consumer spending **(1 An)** **NB Analysis marks are only awarded for explaining <u>the case for reduction in the base rate of interest</u> <u>in the context of the Australian economy</u>.** **Evaluation** Up to 2 marks for evaluative comments, e.g.: • Inflation is forecast to be within the target inflation **(1)** therefore the central bank does not need to intervene in the economy **(1)** • If interest rates fall by a small amount there may be little or no change in investment/spending **(1)** • If economic growth is low, business confidence will be low **(1)** businesses will not want to invest even if interest rate falls **(1)** • If there is a significant negative wealth effect, the reduction in consumer confidence would be high **(1)** a change in interest rates may not offset/will have limited impact in boosting consumption **(1)** • Households with significant savings will see a fall in the return on these, reducing their disposable income **(1)** so their consumption may not increase as expected **(1)**	**(8)**

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Question Number	Indicative content		
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 marks) – indicative content** • Economic growth is an increase in real GDP / the productive capacity of an economy • The Australian economy grew by 3.24% in 2018 • The Australian economy recorded annual economic growth rates in excess of 2% in each year from 2012 to 2018 Factors include: • Export-led growth has been significant, especially Australia's exports to China • Tourism has been strong, increasing invisible exports • Australia was not significantly impacted by the global financial crisis • The Government has increased spending on infrastructure and small business investment boosting AD and AS • The high levels of foreign students increase consumption in Australia • Private household consumption has been rising		
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.	

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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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<table>
<tr><td></td><td colspan="2">Evaluation (6 marks) – indicative content
• The Chinese economy has been slowing down, reducing demand for exports and tourism
• In turn, this caused a fall in business confidence which could result in a fall in investment
• The fall in house prices causes a negative wealth effect, reducing consumption
• Real wages didn’t grow until 2018, reducing the level of potential consumption
• Government expenditure on infrastructure will have a positive effect in the long run, but may cause disruption in the short run
• Consumption is likely to have the biggest effect on economic growth because it is the largest component of GDP
• Central Bank prediction that the rate of inflation would increase in 2019 might cause a fall in real wages and in consumption</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–2</td><td>Identification of generic evaluative comments.
No supporting evidence/reference to context.
No evidence of a logical chain of reasoning.</td></tr>
<tr><td>Level 2</td><td>3–4</td><td>Evidence of evaluation of alternative approaches.
Some supporting evidence/reference to context.
Evaluation is supported by a partially-developed chain of reasoning.</td></tr>
<tr><td>Level 3</td><td>5–6</td><td>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.</td></tr>
</table>

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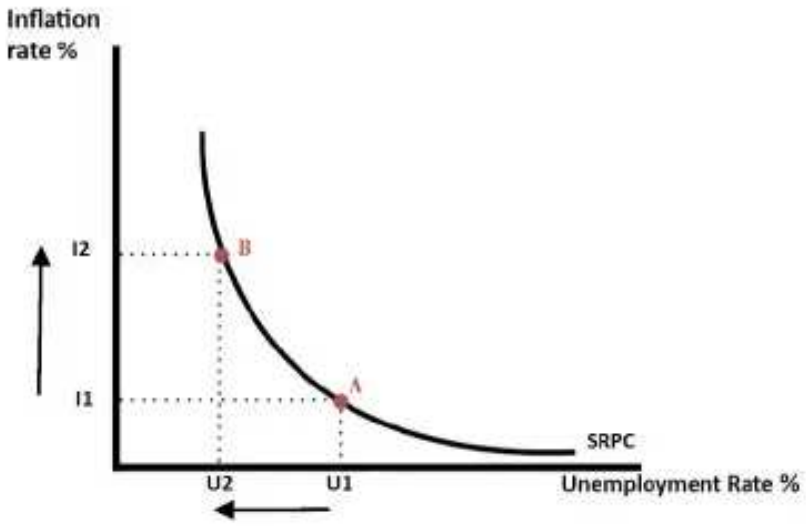
Section D

Question Number	Indicative content
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** Award maximum of Level 3 (9 marks) if candidate does not use application in their answer • Fiscal policies refer to changes in government spending and taxation in order to influence aggregate demand • Macroeconomic objectives are the main goals of economic policy e.g. low unemployment, stable rate of inflation, economic growth • Reducing tax rates and increasing spending would increase economic growth, but may increase the inequality of income distribution • Policies to increase employment may lead to increased inflation - the Phillips curve demonstrates a short run trade off  • Expansionary policies might increase employment, but cause harm to the environment • Increasing welfare payments may lead to increased consumption and economic growth, but may also increase demand for imports worsening the balance of payments on current account • Policies to increase government spending on infrastructure may increase the competitiveness of a country's exports, improving its trade balance, but may cause pollution and environmental damage

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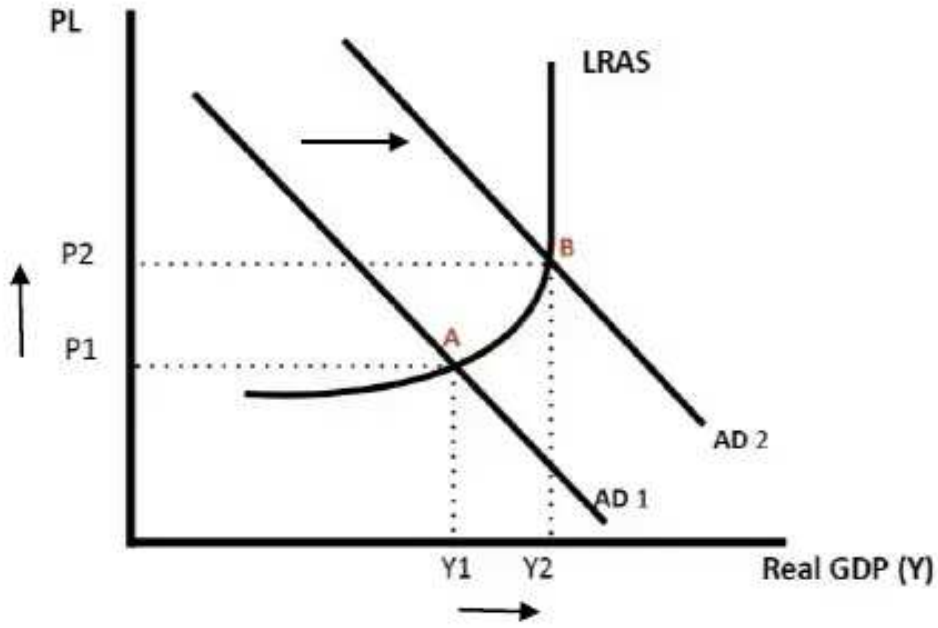
Credit relevant AD/AS diagrammatic analysis to illustrate trade-offs, e.g.:



Students may take the alternative perspective

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.

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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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<table>
<tr><td></td><td colspan="2">Evaluation (8 marks) – indicative content
If the government reduce tax rates on the lowest income earners, or on essential goods, income inequality may not rise
Economic growth can occur without inflation if the LRAS increases
If government capital expenditure is on green technology, environmental damage may not occur
Consumers may demand more luxurious domestic products, and less inferior imports improving the balance of payments on current account as their incomes rise
Reducing economic growth might be beneficial if inflation is too high and growth is unsustainable</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>Identification of generic evaluative comments.
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Evaluation is supported by a partially-developed chain of reasoning.</td></tr>
<tr><td>Level 3</td><td>7–8</td><td>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.</td></tr>
</table>

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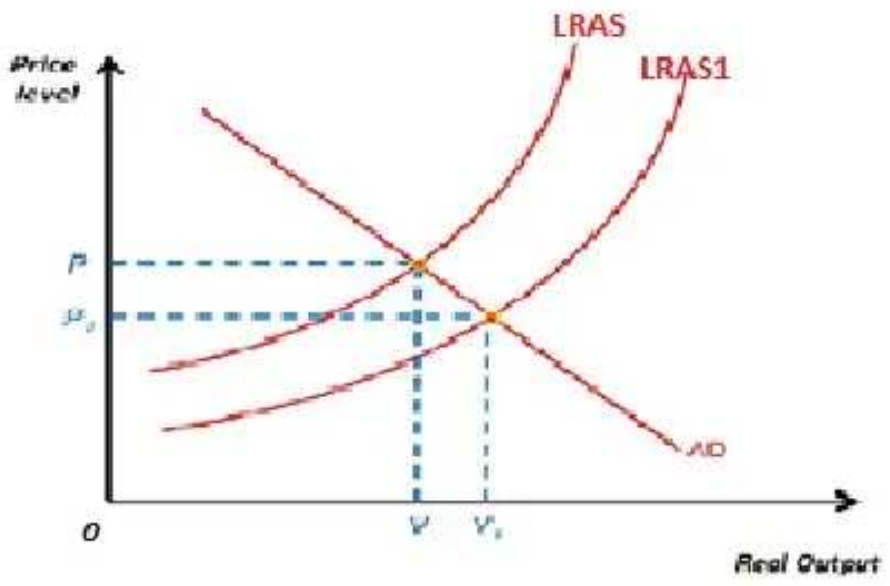
Question Number	Indicative content
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** Award maximum of Level 3 (9 marks) if candidate does include application in their answer • Interventionist supply-side policies are policies which involve increased government intervention in the economy, in order to increase LRAS/the productive potential of the economy • Increasing government spending on infrastructure may increase the productive potential of the economy • Increasing government spending on education/training/skills increases the skill level of the labour force, increasing productivity • Offering finance for business start-ups encourages more firms to enter the market, increasing competition and LRAS • Lowering corporation tax/offering subsidies increases the incentive for businesses to invest, improving productivity, and increasing LRAS • Regional policy encourages investment into all areas of the economy, encouraging more productivity and growth Reward diagrams showing an outward shift in LRAS and increase in real GDP: 

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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.
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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 • Businesses may only respond to changes if confidence is high, in times of recession this may be ineffective • It takes time for the economy to benefit from increased spending on education/training/infrastructure • Difference policies may be more or less effective in different countries and at different times • Growth may be harmed in the longer term if governments have to borrow to finance interventionist policies • Free market supply-side polices/demand-side policies may be more effective means of achieving economic growth	

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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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