Examiners' Report
June 2018

IAL Economics 2 WEC02 01

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Introduction

This was the twelfth sitting of the International Advanced Level (IAL) Economics paper, Unit 2, relating to macroeconomic performance and policy.

This unit introduces the key measures of economic performance and the main objectives and instruments of economic policy within an international context. Candidates learn how to use a basic AD/AS model to analyse changes in real output and the price level.

Candidates assess when demand and/or supply side policies may be appropriate ways of improving an economy's performance; consider these policies in a specific, historical context; predict the possible impact of such policies and recognise the assumptions involved.

Candidates should understand different approaches that may be used by policy makers to address macroeconomic problems and to identify criteria for success. The *ceteris paribus* assumption must be used when developing economic models.

As in previous series, the paper is split into 2 sections: Section A comprises of 8 supported multiple choice questions with a total of 32 marks. Section B has a choice of 2 data response questions with a total of 48 marks. The total available marks for this unit is 80.

There continues to be a marked division in performance between the candidates who had learned the theory, including precise definitions and accurate diagrams, and those who had more limited knowledge. This means some candidates struggled to achieve knowledge marks and were consequently less likely to be able to apply, analyse and evaluate to any extent.

In this series, far more candidates attempted Q9 (the economy of Madagascar) than Q10 (the economy of Norway).

Question 1

This question was intended to examine the understanding of the link between interest rates, the costs of borrowing/reward for saving and AD. It was generally answered well. Candidates who understood that consumption and/or investment is a component of AD often provided a diagram as part of their explanation. There also needed to be some explanation of how changes in interest rates might impact upon consumption and/or investment.

For 2 marks candidates should have drawn an AD/AS diagram (axes and curves labelled correctly) with a rightward shift of the AD curve. Only 1 mark was awarded if candidates had not labelled the diagram correctly.

The labels for a diagram were expected to show:

- Y-axis: Price Level/Average Price Level/CPI (Price on its own is incorrect).

- X-axis: Real Output (not quantity).

- SRAS curve labelled.

- AD curve labelled.

- Shifted AD curve labelled correctly.

- Changes in price level and real output labelled correctly (P and Y are the standard here, but Q was accepted).

It is possible to achieve full marks on this response without using a diagram. This would have required a full, clear explanation and/or a suitably explained rejection point.

This is a good answer and is fairly representative of many responses seen.

1   In August 2016 the Bank of England reduced the base interest rate from 0.5% to 0.25%.

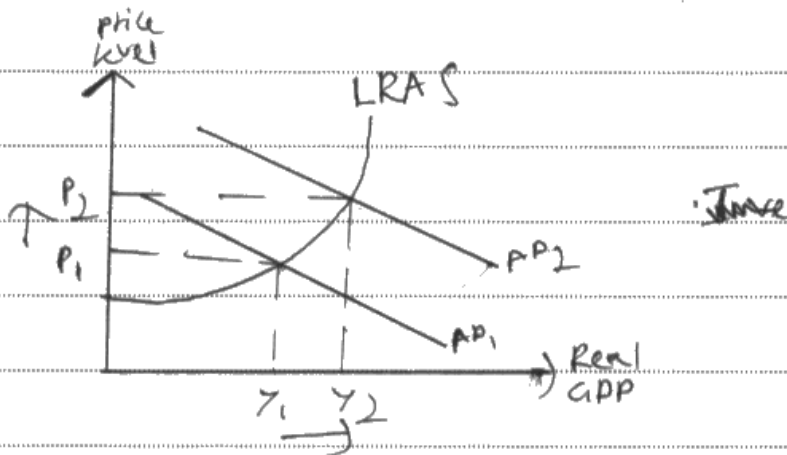(a) Ceteris paribus, this is likely to lead to a decrease in

(1)

   A   the rate of economic growth

   B   aggregate demand

   C   the rate of unemployment

   D   aggregate supply

Answer   C

(b) Explanation

(3)

The interest rate is defined as the price of money. A fall in the interest rate would lead to a fall in the cost of borrowing and an increase in consumption which therefore results in a rise in AD. Therefore the derived demand for labour increases and unemployment falls.

The correct answer for Part (a) is given.
For Part (b) a correct diagram is presented and the Keynesian diagram is accepted in this context. While there is no mark for the definition of interest rates, there is a mark for the explanation of the link to consumption, AD and the unemployment rate.

An accurate diagram can achieve 2 marks and can take less time than a written explanation. Be sure to follow the above guidelines for drawing and labelling the diagram. It is generally the case that you should try and reject at least one of the distractors to gain an extra mark. The response here shows how full marks can be achieved without addressing any rejection points.

Question 2

This question was intended to test the understanding of investment, both as a component of AD and as a factor influencing productive potential (LRAS). It was generally answered well.

There were a number of ways in which full marks could be achieved for the explanation of the correct answer but, again, it is important to remember that it is a good idea to reject at least one of the other options. The best responses used a diagram, including a rightward shift in LRAS and explained why investment in the railway might increase efficiency within Kenya.

This is a very good, efficient response, demonstrating that full marks can be achieved with an accurate diagram and a brief, written explanation.

2   The Kenya Railways Corporation is constructing a new rail link between Mombasa, one of East Africa's biggest ports, and Nairobi, the capital city, at a cost of US$3.8 billion.

(a) Which one of the following is the most likely result of this investment?

(1)

A   An increase in aggregate demand and in long-run aggregate supply

B   An increase in withdrawals

C   A decrease in aggregate demand and in long-run aggregate supply
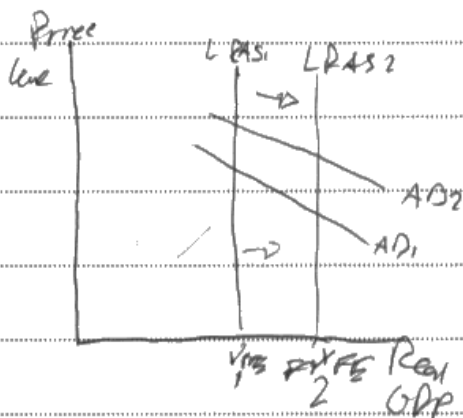
D   A reduction in aggregate demand

Answer   A

(b) Explanation

(3)

$AD = C + I + G + (X - M)$

If the Kenya Railways Corporation is constructing a new rail link it is increasing the investment in the economy, therefore increasing AD

LRAS will also increase as a the productive capacity will also increase as will infrastructure, increasing efficiency creating Long run economic growth

The correct answer for Part (a).
There is a mark for identifying investment as a component of AD.
There is 1 mark for relating the investment to efficiency and to productive capacity.

There are then a possible 2 further marks for the diagram (showing an outward shift of LRAS and of AD).

Always try to ensure that an explanation says how or why AD, SRAS or LRAS shifts. In this case, it is due to investment as a component of AD and increased efficiency. Remember, any factor increasing the quantity of, or improving the quality of, a factor of production may increase LRAS.

Question 3

This question was intended to test the understanding of the components of aggregate demand and the impact of changes in AD upon growth and the average price level. It was generally answered well. The *ceteris paribus* assumption was included to ensure that candidates understood that all other components remained unchanged. There were a number of ways in which full marks could be achieved for the explanation of the correct answer but, again, it is important to remember that it is a good idea to reject at least one of the other options.

This is a good, clear response achieving full marks without any rejection points.

3 Between 2014 and 2015, household consumption in Germany decreased by 14%.

(a) Ceteris paribus, the impact of lower household consumption will be

(1)

A   higher imports and higher inflation

B   higher growth and higher tax receipts

C   lower exports and lower tax receipts

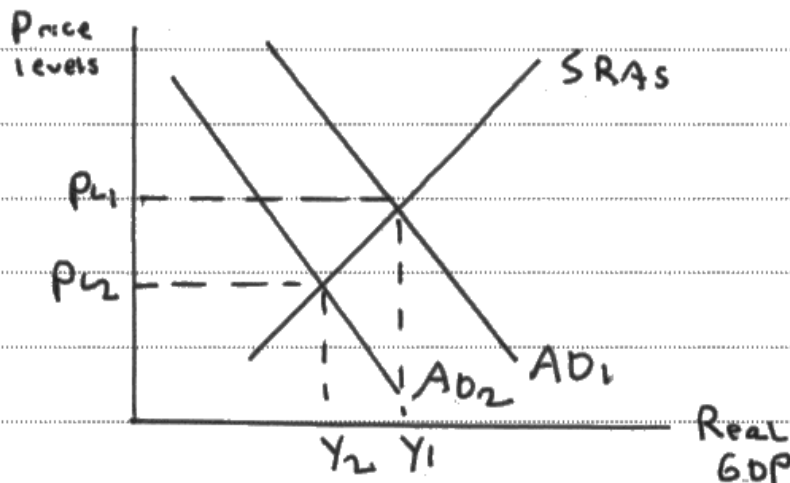D   lower growth and lower inflation

Answer   D

(b) Explanation

(3)

Consumption is spending on goods and services by Consumers and is included in AD. With Consumption decreasing by 14%, it will thus lead to a decrease in AD and a shift to the Left:

This will lead to lower growth (with Real GDP decreasing from Y_1 to Y_2) and lower inflation (with Price level dropping from PL_1 to PL_2)

Part (a) correct answer.

For Part (b) there is a correct diagram, awarded 2 marks.
A further mark is then awarded for explanation of the link between AD growth. This achieves 3 marks for the explanation.

The mark relating to inflation was not awarded in this case, as there was no reference to the type of inflation e.g. demand-pull inflation.

Try to be precise when referencing a change in the average price level. Is the inflationary pressure demand-pull, cost-push or a combination of both?

Question 4

This question was testing understanding of asset purchasing (QE) as a component of monetary policy. It was generally done quite well, showing that most candidates are now covering QE in their course and have a basic grasp of the theory behind the policy.

The response included here is clear and concise. It demonstrates a basic understanding of QE and how this may impact upon the money supply via commercial bank lending.

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4 In March 2016 the European Central Bank increased its asset purchases (quantitative easing) from €60bn to €80bn a month.

(a) The main effect of this change is likely to be

(1)

    A a reduction in the rate of inflation

    B an increase in the value of the euro

    C an increase in the money supply ✓

    D a reduction in real output

Answer   C

(b) Explanation

(3)

Quantative easing: ~~the~~ when govt. bonds are bought by the Central bank from financial institutions in change for cash allowing these banks to have greater liquidity and hence ~~greater~~ ~~tend~~ increase lending. This will cause a greater money supply as more govt. bonds are bought in exchange for cash.

it's not D) as quantative easing leads to more businesses being able to borrow money and invest in retraing etc. increase real output

Part (a) correct response.

Part (b) 1 mark for identifying the intended impact of QE upon liquidity and 1 mark for the resulting impact on lending.
The is also a mark here for the rejection of Option D as, although it is not specifically training and investment directly, it is the ability of firms to borrow money that increases output or, at least, keeps the firms in the market.

Always try and follow the explanation through, so that it is complete. In this case, it is not just the increased liquidity for the commercial banks that increases the money supply. In theory, it is the increased lending to firms and households that arises as an outcome of this liquidity.

Question 5

This question was intended to test understanding of how HDI is calculated. In previous series, it has been clear that candidates do not understand how the HDI is calculated. The key data relates to the GNI per capita, with the USA having higher GNI per capita than Iceland but a lower HDI. Candidates who pointed this out in their explanation achieved well on the question. Where this level of explanation was not achieved, many candidates were still able to achieve marks for rejection points.

This is a good response, demonstrating an understanding that the HDI can be higher in one country (Iceland) even though another country may have a higher GNI per capita figure.

5   The table shows the Human Development Index (HDI) and Gross National Income (GNI) per capita for Iceland and the USA in 2015.

Country	HDI	GNI per capita (current US$)
Iceland	· 0.846	50 140
USA	0.760	55 980

(a) Which one of the following may be deduced from the data?

(1)

A   Iceland had lower levels of human development than the USA

B   Iceland had higher standards of education or health than the USA

C   The USA had a higher level of energy consumption per capita than Iceland

D   The USA's population had less access to mobile phones than Iceland's population

Answer   B

(b) Explanation

(3)

HDI = a measure of well being through life expectancy (infant mortality), education (years of schooling) and income per capita (GNI per capita @ PPP.

GNI per capita = national income earned per person including net remittances (on average)

- Iceland has a higher HDI, which shows that it probably has higher standards of education or health. However, it has a lower GNI per capita than the USA.

- USA has a 0.086 lower HDI. Both HDI's are very high and shows adequate human development

A - incorrect as Iceland's HDI is 0.086 higher than that of the USA

C - incorrect as HDI does not supply that information

D - incorrect as HDI does not supply that information

Part (a) Correct answer.

Part (b) 1 mark is awarded for an acceptable definition of HDI.
The explanation points to the higher HDI of Iceland although it has lower GNI per capita. This achieves another mark.
Also, in this case, all three rejection marks could be awarded.

It is important to understand how the indicators listed in the specification are calculated. This then allows for a better explanation of what the data may mean and enables a more analytical and evaluative approach to a context or case study.

Question 6

This question was intended to test the understanding of the components of aggregate demand and was generally answered well. The *ceteris paribus* assumption was included to ensure that candidates understood that exports remained unchanged.

There were a number of ways in which full marks could be achieved for the explanation of the correct answer but, again, it is important to remember that it is a good idea to reject at least one of the other options.

This is a good response, answering the question clearly and concisely. While all the marks were awarded for the explanation, an additional mark could have been awarded for the rejection of option B.

6
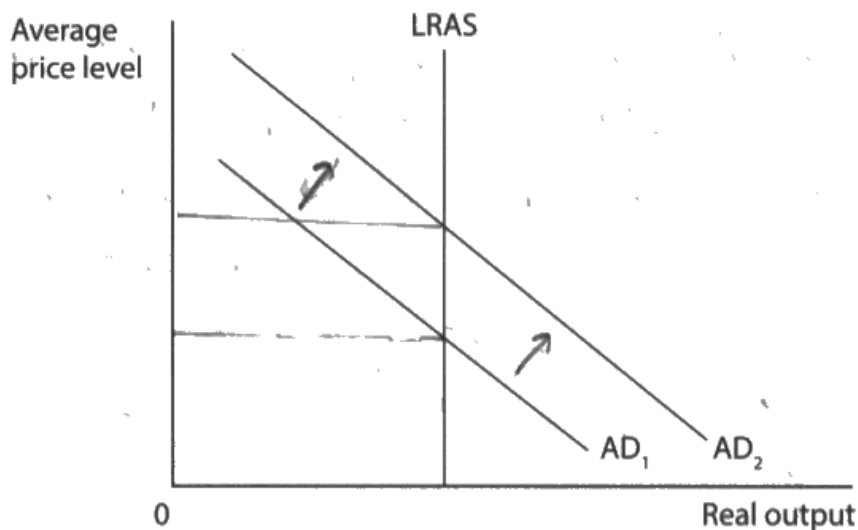
Which one of the following, ceteris paribus, is most likely to cause the shift in the aggregate demand curve from AD₁ to AD₂, as shown in the diagram?

(a) A decrease in

(1)

    A the value of imports

    B investment

    C government spending

    D labour productivity

Answer   A

(b) Explanation

(3)

Aggregate demand consists of consumption, investments, government expenditure and net exports (C + I + G + X-M). When the value of ~~when A~~ imports decreases, ~~the~~ net exports will increase, therefore aggregate demand will invese, thus shifting the AD, to ~~the~~ to the right. B in 1) incorrect because when investments decreases, aggregate demand will fall, therefore AD will shift to the left.

Part (a) correct answer.
1 mark for an accurate definition of AD and 1 mark for increase in net exports.
1 mark for linking increase in net exports to increasing AD.
Finally, 1 mark is available for rejector B.

It is always worthwhile explaining at least one rejection point. Do remember to reference the rejection point – e.g. "option B is incorrect because..." – as without this explicit reference the rejection mark will not be awarded.

Question 7

This question was intended to test the interpretation of data included in a chart as well as understanding of the CPI. It was generally answered well, with the majority of candidates able to interpret the index numbers.

The specification clearly states that candidates need to understand "the process of calculating the rate of inflation using the consumer price index". An understanding of this process would have enabled candidates to accurately interpret the CPI data presented.

The following example shows how it was possible to achieve full marks with an understanding of the CPI and the impact of changes in the CPI upon the average price level. This also results in a rejection point being awarded.

7   The chart shows the rate of inflation, as measured by the consumer price index (CPI), for Japan, 2008–2015.
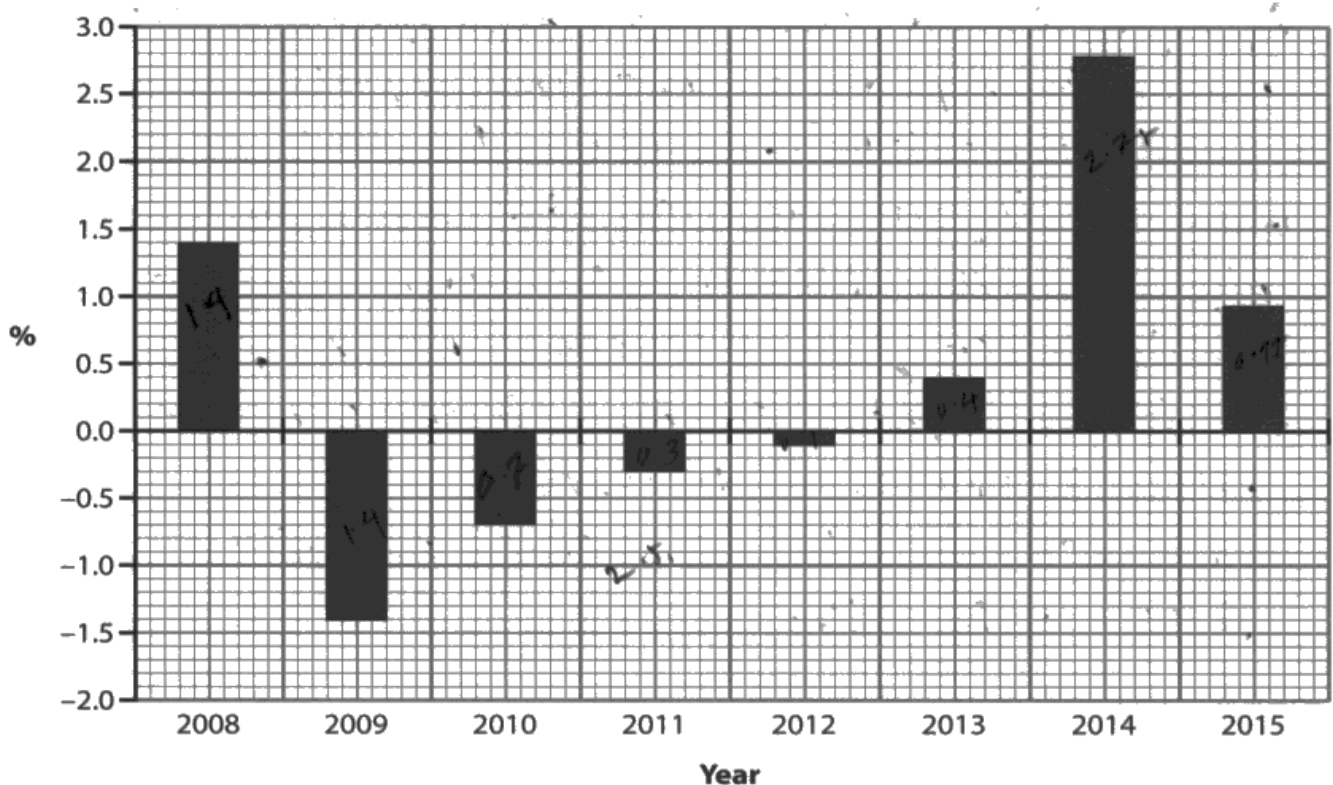
(a) From this chart it can be deduced that

(1)

    A   there was deflation between 2014 and 2015 ✗

    B   there was disinflation between 2013 and 2014 ✗

    C   the average price level was higher in 2011 than in 2009

    D   the average price level was higher in 2015 than in 2014 ✓

Answer   D

(b) Explanation

(3)

Inflation is the persistant increase in the average price level of an economy over a period of time. Between 2014 and 2015, there was disinflation, ~~however~~ therefore prices were increasing at a decreasing rate, ~~further~~ which means that prices in 2015 were higher than 2014. A is incorrect because there was no deflation between 2014 and 2015, but disinflation occured.

Question 8

This question was intended to test the understanding of factors influencing productive potential (LRAS) and how this may impact upon inflation and growth. It was generally answered well. If candidates understood the link between regulation and efficiency or costs to LRAS, then they were able to explain the correct answer and usually achieve full marks.

There were a number of ways in which full marks could be achieved for the explanation of the correct answer. The best responses annotated the diagram (the most efficient way of achieving the marks) and then explained the link between regulation and efficiency or costs. Some candidates chose to draw their own diagram, which achieved the marks but was not the most efficient way of answering the question.

8 The diagram shows the aggregate demand (AD) curve and long-run aggregate supply (LRAS) curve for an economy.
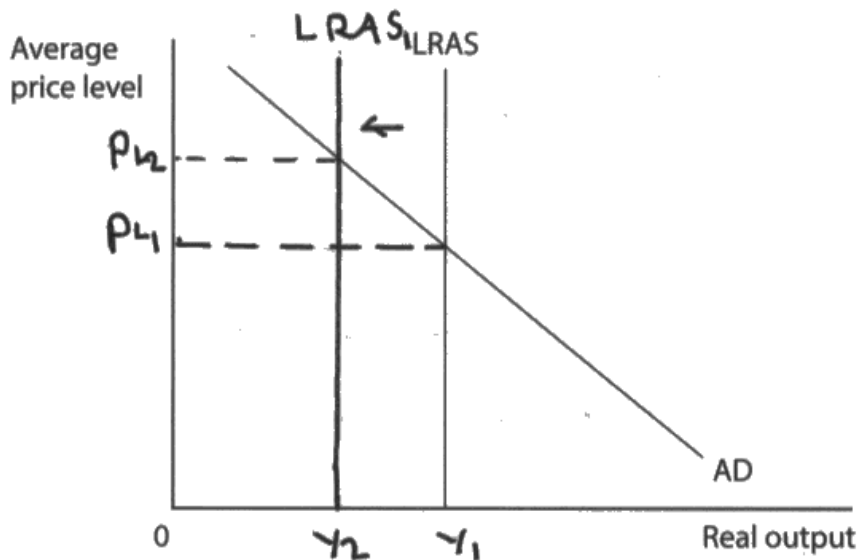
(a) What would be the long-run effect of increased regulation of business activity on the economy's average price level and real output?

(1)

	Average price level	Real output
A	Rise	Rise
B	Fall	Rise
C	Rise	Fall
D	Fall	Fall

Answer ☐ C

(b) Explanation

(3)

Increased regulation of business activity is likely to limit a country's Product Potential Productive Capacity in the LR (as it may limit a firm's potential to grow and even increase their cost.)

This will shift the LRAs to the left, increasing Price level from PL1 to PL2 and lowering real output from Y1 to Y2.

![ResultsPlus Examiner Comments]

Examiner Comments

Part (a) Correct answer.

Part (b) there are 2 marks for the correctly annotated diagram on the first page.
There is then another mark for the explanation linking to costs and potential to grow.
This is a very clear, efficient response.

![ResultsPlus Examiner Tip]

Examiner Tip

Where appropriate, it is always a good idea to annotate a pre-existing diagram. Remember to label the original equilibrium and the new equilibrium to illustrate the change in average price level and real output.

Question 9 (a)

Figure 2 in the case study presents the trade in goods figures for Madagascar in 2014. The data was given in billions of dollars. We were looking for the use of this data to calculate the balance of trade.

Clearly, the most efficient way of achieving full marks was to calculate the balance of trade, presenting the answer to 2 decimal places, indicating that it is a negative number (deficit) and expressed in billions of dollars. The most common error was to omit the billion or the dollar sign. There were also some examples of candidates who made a basic error in the calculation and their answer showed a surplus.

(a) With reference to Figure 2, calculate the balance of trade in goods for Madagascar in 2014.

(4)

Balance of trade = value of exports – value of imports.

_2.51 – 3.26 = $ –0.75 bn_

There is a deficit in balance of trade

since, imports > exports.

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While 4 marks could have been awarded just for the correct answer of -$0.75bn, there were other marking points which could have been awarded.

For example, a knowledge mark for the definition of balance of trade. Then 1 application mark for the correct calculation and 1 application mark for the correct answer.

There could also have been 1 knowledge mark for the identification of a balance of trade deficit.

However, these additional marking points were only used where an incorrect answer was given.

When completing calculation questions, check that you have included the correct unit and have presented your answer to the correct number of decimal places. The magnitude of the answer is also important. In this case the answer should have been in billions.

Question 9 (b)

This question was generally not answered well and, as it used an 'assess' command word, required an examination of factors that might influence the balance of trade other than the price changes, including PED for the main exports and imports.

The best responses to this emphasised the way in which rising petroleum prices might increase the deficit and impact upon the costs for agriculture and mining. Some responses also provided relevant AD/AS diagrams to illustrate the macroeconomic impact of rising import and/or export prices.

This is a good response which would have achieved full marks with the addition of a diagram in analysis or in evaluation.

(b) With reference to the information provided and your own knowledge, assess the likely impact of changes in the price of petroleum and nickel on the balance of trade of Madagascar.

> (10) <

Madagascar exports nickel which made up to 22.7% of their value of exports while petroleum is imported which made up 19% of the value of their imports.

According to figure 2, the global real prices of nickel are constantly fluctuating between -55%, -45% and 45% between the years 2008, 2010 and 2015. Since, Madagascar is exporting nickel and the prices of it are overall falling it could create a deficit in the balance of trade due to the value of their exports falling. This is evident in figure 2 which indicates that the value of their exports were just $2.5 billion while their imports made up $3.2 billion.

Furthermore, the prices of petroleum are relatively high which explains the $3.2 billion value of Madagascar's imports of which 19% was petroleum. This is a significant value. Consequently, the value of their imports would be greater than their exports which is indicated in figure 2. This causes a further deficit in the balance of trade of Madagascar.

However, in the long run, the constant payments made for imports would cause the currency of Madagascar to depreciate since the supply of their currency in the foreign market is higher. As a result, their exports would be cheaper for importing countries which would help increase the value

of their exports thereby improving the deficit in the balance of trade.

Moreover, if more consumer goods were imported such as rice that made up 4% of imports, the standards of living of the people in Madagascar would increase.

Additionally, if more capital goods were imported, it would increase the productive capacity of the economy of Madagascar. Hence, it would be able to acheive economic growth in the long run.

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The first paragraph is excellent, showing clear understanding of the likely impact and linking to data. This meets the Level 3 descriptor for KAA. The writing is clear and concise so is awarded 6/6 for KAA.

Evaluation is supported by relevant reasoning (Level 2) and is also clear and well developed, with reference to the likely impact on the currency of an increasing trade deficit. The final two paragraphs are not fully developed but valid nevertheless so 3/4 awarded for Evaluation.

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Examiner Tip

Make sure you are familiar with the relevant command words, so that you can achieve both KAA and Evaluation marks for the 10 and 14 mark questions.

Question 9 (c)

This question was intended to test knowledge and understanding of the impact of inflation on consumers, in the context of the Madagascar case study. The data shows that inflation is above 6% throughout the time series and is highest between 2008 and 2011 at 9%. Generic responses, simply suggesting possible impacts with no reference to the data could achieve a maximum of 3 knowledge marks. The best responses therefore identified possible impacts and made accurate references to the data provided. A common error was to misread Figure 1, presenting the Real GDP data as CPI data. This then meant that application marks were not awarded.

The mark scheme shows that there are no marks for a definition of inflation, as this had already been rewarded in the SMC section. The question is about the impact of inflation upon consumers and not firms. Therefore, responses identifying an impact on firms but not linking this to consumers were not awarded marks.

(c) With reference to Figure 1, explain **two** likely effects of Madagascar's rate of inflation on consumers.

(6)

Inflation rate is the the sustained rise in the percentage of the general price level over a certain period of time.

As shown in figure 1, the CPI of Madagascar was very high throughout 2008-2015 reaching around 9.5 % in 2015. This would have negative effects to the consumers of madagascar as prices will be high which may reduce their disposable income as now they can buy less of a good or service they were buying before. This may be due to cost push inflation that ~~the domestic~~ domestic firms may be facing, as if the the money spent on raw materials will rise as the price of those raw materials has increased, thus higher costs for firms results in them increasing prices. ~~This also increase inequality as low income too~~

Another effect on the consumers is that ~~there~~ if they have low incomes or low skilled jobs their wages may fall as low skilled jobs usually have weak trade union power thus the incentive to cash for higher wages adjusted for inflation may be low thus consumers wages may fall decreasing their living standards.

* This ~~also~~ also may increase the inequality as the consumers with ~~higher incomes consumers~~ consumers with lower incomes will have less money to spend on items such as necessities thus their living standards will fall.

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There are no marks for a definition of inflation.
1 application mark for reference to data – 'high throughout' – and 1 application mark for accurate reference to the inflation rate in 2015.
There are also 3 knowledge marks awarded: 1 knowledge mark for the impact on disposable income; 1 knowledge mark for the impact on fixed incomes; 1 knowledge mark for the impact on living standards.

Had this final point been developed in context, with a data reference to the low living standards in Madagascar, then another application mark could have been awarded.

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Examiner Tip

Wherever possible, reference the data provided to develop or support an answer. In a 6 mark question, there are knowledge and application marks available. Application marks are awarded for relevant, accurate data references.

Question 9 (d)

This question was generally answered well and, as it used an 'evaluate' command word, required an examination of the benefits and the costs of increased mining investment. At least one AD/AS diagram was expected for this question, although not all responses included a diagram.

A strong response to this question needed an explanation of the link between investment spending and AD, real output and the average price level. There should have also been some reference of LRAS. Evaluative content would need to look at the possible impact on inflation and other factors that may limit the positive impact of increased investment. The case study, for example, makes reference to the environmental costs of mining.

This is a good response, including a relevant diagram to develop analysis. There is also some reasonable evaluative content in the response.

(d) With reference to the information provided and your own knowledge, evaluate the likely impact of increased investment in mining on living standards in Madagascar.

(14)
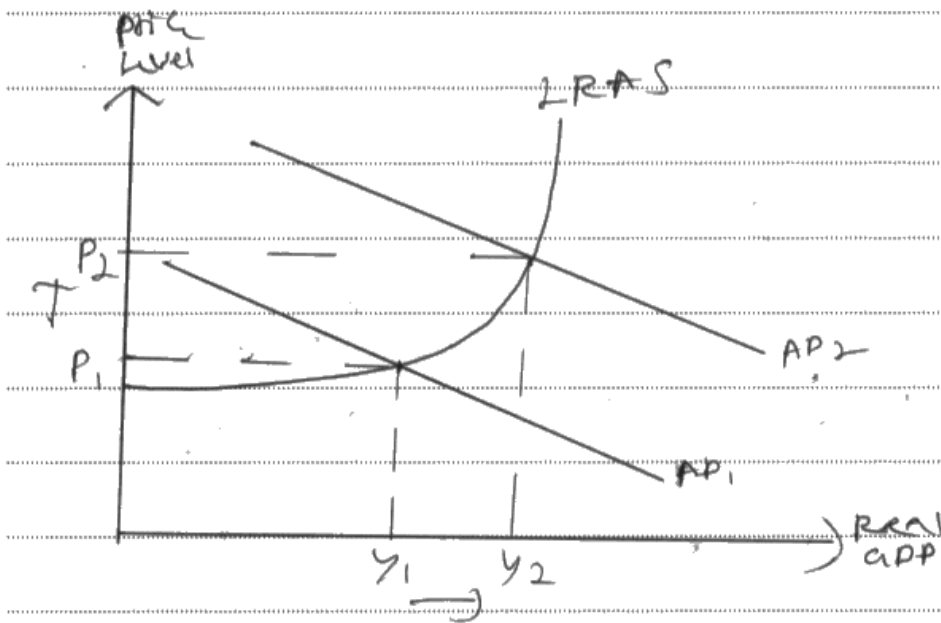
Investment refers to additions to the capital stock of a country and is a component of AD(C+I+G+(X-M)). Therefore a rise in investment would lead to an increase in Injections which should therefore give rise to more jobs (reducing unemployment) and more importantly leading to a rise in average incomes. As a result we would expect retained incomes to ~~find~~ [rise] add further rounds of spending would be created that increase AD by a positive multiplier effect. Hence we can expect actual economic growth as a short-run impact. Hence as depicted in Figure 1, real GDP has fallen between 2008 and

gets from just over 6% to 2.5%". Thus a rise in investment into the mining sector would help stimulate economic growth once again.

Moreover in the extract it is stated that, 'a majority of farmers are poor.' So we would expect such investment to reduce absolute poverty in the long run. Furthermore it is likely that the productive potential of the economy would grow with investments in mining due to a rise in productivity across the economy and this could be an important supply side effect to consider. In general, living standards are likely to improve given that the quality of life improves and consumers are better off.

However it is noted in the extract that, 'mine developments have affected thousands of people through loss of land, forced movement to other areas, flooding and pollution.' Hence it is likely that negative externalities will be created in the process and this would hinder ones quality of life. Moreover the extent of such effect would depend on the size

of the multiplier for one which would affect the degree to which AD rises and economic growth results. Therefore a possible negative impact also to bear in mind is the potential for increased Inflation given the rise in AD which depends on the amount of spare capacity in the economy because Inflation is a growing threat in this context.

Question 9 (e)

Although this question was answered quite well, responses tended to be generic, making little or no reference to the context of Madagascar. It was intended to test not just knowledge and understanding of demand and supply-side policies but also the limitations of these as applied to the context. It was rare, for example, for candidates to evaluate the likely impact of policies with reference to the economy of Madagascar. The context is clear that a very high percentage of the population are very poor. Therefore, recommendations for expansionary monetary policy, reducing interest rates to increase borrowing and reduce saving, were not really appropriate.

This a very typical example of a good response which lacks application to the context. It is a characteristically generic answer to the question.

(e) Evaluate policies that the Government of Madagascar could use to increase the country's rate of economic growth.

(14)

Economic growth is the annual increase in the GDP produced in a coutry.

Madagascar can use an ~~expots~~ expansionary fiscal policy to increase economic growth. ~~$~~ This means the government of Madagascar should reduce taxation and increase government spending. This increase in government spending on things such as improvement of land affected by the mining will ~~$~~ immediately increase AD because $AD = C + I + G + (X-M)$. ~~This incr~~
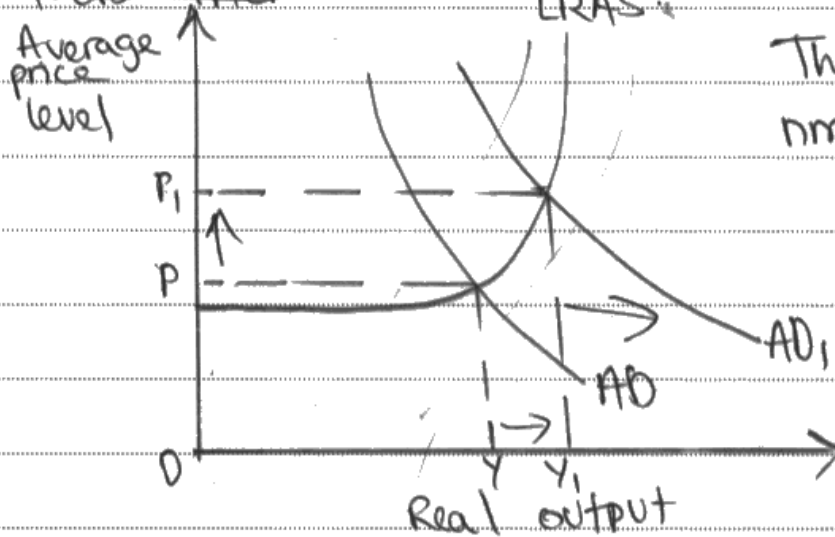

The increase in government spending increases the AD shifting it to AD_1. This increases real output from $OY - OY_1$ and so there is an increase in economic growth.

The reduction in taxation would also ~~reduce~~ increase the disposable incomes and so consumption may increase also shifting AD to the right. ~~This~~ This again increases real output and hence economic growth is ~~boosted~~.

However, fiscal policies are expensive for the government to enforce since the government has to increase its spending. This may worsen the budget position of the government and in the long run economic growth may not increase because ~~of the~~ government may increase taxation again to fix their budget position.

However, it depends on the ~~taxation cut~~ magnitude of the taxation cut and the magnitude of government spending. The greater it is the greater the economic growth.

The second policy the government can use is a supply side policy. The government can ~~increase~~ increase education and training. This will lead to a rise in the efficiency and productivity of workers shifting the LRAS outwards.
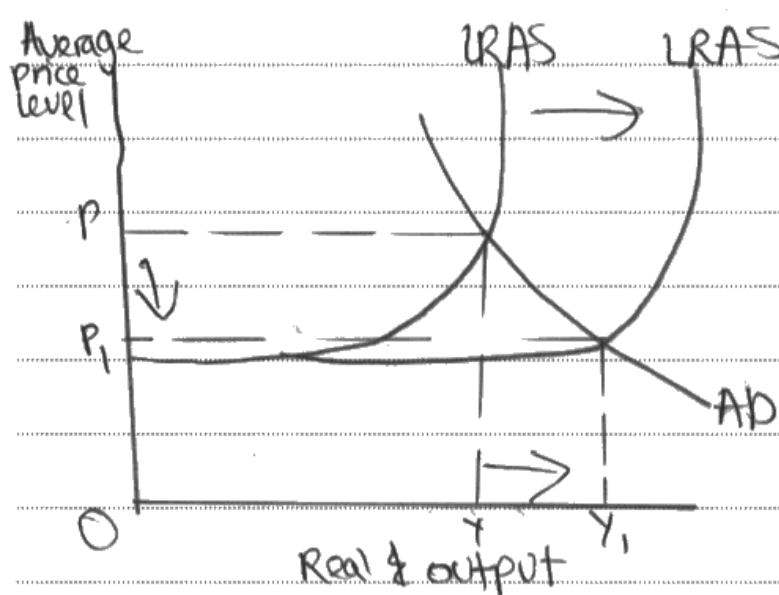
Real & output

The spending on education and training shifts the LRAS outwards. This decrease price level from OP - OP₁. The real output will increase from OY-OY₁, hence increasing economic growth.

However, it depends on the quality of the curriculum. If the education and training is not helpful workers may not become more productive and so economic growth is not boosted.

There is an identification and some explanation of policies identified along with some development of analysis, but a lack of data references/context keeps this at the top of Level 2 with 6/8 awarded for KAA.

Evaluation is present but limited to the costs associated with tax cuts and increased spending, as well as the uncertain outcomes and the high costs of supply-side policies.

There is, however, an awareness that short-term gains might be offset by the long-term deficit repayment and this puts the response into Level 2 for Evaluation with 4/6 awarded for Evaluation.

Always try to include reference to the context in analysis and evaluation. With reference to the case study, ask yourself what could work for this economy and what might not work. Think about the reasons for these judgements and try to explain them in your answer.

Question 10 (a)

Question 10 focuses upon the economy of Norway. The first question was intended to assess knowledge and understanding of real GDP per capita growth, as Norway is associated with a high living standard but has seen low rates of real GDP per capita growth.

Here we were looking for a correct definition, including an understanding of 'real' growth, as well as the way in which GDP per capita is calculated. For full marks, there then had to be references to the data provided, such as negative growth between 2008 and 2011.

(a) With reference to Figure 1, explain what is meant by the 'annual percentage change in real GDP per capita'.

(4)

The annual percentage change in real GDP per capita is the change in GDP per capita change in real GDP (takes inflation into account) over the population (real GDP) over time population)

It is clear from figure 1 that the lowest change in real GDP per capita was in 2009, at -2.9 over%, and the highest change in real GDP per capita was in 2012, at 1.5%.

1 knowledge mark for defining real GDP – 'takes inflation into account' and 1 knowledge mark for the correct formula for GDP per capita.
1 application mark for the data reference to the lowest change and 1 application mark for the data reference to the highest change.

For application marks you are expected to do something with the data and not just copy it out. For example, identify the highest or lowest figures, or identify a general trend in a time series.

Question 10 (b)

This question was not answered very well, with many candidates choosing to focus on HDI and not using the case study material which does not include reference to the HDI. The data in fact suggests very high levels of human development despite low levels of, even negative, GDP per capita growth. This may be because candidates did not read the question carefully. This meant that very few candidates successfully analysed what is meant by 'human development' with factors included in the specification including: the percentage of adult male labour in agriculture; access to clean water; energy consumption per capita; access to mobile phones per thousand of the population. As it was, the common focus on HDI limited responses in terms of analysis and evaluation.

This is a typical response to the question which does not really engage with the question sufficiently to achieve higher than Level 2 in KAA. The evaluation is better, referencing the data provided.

(b) With reference to the information provided and your own knowledge, assess the likely impact of the changes in real GDP per capita on human development in Norway between 2008 and 2016.

(10)

As shown in Figure 1 the real GBP per capita for Norway fluctuates between the years 2008 and 2016 with a steady decrease from 2008 to 2011 and a steady increase from 2014 to 2016.

The changes in real GDP per capita, particularly in 2009 when it was at it's lowest at almost -3%, may negatively impact human development given that GDP per capita is a component of the human development index.

Furthermore as average incomes fall it often affects the wealthier less than the poor so this may reduce their standards of living which has a negative effect on human development.

The reduced income for some may limit their access to things such as healthcare and education which are essential for human development.

Although, as stated in Extract 1, Norway provides " free, universal healthcare" which may allow people to maintain their same living standards.

In addition, the magnitude of the change in real GDP per capita in Norway which even at it's highest most extreme, -3% in 2009, is minimal. Therefore it may have little effect on human development in Norway.

Question 10 (c)

This question was generally answered very well. The question was intended to test understanding of the economic effects of unemployment, specifically in the context of Norway. The best responses not only demonstrated an understanding of the effects of unemployment generally but also were able to link this to the economy of Norway and the evidence provided.

A question on the economic effects of unemployment is always an opportunity to demonstrate good understanding of competing arguments. In this case, rising unemployment or even under-reported unemployment, does not necessarily mean rising social problems. It could also mean increased opportunities for leisure, or for training and education.

This is a good example of a strong response to the question, with reference to the economy of Norway and to the data provided.

(c) With reference to the information provided, assess the likely effects of rising unemployment on the economy of Norway.

(14)

Unemployment is when people are willing and able to do work but cannot find a job. Unemployment rate in Norway increased from 2.4% in 2008 to 4.7% in 2016.

Rising unemployment would mean that standard of livings of people would fall as people have less disposable incomes and so this will lead to a fall in consumption and production of goods and services would fall leading to fall in economic growth. "Unemployment level is artificially low" which means in reality there is alot of people who are unemployed and this can lead to increase in social costs such as robbery etc.

Additionally this "Unemployment could be under reported... qualifying for either disability pension or early retirement" this will lead to increase in government expenditure to pay for this pensions of the unemployed and due to unemployment direct and indirect tax revenue will fall leading to a budget deficit for the government. This will lead to increase in tax payers burden and inequalities in the economy.

The "early retirement" will be a waste of human capital as people will be of young age but due to getting pensions will stop working

this will ~~is~~ reduce productivity in the economy and waste of resources.

~~Also~~

However this depends on magnitude of rise in unemployment in this case it increased from 2·4% to 4·7% which is significant and will have an impact on the economy of Norway furthermore in Extract 2 we are told that the value of unemployment is antipriced hense this means unemployment is high leading an adverse effect

In addition Standard of living of people will not fall as they recieve unemployment benefits, free education and universal healthcare.

Further more as unemployment increases people will ~~migrate to other~~ countries leading to ~~the emp app of~~ appreciation of the currency

Furthermore unemployment cost will be seen in the long run as in the short run people will still have some incomes.

It also depends on MPC and MPS of a country for ~~cost~~ effects of unemployment to be seen.

ResultsPlus
Examiner Comments

A very good effort to address the question, with clear understanding and analysis of the likely effects of unemployment and valid data references. This puts the response at the top of Level 3 KAA and is awarded Level 3 with 8/8.

The evaluation is good but not quite as strong as KAA. A number of relevant points are developed. This puts it into Level 2 with the descriptor 'evaluative comments supported by some reasoning and relevant examples' and is awarded Level 2 with 4/6.

ResultsPlus
Examiner Tip

Try to ensure that evaluative points are as developed and exemplified as the analysis. This will then make the response balanced and allow for a good conclusion to a 14 marks question.

Question 10 (d)

As is often the case, the largest cause of low performance on this question was where responses focused on simply the knowledge component of the question and did not make reference to the case study. While the question was generally answered well, it is important that the two ways are distinct. The most efficient way to emphasise this is to provide 2 paragraphs, each identifying a supply-side policy and developing the explanation of context for each one.

The data provides a number of possible policies, including more focused qualifications, job practice schemes and a lack of a minimum wage. These needed to be identified for application marks to be awarded.
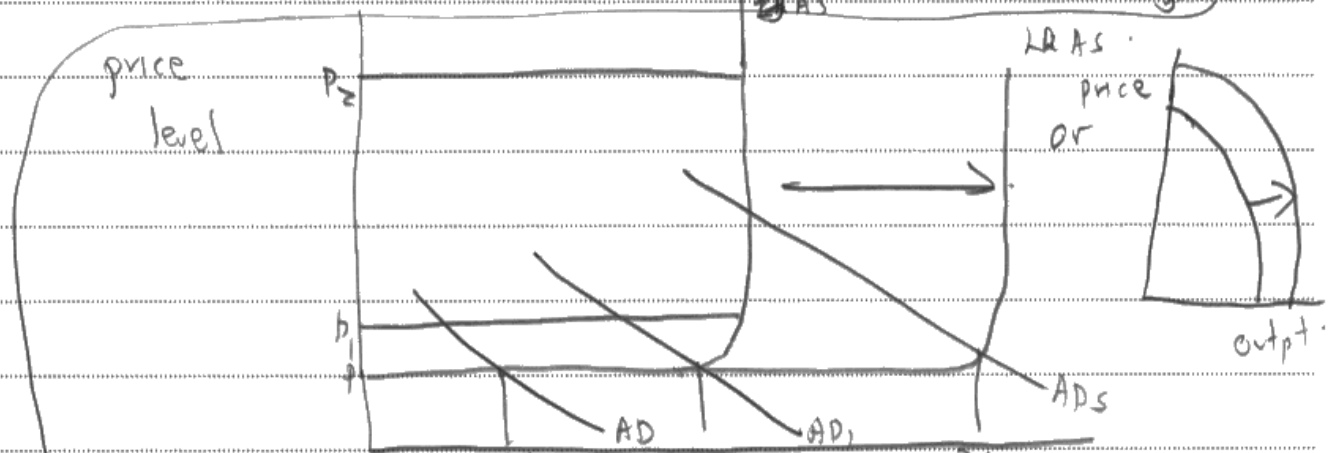
(d) With reference to Extract 1, explain **two** ways in which supply-side policies may increase the rate of economic growth.

(6)

Supply side policies aims to increase aggregate supply or productivity of workers they are done by two methods either government intervent or market based.

Economics growth is increase in real GDp ie value of goods and services produced by a country at a period of time.

The government supply side policy include introduct qualificati~ designed to help move to 'jobs' this more people will have incentive to work as qualitah provided thus ~~aggreg~~ more produch which will lead to increase in aggregak supply thus increase in ecaic grth. (before diagram)

Also unemplyed are ~~reg~~ given real cp tray thus more skilled su prodies more so increase in produh this increase in ecaic grth.

ResultsPlus
Examiner Comments

The 3 knowledge marks are covered here with the LRAS diagram awarded 2 marks and reference to increasing productivity awarded 1 mark.

There is 1 application mark awarded for the reference to qualifications and another application mark for reference to the scheme as 'help to move jobs' and increasing the incentive to work.

ResultsPlus
Examiner Tip

Remember that 6 mark questions require evidence of understanding **and** reference to the context for the application marks. Use the context to support the points made.

Question 10 (e)

The final question encouraged candidates to think about the likely macroeconomic consequences of prioritising the objective of redistribution of income in Norway. Specifically, how this might impact upon the achievement of possibly conflicting macroeconomic objectives such as growth, inflation, budget balance or international competitiveness. The best responses dealt with the question systematically, examining how redistribution of income might impact upon other macroeconomic objectives.

This question really demanded that candidates 'think like an economist', focusing upon the economic arguments for and against the redistribution of income rather than more normative assertions. In this way, it was a challenging question but one which produced some excellent responses.

(e) Evaluate the extent to which the macroeconomic objective of redistribution of income may conflict with other objectives.

(14)

Macroeconomic objectives are key aspects that the government sets targets for and ~~can~~ affects by macroeconomic activity. Norway has a macroeconomic objective of "using fiscal policies to reduce income inequality" this makes Norway "one of the most equal societies in the world". This is achieved by collecting progressive taxes and spending a lot on transfer payment and subsidising the healthcare industry. The high levels of unemployment benefits conflict with the macroeconomic objective of having low unemployment since workers have less incentives to find work if they get welfare payment from the government. The opportunity cost of not working is lesser.

High welfare expenditure also

conflicts with the macroeconomic objective of having a balanced budget. The lower tax revenues due to lower incomes and higher tax unemployment rates take away higher levels of unemployment benefits puts the government budget in deficit. Also the high levels of longterm unemployment which is supported by welfare benefits aimed to "redistribute wealth" causes loss of skill and human capital which leads to a decrease in LRAS and a contraction of the economy which compromises the macroeconomic objetive of having economic growth.

However the higher levels of unemployment do help keep inflation lower, which is another macroeconomic objefive, the fewer people get income the less they spend as disposable income and so consumption decreases which is a part of AD,

AD decreases and price levels fall.
The redistribution of income
means a higher HDI and
so even low income households
have access to all things
needed to uphold high living
standards and human
development is another
macroeconomic objective.
Efficient weath redistribution
leads to lower crime and
suicide rates which lead the
economy to suffer costs
from the budget and also
potential loss of capital, this
can be avoided by providing
more or less equal opportu-
nities to all people~. Loss
of capital ~~will~~ could lead to decrease
of LRAS since potential output
possibilites are lower.

A really good effort to address the question. Although the point about the conflict between reducing inequality and unemployment is slightly confusing, it is a valid point.

More clear understanding and analysis of the conflicts and data references follows this point, and this is a top Level 3 KAA response with Level 3 8/8 KAA awarded.

Evaluative comments are supported by relevant reasoning and relevant examples, with the point about inflation being well developed with Level 3 5/6 Evaluation awarded.

Try to 'think like an economist'. Use the evidence provided to support arguments, in analysis and evaluation. Try to avoid unsupported assertions such as 'progressive taxation reduces the incentive to work'. Does the evidence support this? In this context, there is an economy with very high living standards and relatively high rates of progressive taxation. Would this support or refute the assertion regarding progressive taxation?

Paper Summary

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

- It is important to learn definitions and be aware that accurate definitions can achieve knowledge marks. It may be worthwhile for candidates to produce their own shared glossary of definitions and practice writing them out in timed conditions.

- It may be worthwhile for candidates to practice their hand-writing, as there were a fair number of scripts that were very difficult to read. While every effort is made to read work, it can be very difficult to award marks for work which cannot be read.

- While there continues to be some improvement in the general level of diagrams, candidates are reminded that diagrams need to be correctly labelled and explained when used to illustrate an answer. Also, remember that diagrams can be used in evaluation, as well as in analysis. There were still examples of micro diagrams being substituted for AS/AD diagrams. This is really not appropriate at AS Level.

- Timing continues to be a problem for a minority of candidates, who do not sufficiently develop their more extended responses particularly in terms of evaluation. It is recommended for candidates to practise writing 14 mark questions, in timed conditions. The same is true with the short answer questions and supported multiple choice. Many candidates are writing too much for the supported multiple choice questions.

- Candidates need to use the data provided, wherever possible, to support their answers in Section B in order to achieve higher marks. While good generic responses do provide clear evidence of learning, they do not provide evidence of higher skills and are unlikely to achieve the higher levels.

- Always note the command words used in Section B. The key words are 'assess' and 'evaluate' which require costs and benefits. As far as possible arguments and counter-arguments should be supported by relevant data, ideally from the case study material, although relevant examples from the candidate's own knowledge will be rewarded.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx