Mark scheme (Results)

January 2022

Pearson Edexcel International Advance Level 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.
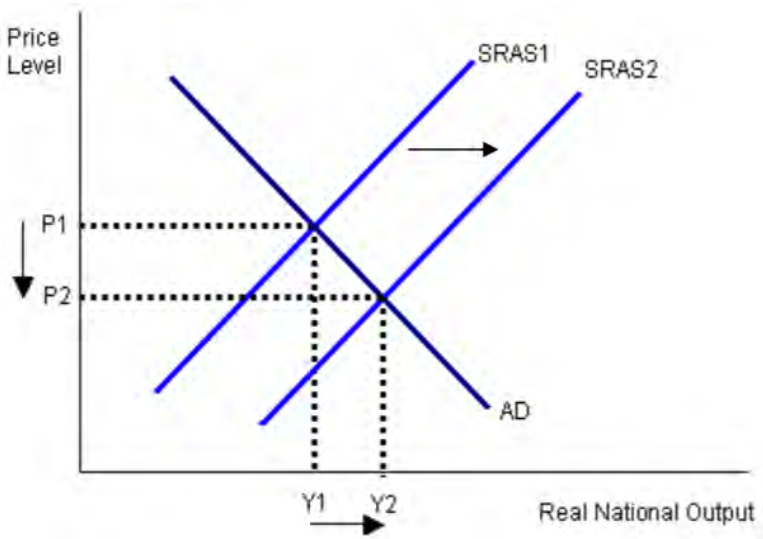- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A

Question	Quantitative skills assessed	Answer	Mark
1	-	**The only correct answer is A** *B is not correct as this is not measured by PPP, but by the World Happiness Index* *C is not correct as this does not consider the price differences of goods in other countries* *D is not correct as PPP does not compare CPI or RPI in different countries as these are measures of inflation*	**(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 D** *A is not correct as 100 is the base year* *B is not correct as this is the index number for 2019 using 2018 as the base year* *C is not correct as this is the index number for 2018 using 2017 as the base year*	**(1)**
3	**QS1:** Calculate, use and understand ratios and fractions	**The only correct answer is C** *A is not correct because this will increase the value of the multiplier* *B is not correct because this will increase the value of the multiplier* *D is not correct because this will increase the value of the multiplier*	**(1)**
4	**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 value of exports is smaller than the value of imports* *B is not correct as this represents a budget deficit when government spending>taxation* *C is not correct as balance of trade is always in deficit as indicated by the negative values*	**(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 there are more withdrawals from the CFI* *B is not correct as savings are a withdrawal from the CFI* *D is not correct as imports are likely to fall as the savings ratio increases*	**(1)**

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 B** *A is not correct as the positive output gap decreased between 2017 and 2018* *C is not correct as there is a negative output gap in 2019 and positive output gap in 2017* *D is not correct as the negative output gap increased between 2018 and 2019*	**(1)**

Section B

Question	With reference to the table, 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 / - To ensure that consumption trends/spending are reflected **(1)** **Analysis** Up to 2 marks for one analysis point, e.g. - Technological advancements **(1)** imply consumers switch to newly developed goods and services **(1)** - Consumer tastes/preferences/needs change frequently **(1)** but the CPI basket is updated annually **(1)** - Consumers could have switched away **(1)** from those goods and services that have increased in price **(1)** - To exclude goods and services that are out of fashion **(1)** and to take into account new goods and services introduced **(1)** **Application** 1 mark for appropriate use of the table, e.g.: - Inclusion of reusable bottles/vegetable crisps/portable digital music player / - Exclusion of fruit pies/frozen chicken/MP4 music player **(1)**	**(4)**

Question	Draw a SRAS and AD diagram to show the effect of the decrease in the price of natural gas on the price level and real output for Japan.	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 labelled original SRAS/AD 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 **(1)**
  (not rewarded if 'quantity' is used on axis)

NB: also allow a SRAS/AD diagram showing both an increase in SRAS and an increase in AD as follows:

- Drawing SRAS and AD shifted to the right **(1)**
- New equilibrium showing correct price level **(1)**
  (not rewarded if 'price' is used on axis)

(4)

	• New equilibrium showing correct higher real output/ income/GDP **(1)** (not rewarded if 'quantity' is used on axis) **NB: if only AD curve is shifted then maximum of 2 marks**	

Question	Based on this information, calculate *the change* in Argentina's GDP per capita between 2018 and 2019. Show your workings.	Mark
9	**Knowledge 1, Application 3** **Quantitative Skill assessed** **QS1:** Calculate, use and understand ratios and fractions **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for correct definition/formula/implicit understanding, e.g.: - GDP divided by population / - GDP per capita is a measure of a country's economic output that accounts for its number of people **(1)** **Application** Up to 3 marks for use of data in calculation from the following, e.g.: 2018 → \$517 627 million / 44.5 million = \$11 632.07 **(1)** 2019 → \$445 445 million / 44.9 million = \$9 920.82 **(1)** - Change is → \$9 920.82 - \$11 632.07 = -\$1 711.25 **(1)** **NB: if correct answer (between -\$1 711 and -\$1 712) is given, award full marks regardless of working** **NB: award up to 3 marks if minus sign not included in the final answer**	**(4)**

Question	With reference to the chart, explain **one** likely macroeconomic impact of this increase in house prices on existing homeowners.	Mark
10	**Knowledge 1, Analysis 2, Application 1** **Quantitative Skill assessed** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 knowledge mark for: • Increase in consumption/consumer spending/AD **(1)** **Analysis** Up to 2 analysis marks for linked development, e.g.: • Identification of wealth effects **(1)** • Increase in confidence of existing homeowners' **(1)** • An accurately labelled AD/AS diagram showing a rightward shift of AD with increasing real output and price level **(1)** **Application** 1 mark for appropriate reference to Turkey house prices, e.g.: • Between October 2019 and October 2020, house prices in Turkey increased by around 22 *percentage points* / • House prices increased by around 6% in October 2019 and by around 30% in October 2020 **(1)**	**(4)**

Question	With reference to the information, explain what is meant by net migration.	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 net migration, e.g.: • immigration *minus* emigration **(1+1)** • *difference* between number of people entering/arriving in the country **(1)** and the number of people leaving the country **(1)** • if the value of net migration is positive, implies more immigrants **(1)** than emigrants **(1)** **Application** Up to 2 marks applying this to the context of Australia, e.g.: • Net migration was 194 400 **(1+1)** • Immigration: 509 600/emigration: 315 200 **(1)**	**(4)**

Section C

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

Question	With reference to Figure 2, explain the difference between disinflation and deflation.	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 **QS10** Distinguish between changes in the level of a variable, and the rate of change **Knowledge** 1 mark for definition of disinflation, e.g.: • Disinflation is a fall in the *rate* of inflation/the average price level is increasing at a slower *rate* **(1)** 1 mark for definition of deflation, e.g.: • Deflation is a sustained fall in the general price level/a negative rate of inflation **(1)** **Application** 1 mark for relevant application to disinflation from Figure 2, e.g.: • There was disinflation between January and May 2020 / • In March 2020 the inflation rate was 0.7% and in April 2020, the rate decreased to 0.3% **(1)** 1 mark for relevant application to deflation from Figure 2, e.g.: • There was deflation between August and December 2020 / • In November 2020, there was deflation of -0.3% **(1)**	**(4)**

Question	With reference to Figure 1 and the first paragraph of Extract A, analyse **two** influences on the level of investment in the eurozone.	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	
	1 knowledge mark for defining investment, e.g.:	
	• Increase in the capital stock of the economy **(1K)**	
	AND/OR	
	Up to 2 knowledge marks for identifying two influences on the level of investment in the eurozone and up to 2 marks for linked explanations of the two influences identified:	
	• Rate of economic growth **(1K)** fall in GDP will mean firms do not invest in capital goods as there will be lower demand **(1AN)**	
	• Business confidence **(1K)** firms will only invest if there is less uncertainty about future costs and revenues, and sales **(1AN)**	
	• Availability of credit **(1K)** as investment will only take place if banks are willing to lend and have not applied strict conditions to loans / limited availability of credit may increase interest rate and therefore increase cost of borrowing **(1AN)**	
	Application	
	2 marks for use of Figure 1, e.g.	
	• Real GDP growth rate fell by 14.7% in Q2 2020 **(1AP)** and 4.3% in Q3 2020 **(1AP)**	**(6)**

Question	Examine the likely effects of 'the increase in the exchange rate of the euro against the US dollar' (Extract A, lines 25-26) on the net trade balance of the eurozone.	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

1 knowledge mark for understanding of the increase in the exchange rate of the euro against the US dollar, e.g.:

- when value of one currency increases in terms of another **(1)**

AND

1 knowledge mark for understanding of net trade balance, e.g.:

- (X-M) / exports minus imports **(1)**

Analysis

Up to 2 marks for analysing the effects (1+1), e.g.:

- Imports of goods and services become relatively cheaper / exports of goods and services become relatively expensive **(1)**
- Value of imports increases / value of exports decreases **(1)**

Application

Up to 2 marks for reference to the data, e.g.:

- Net trade balance of the eurozone worsens **(1)**
- the euro traded at its highest level against the US dollar **(1)** for more than two years **(1)**
- The ECB said it was "very carefully" monitoring the impact **(1)**
- Accurately drawn AD/AS diagram showing leftward AD shift **(1)**

Evaluation

Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.:

- Effects depends on the size of the change in the value of the currency **(1)** and how long it can be maintained for **(1)**
- The exchange rate is likely to be more significant in the long-run than the short-run **(1)** due to the pre-agreed contracts for imports and exports **(1)**
- It depends on how sensitive consumers are to price changes for imports and exports **(1)** which depends on a range of

| | | factors, such as non-price issues, the degree of competition, etc **(1)**

• Domestic firms may respond to an increase in the value of their currency by lowering price of their goods in their own currency **(1)** to keep the price constant in the importer's currency **(1)** | **(8)** |

Question	With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the ECB's monetary policy on the eurozone economy.

12(e)	**Indicative content guidance**
	Answers must be credited by using the level descriptors (below) in line with the general marking guidance.
	The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included.
	Other relevant points must also be credited.
	
	Quantitative Skill Assessed
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms
	
	Knowledge, Application and Analysis (8 marks) – indicative content
	
	• The ECB's monetary policy involved keeping interest rates at -1% and expanding 'size of its quantitative easing programme' by '€500 billion'.
	• An expansion of the ECB's quantitative easing programme should:
	  o inject liquidity into the financial system, making banks more willing to lend to consumers and firms: increasing consumption and investment
	  o increase price of shares and property, creating positive wealth effects in the economy and increasing consumption; link to inequality
	  o reduce the yield on domestic corporate bonds, lowering the borrowing costs for domestic firms, leading to increased investment
	
	• A very low/negative interest rate should increase AD as it will:
	  o increase investment, as the cost of borrowing to finance investment falls/becomes negative reducing firms cost of production – there are currently "significantly lower levels of investment"
	  o increase the net trade balance as it will put downward pressure on the euro exchange rate, meaning exports become relatively cheaper, and imports become relatively more expensive – "the euro traded at its highest level against the US dollar for more than two years"
	  o increase consumption, as it will:
	    ▪ incentivise spending as cost of borrowing falls
	    ▪ disincentivise saving as the reward for saving falls
	  o raise spending as consumers with variable rate loans/mortgages see monthly interest repayments fall, increasing discretionary incomes

| | AD shifts outwards leading to (may be shown diagrammatically): actual economic growth in the eurozone, helping the economy to recover from recession – "The ECB forecast an economic growth rate of only 3.9% in 2021, 4.2% in 2022 and 2.1% in 2023" / use of Figure 1 increased demand-pull inflationary pressures, helping to end period of deflation – "The ECB also forecast that the rate of inflation in 2023 will increase"/use of Figure 2 reduce "rising unemployment" as the level of spare capacity falls, indicating that more of the labour factor of production is being used |

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
		Evaluation (6 marks) – indicative content • Significance of the size of the quantitative easing programme (€500 billion) – there may not be enough assets to purchase as the ECB has reintroduced "additional round of quantitative easing" • Consumption and investment may not rise if both consumer and business confidence are low – there is "lack of business confidence" in the eurozone • Commercial banks may be risk averse and not lend as they lack confidence in the ability of firms and consumers to pay back loans/mortgages • The negative central bank interest rate is unlikely to be passed on to the consumers by high street banks, meaning its effects are reduced • Commercial bank profitability may be reduced by the negative interest rate, making banks less willing to lend to consumers and firms • Changes in the interest rate usually have an 18-to-24-month time lag before their full effects are filtered through the economy

	• Those who most benefit from an increase in property and share prices are high income earners who have a relatively low MPC, implying any positive wealth effects may be very small • To help the economy recover from its very "weak state", there needs to be a combination of fiscal policy and monetary policy as interest rates are already "extremely low" and appear to be ineffective as a tool

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	Evaluate the potential conflicts between the objective of economic growth and **two** other 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 economic growth – actual and/or potential growth - Implicit/explicit identification of a country's macroeconomic objectives - Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or LRAS curve Potential conflicts include: - Environmental costs (pollution in China decreased by 10.8% as a result of the slowdown): - increased use of non-renewable resources, including fossil fuels climate impacts from the burning of fossil fuels - deforestation has made climate change worse and caused soil erosion – greater external costs - Increased inequality as the returns to economic growth are unequally distributed, with those who already own more factors of production receiving a greater increase in income / growth should result in higher average living standards, but may not deliver a more fair or equitable distribution of income and wealth as rich tend to get rich faster than the poor do - Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in supply chain cause cost and wage pressures - Could increase budget deficit if economic growth has been caused by an increase in government expenditure - Balance of trade deficits: - as real incomes rise, consumers are likely to respond by buying more imported goods, worsening the country's trade balance - increased production of goods and services may require more raw materials and components to be imported, worsening the country's trade balance **NB Maximum level 3 if conflict between economic growth and just one other macroeconomic objective is discussed**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
		Evaluation (8 marks) – indicative content • Significance of the stage in trade cycle which the country is in, and the implications for elasticity of the LRAS • If it is supply-side growth (rather than demand-side) then fewer conflicts with other macroeconomic objectives • Impact on inflation will depend on initial state of inflation in the country • The rate of actual growth in comparison to the growth of the productive capacity of the economy • Proximity to full employment level of output • Full employment/fiscal position should not conflict with economic growth • Increase in LRAS tends to experience a time lag

- Extent of domestic economy's capacity to meet the rising demand (i.e. if economy can supply wants)
- Extent of country's international competitiveness
- Balance of payments position may improve if it is export-led growth/if generated through increase in productivity (such as through investment)
- Growth may lead to higher government revenues and scope to improve polluting old technologies
- Some countries may already use green technology in certain industries

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	Evaluate supply-side policies that the Indian Government could use to increase the country's productivity.	
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 productivity - Understanding of supply-side policies - AD/AS diagram showing a change in AS consistent with analysis/use of PPF diagram - Increased government spending on education and/or training – this would increase skills and productivity - Increased government spending on healthcare – this should reduce the number of days absent from work - Increased government spending on infrastructure investment (e.g., broadband or roads) – this would reduce industry costs or improve access to market	

		• Reducing level of benefits and/or income tax – this would incentivise employment and will increase the output per worker of those in work and increase the number of workers in work
		• Reducing corporation tax – increasing international competitiveness for investment
		• Cutting cost of bureaucracy and/or reduce regulation of firms – this would raise productivity
		• Improving regulation and/or competition of inefficient industries – this would increase India's productivity
		• Privatisation – this may lead to increased competition, innovation, and efficiency in India
		• Government schemes to improve childcare provision
		• Increased flexibility and/or mobility of labour
		NB Award a maximum of Level 3 for answers with no application to India.

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

- Significant time lag for supply-side policies
- Difficult to accurately measure productivity
- Consideration of effectiveness of supply-side policies such as education, infrastructure, and healthcare at delivering sustainable growth
- Privatisation may lead to private monopolies, less efficiency and lower economic growth
- Cut in income tax designed as an incentive to work and investment may be ineffective if the workers use it as an opportunity to work less for the same income
- Cut in corporation tax will be ineffective if companies use the cut in corporation tax to boost their short-term profits rather investment on productivity-boosting technology
- Increase in taxation elsewhere may have an effect on incentives to work
- Interventionist supply-side policies could increase public expenditure that may have an opportunity cost/have an adverse effect on public finances

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.