



Mark Scheme (Results)

Summer 2025

Pearson Edexcel International A Level
In Economics (WEC12) Paper 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.

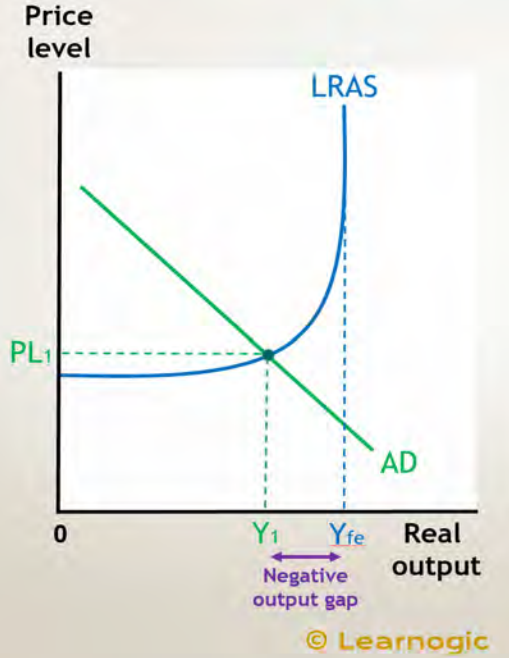
Section A

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 B <i>A is not correct because exports are an injection into the circular flow of income</i> <i>C is not correct because investment is an injection into the circular flow of income</i> <i>D is not correct because consumption is neither an injection nor a withdrawal from the circular flow of income</i>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct because this is likely to increase private sector investment</i> <i>B is not correct because this is likely to increase private sector investment</i> <i>D is not correct because this is likely to increase private sector investment</i>	(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 <i>A is not correct as this is the marginal propensity to consume multiplied by itself</i> <i>B is not correct as this is the value of the marginal propensity to withdraw</i> <i>D is not correct as this uses the incorrect formula of $1/MPC$</i>	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because there is unlikely to be an impact on the rate of corporation tax</i> <i>B is not correct because this is likely to increase the rate of unemployment</i> <i>C is not correct because this is likely to reduce the rate of economic growth</i>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the next two weeks to be considered as unemployed</i> <i>C is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the next two weeks to be considered as unemployed</i> <i>D is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the</i>	(1)

		<i>next two weeks to be considered as unemployed</i>	
6	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because this will most likely result in an improvement in Maldives' trade balance</i> <i>B is not correct because this will result in an improvement in Maldives' trade balance</i> <i>C is not correct because this will most likely result in an improvement in Maldives' trade balance</i>	(1)

Section B

Question	With reference to this information, explain one benefit of economic growth.	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 and Analysis 1 knowledge mark for identification of one benefit and up to 2 marks for linked analysis, e.g.: • More employment opportunities/lower unemployment (1) as demand for labour increases (1) as firms increase production /greater consumer demand for goods and services (1) • Increased tax revenues for the government (1) from income tax/corporation tax/indirect taxes (1) that may be used to improve public services or redistribute incomes (1) • Lower inflationary pressures (1) if economic growth is caused by increases in LRAS (1) will make Macau's exports more price competitive (1) • Higher profits for firms (1) which may be used to improve the quality of products/to produce new innovative products (1) thus giving them a competitive advantage (1) • Higher incomes for consumers (1) who can afford to buy more goods and services/more consumption (1) improving standard of living/increasing national happiness (1) Application 1 mark for appropriate use of the information, e.g.: • Macau's rate of economic growth was the highest in the world / Its annual percentage increase in real GDP was 80.5% (1)	(4)

Question	Draw a Keynesian AS/AD diagram to illustrate a negative output gap.	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 Keynesian AS and AD curves with correctly labelled axes (1) Application Up to 3 marks for the following information included on the diagram: • Labelling the AD/Keynesian AS equilibrium (Y_1) (1) • Labelling the full employment level of output (Y_{fe}) (1) • Correct labelling of the negative output gap (1)	(4)

Question	Based on this information, calculate the <i>change</i> in Nepal's GDP between 2013 and 2023. Show your workings.	Mark
9	Knowledge 1, Application 3 Quantitative Skills 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 correct formula/implicit understanding, e.g.: • $GDP = GDP \text{ per capita} \times \text{population}$ (1) NB: Accept GDP per capita formula (1) Application Up to 3 marks for use of data in calculation from the following, e.g.: • $2013 \rightarrow \\$809.4 \times 27.4\text{m} = \\22.18 billion (1) • $2023 \rightarrow \\$1350 \times 30.9\text{m} = \\41.72 billion (1) • $\text{Change} \rightarrow \\$41.72 \text{ billion} - \\$22.18 \text{ billion} = \\19.54 billion (1) NB: if correct answer (\$19 537.44 million / \$19.5 billion / \$19 billion / 88.1%) is given, award full marks regardless of working NB: award only 3 marks if billion is not included in the final answer	(4)

Question	With reference to the chart, explain the difference between a current account deficit and a current account surplus.	Mark
10	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 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 positive Application 1 mark for correctly identifying a quarter/period when Peru was experiencing a current account deficit, e.g.: - In Q1 2023, current account deficit was around \$0.9 billion/ There was a deficit between Q1 2022 and Q1 2023 (1) 1 mark for correctly identifying a quarter/period when Peru was experiencing a current account surplus, e.g.: - In Q4 2023, current account surplus was around \$1.6 billion/ There was a surplus between Q2 2023 and Q4 2023 (1)	(4)

Question	Explain one reason why it is necessary to regularly update the CPI basket of goods and services.	Mark
11	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 advances (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 air fryers/rice cakes / Removal of hand hygiene gel/sofa beds (1)	(4)

Section C

Question	Define the term 'inflation'.	Mark
12 (a)	Knowledge 2 • A rise (1) in the average prices of goods and services (1) • An increase (1) in the price level of an economy (1) NB: 1 mark for increase in price of goods and services	(2)

Question	With reference to Figure 1 and the first paragraph of Extract A, examine two causes of the relatively high rate of inflation in the USA.	Mark
12(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 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. QS10: Distinguish between changes in the level of a variable, and the rate of change. Knowledge and analysis Up to 2 marks for identifying two causes and one mark for each linked explanation, e.g.: • Disruptions to the supply chain (1K) creates shortages of goods and services, therefore causing cost-push inflation (this may be shown diagrammatically) (1AN) • Rising energy/food prices (1K) increases cost of imports, shifting SRAS to the left (this may be shown diagrammatically) (1AN) • High wage growth (1K) increases firms' production costs, who pass these on to the consumers in the form of higher prices / consumers spend more resulting in demand-pull inflation (this may be shown diagrammatically) (1AN) Application Up to 2 marks for application to Figure 1, e.g.: • The rate of inflation increased from 1.4% in January 2021 (1) to 6% in January 2022 (1) • Between January 2021 and January 2022 the rate of inflation increased by 4.6 (1) percentage points (1)	

	Evaluation Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: - The magnitude of the increase in the rate of inflation is high (1) so it is likely to be a combination of causes that have increased inflation (1) - Cost-push inflation is likely to be serious/significant (1) as the Fed will have limited tools to control it (1) - Energy and food prices have started to fall/their prices are highly volatile (1) so inflation may not remain high in the long-run (1) - Slower wage growth is likely to reduce the rate of inflation in the future (1) so inflation will only be high in the short-run (1) - Significance of factors change over time (1) global health crisis of 2020-2022 followed by rising energy and food prices in 2021-2022 and then by wage growth 2022-2023 (1)	(8)
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Question	With reference to the third paragraph of Extract A, explain the term 'rate of unemployment'.	Mark
12 (c)	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. QS10: Distinguish between changes in the level of a variable, and the rate of change. Knowledge Up to 2 marks for defining the rate of unemployment: - The percentage (1) of people in the labour force who are out of work/without a job (1) (total unemployed/total labour force) (1) x 100 (1) Maximum of 1 mark where only unemployment is defined - People who are able to work/available to work/willing to work but cannot find work (1) Application Up to 2 marks for reference to Extract A, e.g.: - The Fed forecast that the rate of unemployment would average 4% in 2024 (1) - This would be a little higher than the 50-year low of 3.6% in 2023 (1) - Between 2023 and 2024, the rate of unemployment is expected to increase by 0.4 (1) percentage points (1)	(4)

Question	With reference to the first paragraph of Extract B, analyse two reasons why the USA's rate of economic growth increased in 2023.	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 and analysis 1 knowledge mark for identifying each factor and 1 analysis mark for linked development of each reason (2+2) e.g.: • Increase in consumer spending/consumption (1K) will result in an increase in AD and thus real output (1AN) • Increase in government expenditure (1K) will result in an increase in efficiency/productivity/LRAS and thus potential output / greater injections into the circular flow of income / increase in AD and thus real output (1AN) NB: Increase in real GDP and/or potential GDP may be shown through an accurately drawn and labelled AD/AS diagram (analysis marks) Application Up to 2 marks for use of Extract B, e.g., • Spending on services such as hotels and travel (1) • \$1 trillion on infrastructure projects / the building of roads, airports and bridges (1) • The USA's rate of economic growth increased from 1.9% in 2022 to 2.5% in 2023 / increased by 0.6 percentage points (1)	(6)

Question	With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the increase in the base rate of interest on the US 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 • Definition/understanding of base rate of interest • Identification that interest rates are a monetary policy instrument • “the country’s base rate of interest increasing from 0.25% in March 2022 to a record high of 5.5% in July 2023” Effects include: • Decrease in consumption (C) as it creates a disincentive to spend; also consumption decreases as cost of borrowing rises and there is a greater incentive to save in the USA as the return on saving increases – it will disincentivise consumers to use “credit cards to finance their spending” • Create negative wealth effects: higher interest rates will raise the cost of borrowing, so individuals will be less likely to borrow to purchase houses - this will contribute to a decrease in house prices, reducing confidence and consumption in the USA • Reduces spending as consumers with variable rate loans/mortgages see interest repayments increase, decreasing discretionary incomes – the US “consumers would find it difficult to pay interest on their mortgages, car loans and credit cards” • Decrease in investment (I), as the cost of borrowing to finance investment rises increasing firms’ cost of production in the USA • Decrease in the net trade balance (X-M) as it will put an upward pressure on the exchange rate, meaning imports become relatively cheaper (greater demand), and exports become relatively expensive (lower demand) • AD shifts inwards leading to (may be shown diagrammatically): - o fall in USA’s economic growth as real output falls - o lower demand-pull inflationary pressure as price level falls – reference to Figure 1 and Extract A: “rate of inflation will return to the inflation target of 2% in 2024” - o rise in unemployment as lower real output means fewer workers are likely to be employed in the USA: “unemployment would average 4% in 2024” - o negative multiplier effects: further reduction in real output

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 increase in the base rate of interest: 5.25 pp is a relatively large increase in just over a year and may have the desired effect on the US economy/rate of inflation
- Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through the US economy
- Consumption and investment may not fall if both consumer and business confidence is relatively high in the USA – there was “High consumer spending on services, such as hotels and travel”
- If firms finance investment via retained profit, investment may not fall
- Banks in the USA may not pass the higher rates to firms or consumers, thereby they are less likely to reduce consumption and investment
- Impact on real output will depend on the size and value of the multiplier
- Impact depends on the elasticity of the LRAS/the level of spare capacity
- It is unlikely that changes in the interest rate by the Fed will be able to control cost-push inflation e.g. caused by rising energy and food prices
- Impact may be limited if the central banks of other countries have also increased their base interest rates

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.

Section D

Question	Between July 2023 and January 2024 the rate of employment in Colombia decreased from 58.6% to 55.3%. Evaluate supply-side policies that could be used to increase the rate of employment. Refer to a country of your choice in your answer.	
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 rate of employment: the percentage share of working population with jobs (includes those employed and self-employed) • Understanding of supply-side policies: measures to increase the productive capacity of the economy • Relevant diagram, e.g. AD/LRAS diagram showing rightward shift in LRAS Policies include: • Investment in education and training to provide a highly skilled and productive workforce through increases in the level of human capital • Increases in national minimum wage to incentivise citizens to seek employment • Reduction in unemployment benefits and associated benefits to increase workers incentive to find work • Reduction in tax rates to encourage firms to expand or set up operations, therefore increasing employment • Reduction in income tax rates creating a much larger incentive to work, increasing consumption and therefore, employment • Tax breaks to firms that set up in poor areas/giving financial assistance to unemployed workers who move to areas with high employment opportunities • Providing grants/subsidies/tax breaks to firms to hire and train workers • Relaxing immigration laws to potentially have a greater access to skilled workers to fill job vacancies • Government improving labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase in the provision of free childcare and social care and other related measures to increase the activity rate • Spending on infrastructure projects will increase the number employed in construction and related industries NB Award a maximum of Level 3 for answers with no reference to a country in their answer	
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 • Prioritisation of the most significant policy • Discussion of the effectiveness of individual policies • Conflicts between government economic policies • Conflicts with other macroeconomic objectives • Combination of policies required to increase the rate of employment • Creditworthiness of the government • Magnitude of the policy change/size of increase in employment rate • External factors beyond a government's control, e.g. slowdown in the global economy • Time lags (for e.g., education takes a long time to have impact on employment rates)/implementation lags • Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks

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.

Question	In 2022 nominal GDP was \$5 billion for Fiji, \$477 billion for Egypt and \$3 385 billion for India. Evaluate the limitations of using GDP data to compare living standards between countries. Refer to countries of your choice in your answer.	
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 the term GDP/living standards • Reference to differences in nominal GDP from stimulus or more widely Limitations of comparison may include: • Nominal GDP data ignores the impact of inflation that can significantly reduce the real GDP figure impacting living standards • Size of population needs to be considered to determine living standards • 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 – size of informal economy of developing countries is significantly large • Subsistence, barter and the hidden economy will undervalue the real output and GDP may not reflect true living standards • Differences in distribution of income as this varies between countries • Quality of life issues, such as spending on health and education – impact is very difficult to measure, especially in developing countries • Differences in the quality of housing and environment between countries • Nominal GDP does not accurately reflect purchasing power within each country • Spending on investment goods may raise future living standards at the expense of the current generation's quality of life • Methods of calculation and reliability of data may vary between countries • Standard of living is subjective, and therefore it cannot be measured effectively and accurately NB Award a maximum of Level 3 for answers with no reference to countries in their answer	
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 • 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 • Simpler to measure GDP than any other composite indicators • Ease of using GDP data for comparison over time between countries • Other measures might be better, e.g. 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	
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.

