

Examiners' Report/  
Principal Examiner Feedback

January 2017

Pearson Edexcel  
International Advanced Level (IAL)  
Economics (WEC02) Unit 2

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## **Introduction**

Slightly more candidates attempted Q9 rather than Q10. Performance on the two questions was broadly similar.

As mentioned in all previous reports, more work is required on the interpretation of charts, graphs and numerical data. Question 1 and 2, for example, discriminated between candidates who were able to interpret graphical data and those who were unable to do so. For question 2, distinguishing between the rate of inflation and changes in the average price level showed some common misunderstandings. Candidates need to learn precise definitions and have a suitable level of experience interpreting and analysing macroeconomic data.

For supported multiple choice questions, in common with previous series, a rejection point must be explained to be awarded a mark. Also, a rejection point has to be explicitly referred to in order to be awarded a mark.

The use of data and context is very important in Section B. Therefore, a purely generic response, making no reference to the data or even to the candidates own examples, does not really answer the question. It is unlikely that a candidate will achieve above Level 2 for knowledge, application and analysis with a purely generic response.

Diagrams must be drawn and labelled correctly for full credit. There were numerous examples of either partially drawn AD/AS diagrams or incorrectly labelled diagrams. There continue to be candidates who appear confused about the difference between normal supply and demand and AD/AS models.

## **Section A**

### **Question 1**

This question was generally well answered. The data showed the balance of trade for Germany in euros. Some candidates talked about volume of imports rather than value. Also some did not seem to understand that the balance of trade measures net exports (value of exports minus value of imports).

Remember that candidates can achieve 3 marks for the explanation even if they get Part A incorrect; rejection marks are available even if part A is wrong so candidates should always try to explain why at least one of the distractors is not correct.

### **Question 2**

This question was generally well answered, although there are many candidates who either do not understand the difference between deflation and disinflation or are unable to apply their understanding. It is also important that candidates understand how an increase or decrease in the CPI affects the average price level.

The rejection points had to be explained or developed to some extent to be rewarded with a mark.

### **Question 3**

Many candidates performed well on this question, with Part b marks awarded for a correctly annotated diagram and for linking LRAS to rising productivity and/or efficiency.

When a diagram is provided, it is good examination technique to annotate the diagram provided, rather than draw a new diagram.

### **Question 4**

This question was not answered as well as the first three questions. Although in the specification under section 2.3.7 Macroeconomic Objectives and Policies - 3 Macroeconomic Policy, many candidates did not seem to understand the function of reserve ratios. Even less were able to link changes in reserve ratios to borrowing and AD.

Interest rates, asset purchases and reserve ratios are listed in the specification. It is important that all of these are covered in the teaching of monetary policy instruments.

### **Question 5**

Again, the general level of response to this question was disappointing. While many candidates were able to define GDP per capita, relatively few were able to use the data provided accurately. In fact, many subtracted one figure from another or else added them together and this produced inaccurate and misleading outcomes. However, candidates who demonstrated an understanding that a fall in GDP and rise in population, in the same year, would reduce GDP per capita were rewarded.

### **Question 6**

This question pointed to a lack of knowledge of the producer (wholesale) price index. This is identified in the specification and its use as an indicator should be understood by candidates.

The rejection points had to be explained or developed to some extent to be rewarded with a mark.

### **Question 7**

This question was quite well answered, with the best responses annotating the diagram and then making reference to this annotation in their response. It is important that candidates understand the likely impact of changing currency value on the relative price of imports, as well as exports. They then need to be able to represent this diagrammatically.

### **Question 8**

Again, this question was answered reasonably well. The question was intended to test understanding of the circular flow of income model. Candidates need to be able to define injections and withdrawals and then use the concepts to analyse a specific context, in this case the budget surplus of Norway.

## **Section B**

Slightly more candidates attempted Q9 rather than Q10 for Section B, although the distribution was more equal than in most other sessions.

As in previous series, there were many generic answers which failed to apply knowledge to the data/economies, or to actively use economic to analyse the data provided. There was some confusion between the "cause" and the "effect" in changes of economic. There were clear gaps in knowledge, especially in relation to the trade-off between economic growth and inflation.

### **Question 9a**

This was reasonably well answered with most candidates able to define balance of payments on current account but many not making reference to the data provided, therefore missing application marks.

Where possible, candidates should be encouraged to make reference to the relevant data provided.

### **Question 9b**

This was reasonably well answered. There were so many ways to achieve the marks, including falling consumption, investment and lower net exports.

Candidates who provided an accurate diagram showing an inward shift in AD were awarded up to two marks when it was used to illustrate a cause.

### **Question 9c**

Here we were looking for an explanation of the trade-off between growth and inflation and the use of data to support or contradict the model. Evaluation marks were available for examining the likely short-run and long-run trends and supporting this with relevant reasoning.

### **Question 9d**

A surprising number of candidates focused upon the short-run impact of the railway investment upon AD rather than the likely effect upon LRAS. The data clearly identified the motivation for the project and it was this long-run impact that was most important. Nevertheless, most candidates were able to evaluate the impact with reference to the magnitude of the multiplier, even if they did not discuss the possible impact upon LRAS.

It is important that candidates understand that while investment is a component of AD, it may also have an effect upon LRAS/productive potential.

### **Question 9e**

Most candidates understood that fiscal policy involves taxation and spending. Many were also able to make reference to the context, where tax cuts on firms and individuals was planned. They were then able to use an AD/AS diagram to illustrate the likely impact of such expansionary policies upon economic growth. Far fewer then developed their analysis to explore the possible implications for such policies in terms of government spending or budget balance.

Evaluation in context is likely to achieve high marks. The best responses pointed to the size of the unofficial economy and the efficiency of tax collections as crucial in determining the effectiveness of the policy.

### **Question 10a**

This question was not answered as well as question 9a, which was surprising. An accurate definition, some typical characteristics and use of the data from Figure 1 was required. Candidates really should be able to define a recession and need to have learned these basic definitions for AS Level.

### **Question 10b**

This question was answered quite well, with many candidates able to define youth unemployment and identify at least one likely reason for the relatively high level from the data.

If candidates were unable to provide reasons from the data, then reasons from the candidate's own experience were rewarded if they were relevant and appropriately explained.

### **Question 10c**

Again, this question was generally well answered. The main problems here were when candidates discussed causes (already questioned in 10b) rather than the effect of high youth unemployment. The best responses discussed labour as a factor of production and discussed the impact of unemployment on the quality of labour (skills and experience) and the quantity of labour (net outward migration). As is often the case, some candidates were able to use appropriate economic concepts to analyse and evaluate the impact while others remained more generic or anecdotal.

### **Question 10d**

This question was answered reasonably well. However, there was a tendency towards generic responses simply describing falling AD in the short-run and lacking evaluation. The best responses used the data provided, examined the short-run and long-run impact and evaluated in terms of the impact upon budget balance and international competitiveness.

### **Question 10e**

There were some coherent, generic responses to this question showing a good level of understanding. Too few candidates were able to evaluate supply-side policies above a basic level, such as time-lags and high costs. Clearly, given the context, it was expected that candidates might identify other evaluative points such as increasing income inequality or the inflationary effect of lower direct tax.

### **Conclusion**

Based on their performance on this paper, candidates are offered the following advice:

- Learn accurate definitions and use these to define terms in the stem of a supported multiple choice question or in the correct key.
- Remember to look out for questions that ask you to evaluate or assess your answer. Know the command words so that the written response matches the assessment objectives for the question.
- Incorporate some time for planning your answers to the longer questions. This then ensures that there is sufficient context and evaluative points to access the higher marks.
- Use accurate diagrams and refer to them in explanations for KAA and evaluation marks. An accurate diagram, with explanation in context, can shift a response from Level 2 to Level 3.
- Where possible, use the data provided to illustrate or support your analysis and evaluation.

## **Grade Boundaries**

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