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Pearson Edexcel

Mark Scheme (Results)

Summer 2024

Pearson Edexcel International Advanced Level
In Economics (WEC12) Paper 01
Unit 2: Macroeconomic performance policy

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Summer 2024
Question Paper Log Number P75889A
Publications Code WEC12_01_2406_MS
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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 D** ***A*** *is not correct as investment and the profits of firms are likely to fall* ***B*** *is not correct as real income is likely to fall and government expenditure is likely to rise* ***C*** *is not correct as unemployment is likely to rise and consumer confidence is likely to fall*	**(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 implies higher consumption and therefore leads to an increase in the average price level* ***C*** *is not correct as this would lead to higher consumption and therefore an increase in the average price level* ***D*** *is not correct as this would lead to higher consumption/investment and therefore an increase in the average price level*	**(1)**
3	**QS1:** Calculate, use and understand ratios and fractions **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 is calculated using an incorrect formula: 44 / 1.5* ***B*** *is not correct as this is calculated using an incorrect formula: 44 x 1.5* ***D*** *is not correct as this is calculated using an incorrect formula: (44 x 1.5 x 1000)*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras* ***C*** *is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras* ***D*** *is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as incomes will fall and reduce national happiness* ***B*** *is not correct as profits for firms will fall as consumer spending decreases* ***D*** *is not correct as welfare payments will increase*	**(1)**

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6	**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 A** ***B*** *is not correct as consumer confidence is likely to decrease* ***C*** *is not correct as average house prices fell by 1.65% between November 2022 and December 2022* ***D*** *is not correct as there will be less incentive for construction companies to build new houses*	**(1)**

Section B

Question	In 2021 net migration in Nepal was approximately 300 000. Explain **one** impact of this net migration on *employment* in Nepal.	**Mark**
7	**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 defining net migration, e.g.: • Immigration *minus* emigration **(1K)** *OR* 1 knowledge mark and up to 2 marks for linked analysis, e.g.: • It will result an increase in employment **(1K)** if immigrants come to Nepal to fill job vacancies **(1AN)** that people in Nepal are unable to fill **(1AN)** • Firms employ more people **(1K)** to increase output as positive net migration results in an increase in population/more people **(1AN)** causing higher levels of household consumption **(1AN)** • Higher employment **(1K)** as increased immigration could increase the size of the labour force/increase labour supply **(1AN)** meaning more people are available for work **(1AN)** **Application** 1 mark for appropriate reference to Nepal, e.g.: • In 2021 net migration in Nepal was approximately 300 000 **(1)**	**(4)**

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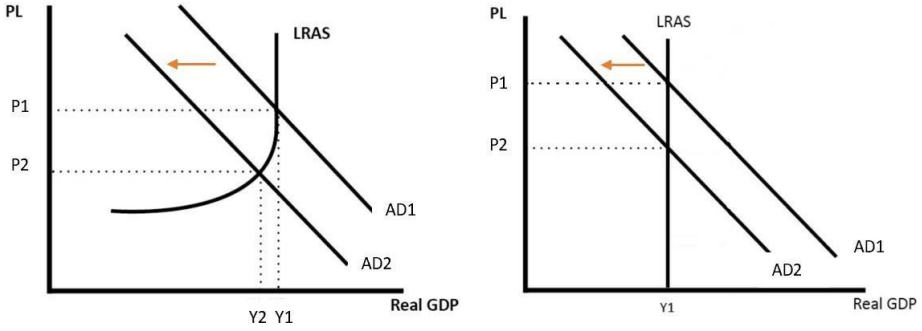
Question	Between May 2022 and April 2023 the central bank of Nigeria increased the country's base rate of interest by six percentage points. Draw an AD and LRAS diagram to show the effect of this increase in the base rate of interest on *consumption*, the price level and real output.	Mark
8	**Knowledge 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/LRAS 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 left **(1)** • Showing correct lower price level **(1)** (not rewarded if 'price' is used on the axis) • Showing correct real output **(1)** (not rewarded if 'quantity' is used on the axis)	**(4)**

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Question	Calculate the *change* in Thailand's balance of trade between 2020 and 2021. Show your workings.	Mark
9	**Knowledge 1, Application 3** **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** 1 mark for correct formula/implicit understanding, e.g.: • Net trade balance = (X-M) / • Value of exports – value of imports **(1)** **Application** Up to 3 marks for use of data in calculation from the following, e.g.: • 2020 → $208bn - $187bn = $21bn **(1)** • 2021 → $257bn - $230bn = $27bn **(1)** • Change → $27bn – $21bn = $6bn **(1)** **NB: if correct answer ($6 billion/percentage change of 28.6%) is given, award full marks regardless of working.** **NB: award only 3 marks if billion or % is not included in the final answer or if answer is written as - $6 billion**	**(4)**

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Question	With reference to the chart, explain **one** likely effect of this trend in the rate of inflation.	Mark
10	**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 knowledge mark for defining inflation, e.g.: • Increase in the general price level of the economy/a rise in *average* prices of goods and services in an economy **(1K)** *OR* 1 knowledge mark for identifying one likely effect of rising inflation and up to 2 marks for linked explanation of the effect identified, e.g.: • Increased inequality **(1K)** those who have fixed incomes **(1AN)** who are not protected by inflation – e.g. students, dependents, pensioners are often the poorest **(1AN)** • May worsen trade balance **(1K)** as price of Colombia's exports may rise more than the price of other countries' goods **(1AN)** making their exports less internationally competitive **(1AN)** • Fall in real incomes **(1K)** resulting in lower consumer confidence/purchasing power/affordability **(1AN)** and hence reducing living standards/happiness **(1AN)** • Greater uncertainty **(1K)** would lead to a loss of business confidence **(1AN)** which reduces or postpones investment/ spending and hence may reduce economic growth **(1AN)** **Application** 1 mark for appropriate use of the chart, e.g.: • For identifying an increase in the rate of inflation / Between Jan 2021 and Jan 2023, the rate of inflation increased from approximately 1.8% to 13% / Between Jan 2021 and Jan 2023, the rate of inflation increased by 11.2 *percentage points* **(1)**	**(4)**

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Question	Between 2015 and 2023 the European Central Bank increased its asset purchases (quantitative easing) programme by approximately €3.5 trillion. With reference to the data, explain what is meant by quantitative easing.	Mark
11	**Knowledge 2, Application 2** **Quantitative skills Assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for defining quantitative easing, e.g.: • Central bank buys government bonds/gilts/securities/ corporate bonds **(1)** • Increases money supply / digital/virtual/electronic creation of money / increases cash deposits of commercial banks / injects more liquidity in financial markets **(1)** **Application** Up to 2 marks applying this to data, e.g.: • It is a reflationary/monetary policy instrument **(1)** • The European Central Bank increased its asset purchases (quantitative easing) programme by €3.5 trillion **(1)** • Reduces interest rate/borrowing costs/reward for saving **(1)** • This would result in greater consumption/investment/AD **(1)**	**(4)**

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Section C

Question	Define the term 'corporation tax' (Extract A, lines 4 and 5).	Mark
12 (a)	**Knowledge 2** 1 mark for, e.g. • tax charged by the government / a direct tax / tax on a firm/business/company **(1)** 1 mark for, • profits **(1)**	**(2)**

Question	Explain what is meant by Gross National Income (Extract A, line 24).	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 Gross national income (GNI), e.g. • It is GDP **(1)** *plus* net income (positive or negative) from overseas/abroad **(1)** • It is GDP **(1)** *plus* net receipts from abroad from compensation of employees, property income and net taxes less subsidies on production **(1)** • It is GDP **(1)** *plus* money flowing from foreign countries *minus* money flowing to foreign countries **(1)** **Application** Up to 2 marks for application to Extract A, e.g.: • An alternative measure of economic growth **(1)** • This measure removes the impact of international companies / provides a better understanding of domestic demand **(1)** • According to the GNI estimate, Ireland's rate of economic growth was much lower / at 5.9% in 2022 **(1)**	**(4)**

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Question	With reference to Extract A, analyse **two** reasons for the improvement in living standards in Ireland between 2015 and 2022.	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 reason and 1 analysis mark for linked development of the reason, e.g.: • Increase in employment **(1K)** as there will be greater demand for domestic workers when international companies set up their operations in Ireland: higher incomes for workers **(1AN)** • Increased government tax revenues **(1K)** as workers will pay taxes on their earnings and firms will pay taxes on their profits: more spending on public goods and services **(1AN)** • Increase in real incomes **(1K)** since there is positive economic growth/an increase in real GDP **(1AN)** • Increase in FDI by TNCs **(1K)** resulting in an increase in the productive capacity of the economy **(1AN)** • Consumers may have access to high quality/innovative goods **(1K)** due to greater innovation by TNCs **(1AN)** **Application** Up to 2 marks for use of Extract A, e.g., • Employment: 2.06 million to 2.55 million **(1)** • Corporation tax receipts: €22.6 billion **(1)** • Attracted over 1500 international companies / Apple Inc., the world's largest technology company, moved its European base to Ireland in 2015 **(1)** • The activities of international companies had a positive impact on living standards in Ireland **(1)**	**(6)**

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Question	With reference to Figure 1 and Extract A, examine **two** reasons why Ireland's rate of economic growth was expected to decrease in 2023.	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 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, tabular and numerical forms **Knowledge and analysis** Up to 1 knowledge for identifying a reason and 1 analysis mark for linked development pf the reason, e.g.: • A high rate of inflation **(1K)** could create greater uncertainty in Ireland, hence reducing investment/AD **(1AN)** / A high rate of inflation **(1K)** could reduce real incomes and hence consumption/AD **(1AN)** / A high rate of inflation **(1K)** could increase export prices and hence reducing net trade/AD **(1AN)** • Rising interest rates **(1K)** increases reward for savings/cost of borrowing, hence decreases C/I/AD **(1AN)** • Weakening state of the global economy **(1K)** may reduce the demand for Ireland's exports, hence net trade/AD **(1AN)** **Application** 1 mark for reference to Figure 1, e.g.: • In 2022 Ireland's annual real GDP growth rate was 12.2% **(1)** *AND* 1 mark for reference to Extract A, e.g.: • rate of economic growth is expected to decrease to just 4% / Forecasts also suggest that between 2024 and 2027, the economy is likely to grow by an average of 3.5% per year **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The size of the decrease in the rate of economic growth is large **(1)** as between 2022 and 2023, it has fallen by 8.2 percentage points / from 12.2% in 2022 to 4% in 2023 **(1)** • These are forecasts and may not happen **(1)** as inflation falls/ state of the global economy improves **(1)** • Ireland's rate of economic growth may not be low if Ireland's Government increases its spending e.g. fiscal policy **(1)** at a faster rate than other components of AD **(1)** • Economic growth may not be low in the long-run **(1)** given forecasts also suggest that between 2024 and 2027, GDP is likely to grow by an average of 3.5% per year **(1)** • It is likely to be a combination of reasons that would lead to a lower rate of economic growth for Ireland **(1)**	**(8)**

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Question	With reference to Figure 2, Extract A and your own knowledge, discuss the limitations of using GDP to compare living standards between countries.	
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** **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, Application and Analysis (8 marks) – indicative content** Reference to Figure 2: In 2022 Ireland's rate of economic growth was approximately 12.2% and approximately 2% for Germany and USA Limitations include: • Percentage changes are misleading without any reference to total GDP • Differences in the composition of GDP: most of Ireland's GDP is made up of investment by international companies, where their output produced can be volatile – "Some of these companies are so large that the country's GDP figures may be overstated" • Fails to indicate whether the nation's rate of growth is sustainable or not – "Apple Inc., the world's largest technology company, moved its European base to Ireland in 2015" • Differences in distribution of income as growth varies between countries – "mislead analysis of matters related to income inequality" • Quality of life issues, such as pollution from manufacturing: impact is hard to measure – "mislead analysis of matters related to the environment" • Methods of calculation and reliability of data may differ between countries – "large fluctuations in Ireland's industrial production data. It rose or fell by more than 10% from one month to the next" • Currency values do not effectively calculate accurate purchasing power parity/exchange rates might not accurately reflect these differences in purchasing power of currencies • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income • Does not consider differences in the size of population/population growth • Subsistence, barter and the hidden economy will undervalue the real output and national income will not reflect true living standards between countries • Differences in quality of housing/education/healthcare between countries • The size of the public sector spending, especially in developed countries such as Ireland, which may or may not improve living standards • Standard of living is subjective and therefore cannot be measured accurately	
Level	**Mark**	**Descriptor**
	0	No rewardable material.

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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.
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

- Benefits of using GDP for comparison – e.g., it is a standard measure used by all countries and is well understood by policymakers
- GDP is an accurate indicator of the size of an economy and the GDP growth rate is probably the best indicator of economic growth
- GDP is internationally recognised as it is the most reliable method of comparing living standards between countries
- Simpler to measure GDP than any other composite indicators
- Ease of using GDP data for comparison over time between countries
- Other measures may be better, e.g., GNI/GDP per capita gives an indication of average incomes, which is a key determinant of living standards
- GDP is dynamic and enables policymakers/central banks to determine whether their economy is contracting or expanding and promptly take necessary action to ensure living standards are maintained
- GDP allows policymakers, economists, and businesses to analyse the impact of changes in monetary and fiscal policy, economic shocks, etc.
- SR v LR considerations: The global health crisis of 2020 may have affected GDP of countries

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

<table>
<tr><td>Question</td><td colspan="2">Evaluate supply-side policies that a government could use to increase the rate of economic growth and to decrease the rate of inflation. Refer to a country of your choice in your answer.</td></tr>
<tr><td>13</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

• Supply-side policies are designed to increase productivity, competition, and incentives in an economy
• It can be shown via a shift outward of the LRAS creating potential growth and lower inflation; credit use of relevant AD/AS diagrams

Policies include:
• Increased government spending on skills through investment in education and/or training – this would increase human capital and raise productivity
• Increased government spending on infrastructure investment (e.g. roads or broadband) – this would reduce industry costs or improve access to markets
• Reducing the level of welfare benefits – this will incentivise the unemployed to take jobs, work harder and increase output per worker of those in work
• Privatisation – this may lead to increased competition, greater innovation resulting from higher R&D spending, and therefore higher productivity
• Cutting cost of bureaucracy and/or deregulation of firms – this would raise efficiency and productivity by increasing competition between firms
• Reducing regulation and/or increasing competition by reducing barriers to entry in product markets
• Reducing corporation tax – this incentivises firms to innovate by investing in technological advancements and therefore increasing potential output
• Reducing income tax – this may motivate employees to work harder/longer

NB Award a maximum of level 3 if no reference to a specific country</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.
Use of generic material or irrelevant information or inappropriate examples.
Descriptive approach, which has no chains of reasoning.</td></tr>
<tr><td>Level 2</td><td>4–6</td><td>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.</td></tr>
</table>

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 • Government has to spend a significant amount of money to come out of this period of low rates of economic growth as it has been ongoing since 2022 • Significant time lags and implementation lags for supply-side policies • Creates an opportunity cost for the government: funds may not be spent in areas that would contribute to high productivity • Asymmetric information may mean that supply-side policies are targeted in the wrong areas of the economy and will not have the desired outcome • Supply-side policies are less effective when there are large amounts of spare capacity in an economy: they create potential growth but no actual growth • Consideration of the effectiveness of supply-side policies such as infrastructure and education at delivering economic growth • Depends on the quality of education, training and infrastructure projects • Privatisation may lead to private monopolies, leading to lower productivity • Cut in welfare benefits designed as an incentive to work may be ineffective if the unemployed are willing to receive lower payments and do not work • Reducing bureaucracy may create unemployment in the short-term • Reducing corporation tax rates would be ineffective if the companies are uncertain about the prospect of making profit in the future • Reducing income tax rates may result in employees taking more leisure time • Supply-side policies are more effective than demand-side policies as there is unlikely to be a trade-off between economic growth and low rates of 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.

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<table>
<tr><td>Question</td><td colspan="2">Evaluate the likely macroeconomic effects of a government using deflationary policies to achieve a balanced budget. Refer to a country of your choice in your answer.</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 balanced government budget
• "In February 2023 Argentina's government spending exceeded its tax revenue by approximately $1 billion"
• To achieve a balanced budget, the Argentinian Government is likely to reduce government spending and increase taxation

Possible effects include:
• Reduction in Argentina's real output/economic growth as a result of the lower injections into, and greater withdrawals from, the country's circular flow of income
• Rising unemployment/falling real wages of workers in Argentina's public sector: the government may introduce spending cuts
• Fall/slow increase in real incomes and lower standard of living of the population of Argentina
• Deflationary effects/lower demand-pull inflationary pressures
• Increase in income inequality if Argentina's government cuts welfare payments: it receives lower taxation revenue from the unemployed
• Lack of government investment is likely to impact long-term economic growth e.g. spending on infrastructure, education, healthcare, etc
• Positive impact on the environment e.g. less pollution as a result of the lower consumption and production of goods and services
• Greater undesirable consequences in Argentina's society e.g. crime

Credit use of relevant AD/AS diagrams

NB Candidates may consider the positive effects for KAA and the negative effects for evaluation (or vice versa)</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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		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

- Impact on macroeconomic objectives depends on the magnitude of the reduction in government spending and the increase in taxation
- Time lags for the policy to come into effect – up to 18 to 24 months
- Budget deficit may increase in the long-run as a result of the reduction in government spending and increase in taxation
- Impact on real output and economic growth depends on the size/value of the multiplier
- Fall in wages can make Argentinian economy more competitive in LR
- Impact on inflation/real output depends on where the AD lies on the Keynesian LRAS / on the level of spare capacity
- Reduction in welfare payments by the government could reduce the level of frictional/voluntary unemployment
- Effects depend on to what extent private sector spending/employment can replace public sector spending/employment
- Potential increase in hidden economy (e.g. rise in cash in hand work)
- Effects would depend on what areas of government spending and/or taxation are changed

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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