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Pearson Edexcel

Mark scheme (Results)

October 2023

Pearson Edexcel International

Advanced Subsidiary

In Economics (WEC12)

Unit 2: Macroeconomic performance

and policy

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Section A

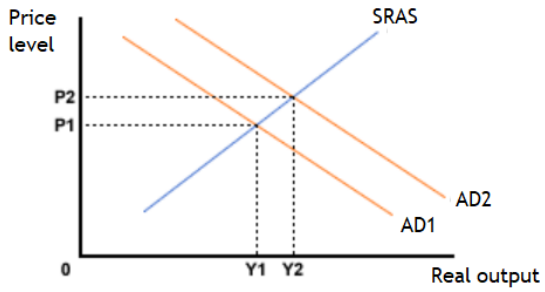
Question	Quantitative skills assessed	Answer	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as this will shift the AS curve* ***B*** *is not correct as this will shift the AS curve* ***D*** *is not correct as this will shift the AS curve*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as this is an interventionist supply-side policy* ***C*** *is not correct as this is an interventionist supply-side policy* ***D*** *is not correct as this is an interventionist supply-side policy*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because this will decrease the value of the multiplier* ***B*** *is not correct because this will decrease the value of the multiplier* ***D*** *is not correct because this will decrease the value of the multiplier*	**(1)**
4	**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 B** ***A*** *is not correct because between A to B the economy is experiencing a downturn/ negative economic growth* ***C*** *is not correct because at point C there is no output gap* ***D*** *is not correct because between C and D the economy is growing, and with greater output, unemployment is likely to be falling*	**(1)**
5		**The only correct answer is A** ***B*** *is not correct as this is the role of the government* ***C*** *is not correct as this is the role of the government* ***D*** *is not correct as this is the role of the government*	**(1)**
6	**QS5:** Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct as this is the base year* ***B*** *is not correct as this is the index number for 2020 using 2019 as the base year* ***C*** *is not correct as this is the index number for 2021 using 2020 as the base year*	**(1)**

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Section B

Question	Explain **one** reason why it is necessary to regularly update the CPI basket of goods and services.	Mark
7	**Knowledge 1, Analysis 2, Application 1** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 mark for identification of a reason, e.g. • To ensure that inflation/CPI basket is accurately measured **(1)** **Analysis** Up to 2 marks for one linked expansion, e.g. • Consumer tastes/preferences/needs change frequently **(1)** therefore the CPI basket is updated annually **(1)** • To ensure that changes in consumption trends/spending are reflected **(1)** so that the weights are an accurate reflection of spending patterns **(1)** • To exclude goods and services that are out of fashion **(1)** and to take into account new goods and services introduced **(1)** • Technological advancements **(1)** imply consumers switch to newly developed/high quality goods and services **(1)** • Consumers could have switched away **(1)** from those goods and services that have increased in price **(1)** **Application** 1 mark for appropriate use of the stem, e.g.: • Addition of meat-free sausages/antibacterial surface wipes / • Removal of coal/men's suits **(1)**	**(4)**

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Question	Draw an AD and SRAS diagram to show the likely impact of this change in the savings ratio on the economy of the USA.	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** Correctly drawn diagram with correctly labelled AD/SRAS curves showing the original equilibrium price level and real output **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the right **(1)** • Showing correct higher price level **(1)** (not rewarded if 'price' is used on the axis) • Showing correct higher real output **(1)** (not rewarded if 'quantity' is used on the axis)	**(4)**

Question	Calculate the value of aggregate demand for this economy in 2022.	Mark
9	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for correct definition or formula for AD: • C+I+G+(X-M) **(1)** **Application** Up to 3 marks for correct application: • $15.76bn + $2.30bn + $6.14bn **(1)** + ($8.43bn - $7.01bn) **(1)** • = $25.62 billion **(1)** **NB If the correct answer is given ($25.62 billion/$25.6 billion /$26 billion), award full marks regardless of working** **NB If the answer is given as $25.62/$25.6/$26 without the billion sign, award only 3 marks**	**(4)**

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Question	With reference to Guinea, explain **one** likely impact of higher real incomes on subjective happiness.	Mark
10	**Knowledge 1, Analysis 2, Application 1** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge and Analysis** 1 knowledge mark for identification of the impact and up to 2 analysis marks for linked development, e.g.: - The greater the GDP per capita PPP, the higher the World Happiness Score **(1K)** as the purchasing power increases **(1AN)** and people can afford to purchase more goods and services/have income to satisfy their wants or needs **(1AN)** - The greater the real incomes, the higher the subjective happiness **(1K)** as people can now take out loans and mortgages **(1AN)** as they are less worried or anxious about making payments/have greater job security **(1AN)** **Application** 1 mark for appropriate reference to the data, e.g.: - World Happiness Score increased from 3.667 in 2012-14 to 5.072 in 2020-22 / - Guinea's real GDP per capita increased from $4 127 to $5 434 between 2013 and 2021 **(1)**	**(4)**

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Question	With reference to the chart, explain the difference between a current account deficit and a current account surplus.	Mark
11	**Knowledge 2, Application 2** **Quantitative skills Assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** 1 mark for defining current account deficit: • Balance of the sum of trade in goods, trade in services, primary income and secondary income is negative **(1)** • Allow value of imports is greater than the value of exports / Allow (M>X) / imports>exports / net exports is negative **(1)** 1 mark for defining current account surplus: • Balance of the sum of trade in goods, trade in services, primary income and secondary income is positive **(1)** • Allow value of imports is less than the value of exports / Allow (M<X) / imports<exports / net exports is negative **(1)** **Application** 1 mark for correctly identifying a period when Spain was experiencing current account deficit, e.g.: • In April 2022, current account deficit was €0.48 billion/ There was a deficit between Dec 2021 and Feb 2022 **(1)** 1 mark for correctly identifying a period when Spain was experiencing current account surplus, e.g.: • In May 2022, current account surplus was €2.85 billion/ There was a surplus between July 2021 and Nov 2021 **(1)**	**(4)**

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Section C

Question	Define the term 'real GDP' (Figure 1).	Mark
12 (a)	**Knowledge 2** • Total value/output of goods and services produced in an economy in a given year **(1)** adjusted for inflation **(1)**	**(2)**

Question	With reference to Figure 2, explain how ILO unemployment is measured.	Mark
12 (b)	**Knowledge 2, Application 2** **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** Up to 2 marks for explaining how ILO unemployment is measured, e.g. • Person is out of work for four weeks **(1)** • Willing to work in the next two weeks **(1)** • Uses the Labour Force Survey (LFS) / in form of (telephone) interviews/(online) surveys/ questionnaires **(1)** **Application** Up to 2 marks for application to Figure 2, e.g.: • Between January 2022 and June 2022 youth unemployment in China increased **(1)** from 15.3% to 19.3% **(1)** • Between January 2022 and June 2022 youth unemployment in China increased **(1)** by four percentage points **(1)** • For identifying youth unemployment rate in any one month **(1)**	**(4)**

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Question	With reference to Extract A, analyse **two** causes of China's high youth unemployment rate.	Mark
12(c)	**Knowledge 2, Application 2, Analysis 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and analysis** Up to 1 knowledge for identifying a cause and 1 analysis mark for linked development of each cause, e.g.: • Low economic growth rate of China **(1K)** resulting in demand-deficient unemployment/less demand for workers **(1AN)** • There was also a mismatch between the jobs that are available and students' qualifications **(1K)** so Chinese graduates lack the necessary skills to take up available jobs **(1AN)** • Surplus in the labour market for young people **(1K)** so Chinese economy lacks jobs for skilled graduates **(1AN)** **Application** Up to 2 marks for use of Extract A, e.g., • Domestic demand for goods and services and exports rising more slowly compared with the previous quarter / the country's economic growth forecast for 2022 was reduced from 5.5% to 4.3% **(1)** • China has too many college and university graduates for the economy to employ • At the start of the third quarter of 2022, only 0.70 jobs were available for each graduate **(1)**	**(6)**

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Question	With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and analysis** 1 knowledge mark for understanding of a policy and 1 analysis mark for linked development of each policy, e.g.: • Increased government spending **(1K)** is likely to result in greater injections into China's circular flow of income **(1AN)** • Reduced taxes for businesses **(1K)** is likely to result in a decrease in withdrawals from China's circular flow of income **(1AN)** • Increased investment by businesses **(1K)** is likely to result in greater injections into China's circular flow of income **(1AN)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Increased spending on infrastructure by $75 billion **(1)** • Providing 100% tax breaks on research and development spending **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of infrastructure spending/tax breaks is relatively large **(1)** so the impact on injections/withdrawals is likely to be very significant **(1)** • Impact on injections/withdrawals will also depend on the other injections/withdrawals **(1)** investment and exports/savings and imports **(1)** • Time lags associated with fiscal policy **(1)** indicate that the impact on net injections may only be felt in the long-run (18-24 months) **(1)**	**(8)**

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Question	With reference to the information provided and your own knowledge, discuss the likely effects of a reflationary monetary policy on the economy of China.

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
	
	• Understanding of reflationary monetary policy
	• The PBoC decreased the base rate of interest from 3.7% to 3.65% in August 2022 – a decrease of 0.05 percentage points
	
	• A decrease in the base interest rate should increase AD as it will:
	  ○ increase consumption as it creates an incentive to spend; also consumption increases as cost of borrowing falls and there is a disincentive to save as the return on saving falls
	  ○ create positive wealth effects: lower interest rates will reduce cost of borrowing, so individuals will be more likely to borrow to purchase houses - this will contribute to an increase in house prices, raising confidence and consumption
	  ○ increase spending as consumers with variable rate loans/mortgages see interest repayments decrease, increasing discretionary incomes
	  ○ increase the net trade balance as it will put a downward pressure on the exchange rate, meaning exports become relatively cheaper, and imports become relatively expensive – China's "exports rising more slowly" so the "fall in the external value of the Chinese currency, the Renminbi" will help improve the current account position
	  ○ increase investment, as the cost of borrowing to finance investment decreases, reducing firms cost of production
	• "A reduction in reserve asset (liquidity) requirements" will increase money supply: more lending by commercial banks could increase consumption and investment as there would be greater access to credit
	• AD shifts outwards leading to (may be shown diagrammatically):
	  ○ An increase in China's economic growth as the real output rises: "the country's economic growth forecast for 2022 was reduced from 5.5% to 4.3%." so reflationary policy will increase the economic growth rate
	  ○ higher demand-pull inflationary pressure as average price level rises
	  ○ fall in unemployment as more output means larger numbers of people are employed – could reduce youth unemployment (use of Figure 2)

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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. 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 an 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

- Significance of the size of the fall in interest rate: another 0.05 percentage points decrease may not be enough to stimulate economic growth
- Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through the economy
- Consumption and investment may not rise if both consumer and business confidence is relatively low
- Commercial banks may not pass the lower rates to consumers or businesses, thereby less likely to increase consumption and investment
- Impact on real output will depend on the size and value of the multiplier
- Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in the economy
- The PBoC may have to reverse its policy decision if the economy begins to experience cost-push inflation – several advanced economies implemented deflationary monetary policy
- Fiscal policy/supply-side policies may be more effective in stimulating the rate of China's economic growth

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 there will always be conflicts between macroeconomic objectives.	
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 Conflicts include: • Economic growth and the protection of the environment: measures to reduce pollution e.g. increased taxes on polluters would increase costs and prices resulting in a fall in real incomes and therefore a slower rate of economic growth (as predicted in India) • Economic growth and inflation: measures to reduce inflation e.g. deflationary monetary policy would increase cost of borrowing reducing consumption/investment and AD, resulting in a fall in real output and therefore slower rate of economic growth e.g. the UK Other conflicts: • Economic growth and income equality • Economic growth and current account of the balance of payments • Inflation and unemployment, including the short-run Phillips curve • Unemployment and the current account of the balance of payments • Unemployment and the protection of the environment **NB Award a maximum of Level 3 for answers with no reference to a country in their answer** **NB Award a maximum of Level 3 for answers that consider only one conflict**	
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.

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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

- In developed economies, economic growth could imply employment of green and clean technology; Consumers may increase demand for eco-friendly products so stimulating AD
- Growth may lead to higher government revenues, providing scope to improve public transport and hence reduce pollution
- If it is supply-side growth (rather than demand-side) then the impact will not be inflationary
- Full employment / low unemployment may not be inflationary if AS is rising more quickly than AD
- Significance of the current state of the economy and its implications for elasticity of the LRAS curve/proximity to full employment (full output)
- Initial state and stability of inflation/deflation
- The rate of actual economic growth in comparison to the growth of the productive capacity
- Full employment/low unemployment should not conflict with growth
- Short-run unemployment from introduction of new technology
- Impact on inequality depends on the extent of the effectiveness of the current redistributive policies of the government
- Impact on the environment depends on the extent of the effectiveness of the government's current environmental policies
- Extent to which the economic growth is in tertiary sector or in primary and secondary sectors
- Current account of balance of payments may improve if it is export-led economic growth e.g. Singapore
- Current account of balance of payments may improve if economic growth is generated through increase in productivity (such as through investment) resulting in a shift in LRAS to the right

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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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<table>
<tr><td>Question</td><td colspan="2">Evaluate possible causes of deflation.</td></tr>
<tr><td>14</td><td colspan="2">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 deflation
• "In July 2021 Rwanda's inflation rate was -1.1% and in November 2021 it was -3.4%"

Possible causes include:
• Decrease in AD as a result of -
o lower consumption/higher savings
o lower levels of gross/net investment
o lower government spending/public expenditure
o lower net trade/fall in exports/increase in imports
o deflationary fiscal policy e.g. lower rates of direct taxes
o deflationary monetary policy e.g. lower money supply/increase in the base rate of interest
o expectations of deflation means that consumers may delay their purchases to see if the price decreases again
• Increase in SRAS as a result of -
o decrease in indirect taxes
o fall in costs of raw materials and energy
o increase in the external value of the currency making imports relatively cheaper
• Increase in LRAS as a result of -
o competition policy
o increases in productivity
o increase in net migration
o technological advancements
o improvements in education and skills

Credit use of relevant AD/AS diagrams

NB Award a maximum of Level 3 for answers with no reference to a country in their answer</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>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.
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		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 the most important factor changes over time
- It is likely to be a combination of factors contributing to deflation
- Magnitude of the deflation will be dependent on the size of any shifts in AD and AS: it is likely to be relatively large for Rwanda
- Demand-pull deflation (decrease in AD) is often seen as more negative as the lack of AD is what causes the deflationary pressure
- Fiscal policy and/or monetary policy takes time to impact AD
- Cost-push deflation (increase in SRAS) is often seen as a more positive cause as the supply side is improving
- If the external value of the currency decreases then the relative price of imports will increase
- Prices of raw materials and oil are highly volatile and likely to increase as AD increases as the world economy recovers
- Supply-side impacts (increase in LRAS) are likely to have a long-term effect only causing deflation after a significant time lag

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.
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