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IAL Economics WEC12 01

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June 2022

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Introduction

This is the June series for assessment of WEC12: Macroeconomic performance and policy. There were over 3500 entries for this unit.

In **Section A**, the multiple-choice section, candidates performed best on the role of the central bank and underemployment (2 and 3 respectively). The two questions with the focus on inflation and fiscal policy were the least well answered questions in this section (4 and 5 respectively) and this part of the specification may need attention by centres. On the remaining two questions, candidates performed marginally better.

In **Section B**, the short answer section, candidates were able to access application marks on most questions but found the knowledge and analysis marks more difficult to obtain.

Q7: Most students were able to attain the one application mark for correctly identifying the data. Explaining the likely reason of this trend was more challenging, with many students explaining, with various degrees of accuracy, the concept of fiscal surplus or trade deficit.

Q8: Candidates had to draw an AD/AS diagram and to show the impact of a change in net migration on price level and real output. In this case we asked for an AD/LRAS diagram, which almost all students did correctly, accessing the first mark for the initial equilibrium. The majority also indicated the correct shift. The most common cause for dropped marks was in the labelling of the axes or the labelling of the equilibria before and after the change.

Q9: For this calculation-based question, candidates had to work out the change in Angola's population from a given set of figures on GDP and GDP per capita. Many did not use the correct equation and found it challenging to access all marks.

Q10: The question asked the candidates to explain one likely impact of the increase in quantitative easing on aggregate demand. In general, they were able to explain an impact on AD. The last mark on application should have required a simple reference to the information in the stem; but this was the least likely mark to be recorded by students.

Q11: Candidates were required to study both the table and the stem, and explain the term output gap. Most attained all marks for knowledge but often found it challenging to gain both application marks.

In **Section C**, the data response section, questions are based on information provided in the source booklet.

Q12a: Candidates only access two marks by correctly defining recession. Most candidates scored two marks for the correct definition, but some explained it in context of inflation.

Q12b: This question required an explanation of savings ratio. Two relevant pieces of data were required to attain the two application marks. Many candidates just mentioned the amount saved in the definition and they were only able to access 1 mark.

Q12c: A vast majority of candidates were unable to analyse the two factors that caused household consumption to increase. Two application marks were awarded for relevant use of the source. However, several candidates copied paragraphs from the extract and were not able obtain analysis marks. This is an area which all the centres are advised to address. Some candidates evaluated their analysis points, but this was not credited as it is not a requirement of the question.

Q12d: Most candidates were able to examine two likely effects of the substantial increase in the rate of unemployment. However only a small percentage of candidates could fully explain the effects to access both analysis marks. Application marks were awarded for appropriate references to Figure 2 and Extract A. Many responses were also not able to access evaluation marks as they gave solutions to these effects rather than answering the question directly.

Q12e: Most candidates made effective use of Extract B and discussed two interventionist supply-side policies that could be implemented to increase Australia's productivity. A low proportion of candidates developed their analysis with clear chains of reasoning to achieve at least Level 3 KAA marks. A common feature in responses was to try to cover as many effects as possible but without any development in the analysis or evaluation comments.

In **Section D,** candidates have the opportunity to choose one out of two questions. Candidates found this section less demanding than previously, and this is reflected in the mean scores on both questions. Question 14 was more popular than question 13.

In both questions candidates' knowledge of relevant economic concepts was sound but they often struggled to apply it to the context of the question. Another challenge was the level of analysis. As in question 7e, answers often lacked a fully developed chain of reasoning. This is because they focussed their explanations on several points, and this meant they did not have time to develop them. Some candidates drew appropriate and accurate diagram(s) and incorporated it with sound analysis. This facilitated them in consistently achieving within the top levels.

Evaluative comments were often made and, whilst some offered supporting evidence and were linked to the context, many were unable to offer logical chain of reasoning. It should be stated that 8 marks are now awarded for evaluation in the essay section. Application will always form part of the questions in Section D. Candidates are expected to include this in their arguments to achieve the highest levels.

The questions were accessible at all levels and offered good opportunities for candidates to differentiate by ability. Answering the exact question asked, integrating the data with analysis and strong evaluation continue to remain the essential ways that the A-grade candidates achieve higher marks. It appears that most candidates were not actually able to complete the paper in the time available.

Moreover, candidates are highly encouraged to have better structure to their answers. Many have written essay questions in bullet points, and some have written in long blocks/ paragraphs without making a clear distinction between analysis and evaluation. This was also seen in the higher mark question in Section C.

Question 7

Many candidates were able to access the knowledge mark and the two analysis marks. The most common answers included productivity and exchange rate. Some were unable to explain the impact further and therefore were limited to one analysis mark. The majority of the candidates attained the application mark where they were able to indicate that there was a trade surplus every month.

7   The chart shows Malaysia's net monthly balance of trade in goods and services, May 2020 to May 2021.

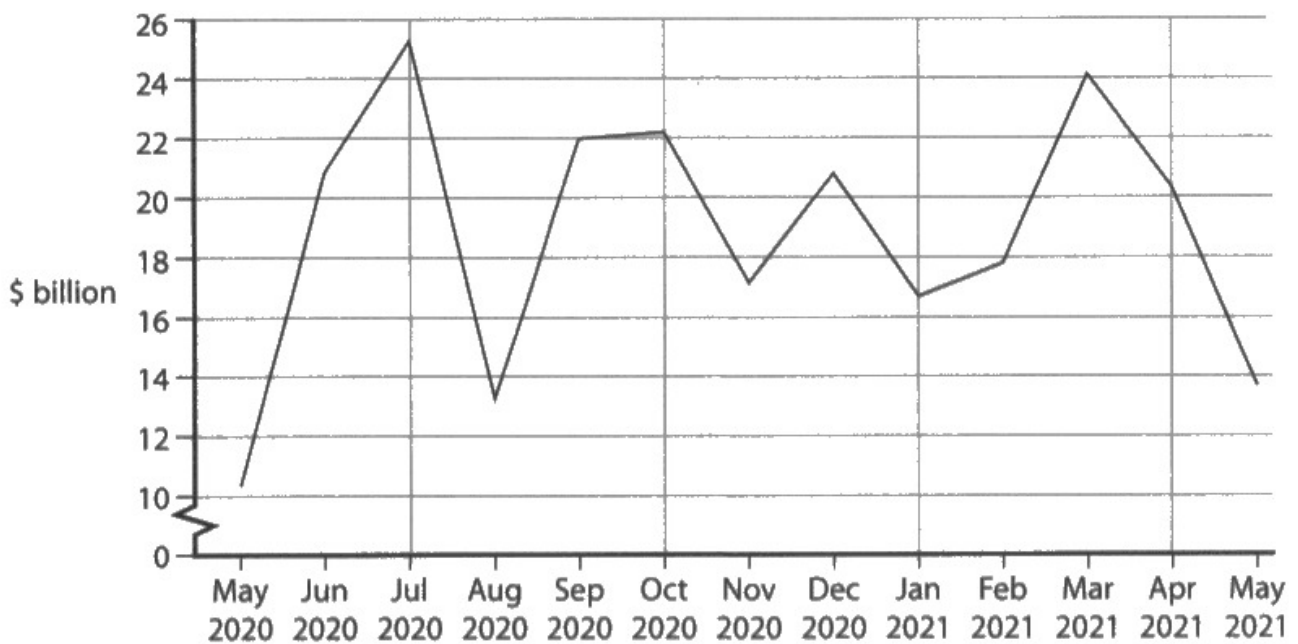(Source: https://tradingeconomics.com/malaysia/balance-of-trade)
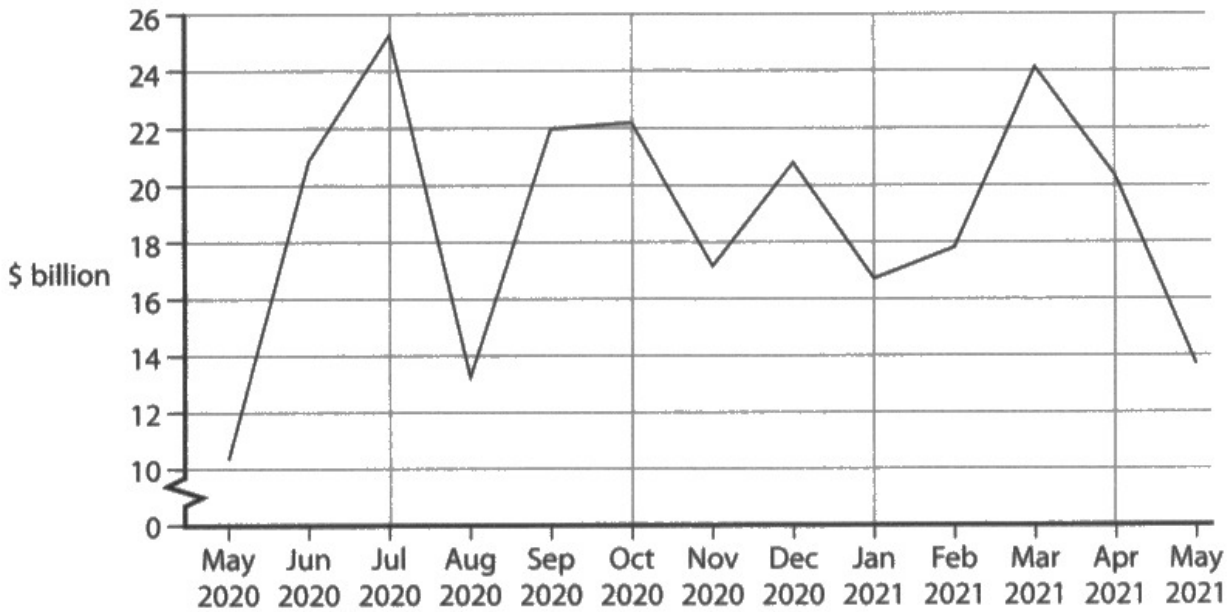
With reference to the chart, explain **one** likely reason for the surplus in Malaysia's balance of trade in goods and services.

A surplus on a a balance of trade in goods & services means the value of all exported goods & services exceeds the value of all imported goods & services in a given time period. One reason for Malaysia's surplus could be its weak exchange rate compared to currencies such as the US dollar. This would make exports cheap, increasing their demand, and imports expensive, reducing their demand. resulting in more exports than imports. Depending on how much weaker it it's exchange rate is the surplus could be high, eg peaking at $25 billion in July 2020.

7 The chart shows Malaysia's net monthly balance of trade in goods and services, May 2020 to May 2021.

(Source: https://tradingeconomics.com/malaysia/balance-of-trade)

With reference to the chart, explain **one** likely reason for the surplus in Malaysia's (x-H) balance of trade in goods and services.

Balance of trade refers to the ~~spenditure~~ revenue from exports - the spenditure on imports. When there have been more exports than imports, then that is considered a surplus.

If the currency of Malaysia depreciated, then exports seem relatively cheaper for forigners and imports more expensive. Therefore there will be an increased demand for exports and a decreased demand for imports. So a balance of trade surplus will occur.

Question 8

There was clear understanding that an increase in net migration would result in a rise in LRAS. Almost all candidates managed to draw the initial equilibrium position for AD and LRAS. A few drew the SRAS and labelled it LRAS, and others mentioned price and output on the axes; this got no credit for the knowledge mark. Both classical and Keynesian LRAS were awarded. There are no marks for additional text, which some candidates have included to support their diagram.

8 For the year ending June 2020, there were 153 900 immigrants arriving in New Zealand and 74 200 emigrants leaving New Zealand.
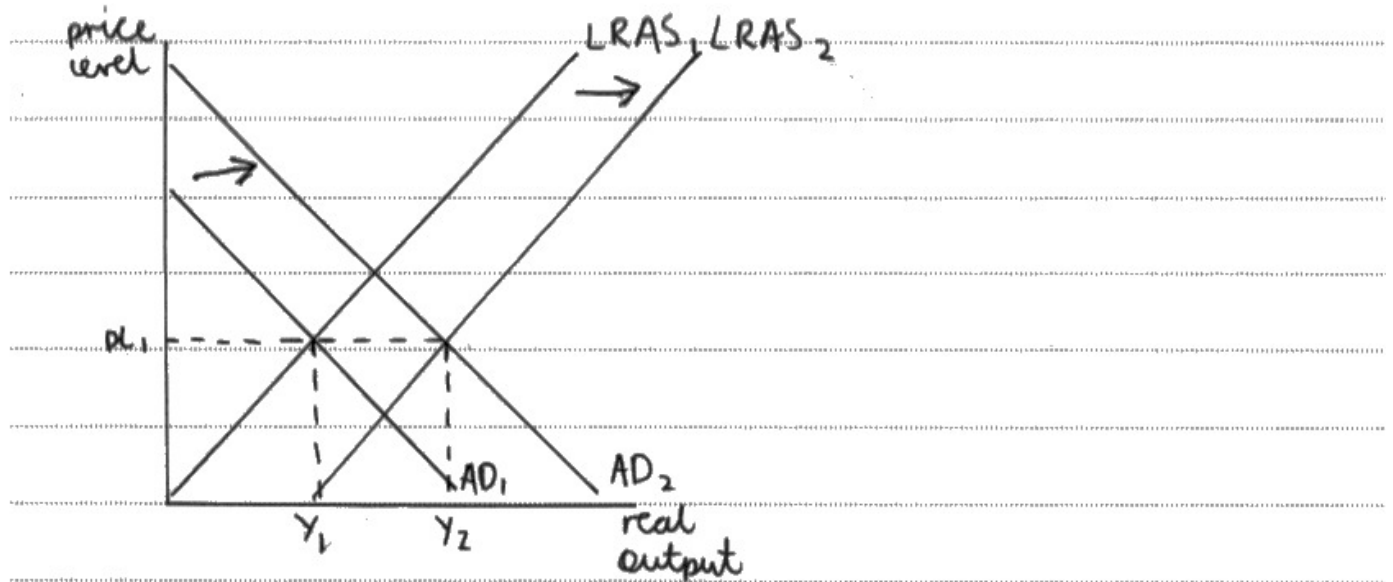
Draw a LRAS and AD diagram to show the effect of this net migration on the price level **and** real output for New Zealand.

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Draw a LRAS and AD diagram to show the effect of this net migration on the price level **and** real output for New Zealand.

Question 9

Many candidates were unable to accurately calculate the change in Angola's population. This is because they inversed the equation and therefore did not arrive at the correct workings. It is advisable that candidates show all their workings so that they could attain either knowledge or application marks if some stages of their calculations are correct, but not the final answer.

9 The table shows the nominal GDP and GDP per capita of Angola in 2019 and 2020.

	GDP ($ billion)	GDP per capita ($)
2019	89.42	2810
2020	62.31	1896

(Source: https://data.worldbank.org/country/angola)

Based on this information, calculate the *change* in Angola's population between 2019 and 2020. Show your workings.

$$\frac{\$89.42 B}{\$2810} = 31\ 822\ 064.1$$

$$\frac{\$62.31 B}{\$1896} = 32\ 863\ 924.1$$

$$32\ 863\ 924.1 - 31\ 822\ 064.1$$
$$= \ \cancel{1041} \ 1\ 041\ 860$$

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2020	62.31	1896

(Source: https://data.worldbank.org/country/angola)

Based on this information, calculate the *change* in Angola's population between 2019 and 2020. Show your workings.

2019 → GDP per capita = $\frac{GDP}{population}$ ⟹ 2810 = $\frac{89.42}{population}$ ⟹ population = 251770.2

2020

~~2018~~ → 1896 = $\frac{62.31}{population}$ ⟹ population = 118139.76

∴ change = 118139.76 − 251770.2 = −133130.44

Question 10

Candidates were asked for an impact of the increase in quantitative easing on aggregate demand. Most were able to identify money supply as their one knowledge mark. Many were also able to explain the impact, especially on consumption/investment. However, candidates often struggled in developing their knowledge and therefore were not able to access both the analysis marks. They attained the application mark for using the stem correctly.

10 The UK's central bank extended its existing asset purchases (quantitative easing) programme from £645 billion in March 2020 to £895 billion in November 2020.

With reference to this information, explain **one** likely impact of the increase in quantitative easing on aggregate demand.

The increase in quantititive easing extended by the UK central bank from march 2020 at £645 billion to november 2020 at £895 billion will mean an increase in the money supply which will resuet in a depreciation of the currency. This will mean that exports will become more competitive in foreign markets ^as they are cheaper therefore increasing their demand and as there would now be more exports than imports it would resuet in an improvement in the current account of the balance of payments which would shift the AD curve to upwards.

ResultsPlus
Examiner Comments

This response gets 1K, 2AN and 1AP. Therefore attains an overall score of 4/4 marks.

10 The UK's central bank extended its existing asset purchases (quantitative easing) programme from £645 billion in March 2020 to £895 billion in November 2020.

With reference to this information, explain **one** likely impact of the increase in quantitative easing on aggregate demand.

Quantitiave easing is the purchasing of assets by the central bank to increase the money supply. Increase in money supply will cause the aggregate demand to rise as the volume of circulation of money will increase. This is because more amount of money will chase the same amount of goods.

ResultsPlus
Examiner Comments

This response gets 1K for identification of increase in money supply and 1AN for the link to AD rising. Therefore this answer attains an overall score of 2/4 marks.

ResultsPlus
Examiner Tip

It is important for candidates to refer to the information provided, as instructed in the question, to gain access to the application mark.

Question 11

Candidates performed less well on this question, which asked them to explain the term output gap. They had to use both the stem and the table to gain the application marks, which many did not and hence were unable to access any application marks for this question. It is important to remember the distinction between positive and negative output gaps.

adjusted to inflation

11 The table shows the annual percentage change in the real GDP of Japan in 2019 and 2020. The long-term trend rate of growth for the economy is estimated to be 0.5%.

Year	Change in real GDP (annual %)
2019	0.27
2020	−4.83

(Source: https://www.statista.com/statistics/263607/
gross-domestic-product-gdp-growth-rate-in-japan/)

With reference to the table, explain what is meant by an output gap.

An output gap is when there's a difference between potential economic growth, such as 0.5% in Japan's economy, and actual growth which is measured by GDP, Japan's being 0.27% in 2019 and falling to −4.83% in 2020. ~~This~~ Both of these years Japan has had a negative output gap, as actual growth has been lower than the estimated potential growth of 0.5%.

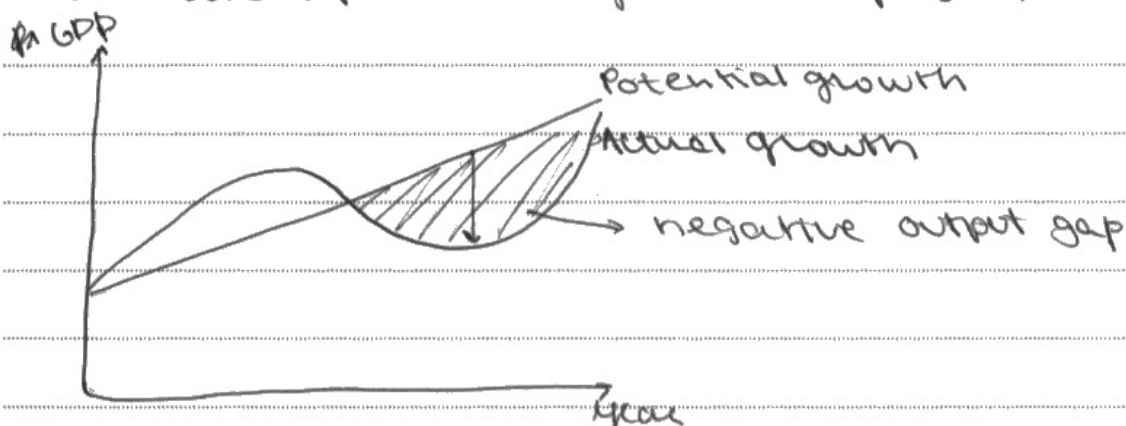GDP / Potential growth / Actual growth / negative output gap / Year

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(Source: https://www.statista.com/statistics/263607/
gross-domestic-product-gdp-growth-rate-in-japan/)

With reference to the table, explain what is meant by an output gap.

An output gap is the difference between the actual ~~growth~~ economic growth and the potential economic growth. The change in real GDP was −4.83 in 2020, ~~And~~ but the long term growth trend rate ~~to~~ for the economy is estimate to be 0.5%.

ResultsPlus
Examiner Comments

This response gets 2K and 1AP. Therefore this answer attains an overall score of 3/4 marks.

ResultsPlus
Examiner Tip

It is important for candidates to use the data and identify whether there is a positive or negative output gap to gain the second application mark.

Question 12 (a)

Candidates needed to define the term recession. Although 60% of total candidates scored the maximum of 2 marks this still indicates that 40% were not able to define the term correctly. Many only offered a partial deifinition and hence obtained 1 mark. It is important to explain the key definitions fully, clearly and accurately.

12 (a) Define the term 'recession' (Extract A, line 2).

(2)

Recession ~~is the~~ occurs when there is negative economic growth for two or more consecutive quarters.

ResultsPlus
Examiner Comments

This response gets 2K for an accurate definition, so therefore attains an overall score of 2/2 marks.

12 (a) Define the term 'recession' (Extract A, line 2).

(2)

A recession occurs when the economy is going down for 2 quarters in a row. The decline of the economy can happen due to market failure or government intervention.

ResultsPlus
Examiner Comments

This response gets only 1K for identifying 2 quarters in a row. Therefore this answer attains an overall score of 1/2 marks.

ResultsPlus
Examiner Tip

Candidates need to be clear and accurate in their definitions. Vague statements do not get credited, so they need to use technical vocabulary/terminology to access the full marks available.

Question 12 (b)

Many candidates were able to successfully explain savings ratio, either through a written definition or an equation. Most mentioned that it was the amount rather than the proportion of disposable income saved and hence did not attain both knowledge marks. To access application marks, candidates had to include two separate pieces of data from Figure 1. Given the nature of the question, it is important to cover all aspects of the answer in knowledge and application.

(b) With reference to Figure 1, explain what is meant by the savings ratio.

(4)

the savings ratio shows the proportion of household income that is not spent and therefore is saved. (Savings ÷ Total Income). For example, in 2020 Q2 most households saved more of their income due to the global pandemic and lockdown as they could not exit their homes and spend freely. In Q2 2020 it was 22%, the highest in 2020.

ResultsPlus
Examiner Comments

This response gets 2K and 2AP, so attains 4/4 marks.

(b) With reference to Figure 1, explain what is meant by the savings ratio.

(4)

Savings Ratio is a record of the total amount ~~of saving~~ that citizens in a country (in this case Australia) save over a period of time. For example in figure 1 we could clearly observe how in the first quarter of 2020 there's a savings ratio of 7.9%. whilst in the second quarter of 2020 this increased to 22%.

Question 12 (c)

This question required candidates to analyse two factors that caused household consumption to increase. Most responses achieved both knowledge and analysis marks. Some were only able to identify their factors but were not able to develop this further. They were able to access the two application marks by using relevant data from Extract A. It is important to recall that there are two marks each for knowledge, application and analysis for a six-mark question.

(c) With reference to the second paragraph of Extract A (analyse) **two** factors that caused household consumption to increase in quarter 3, 2020.

(6)

Firstly,

^Rising house prices were a factor attributed to the ~~level~~ increase in household consumption. A rise in house prices can create consumer confidence as house owners would feel richer with a house at higher value, encouraging them to spend with the security of knowing they could sell their house for a higher price. This would see a subsequent rise, not only in confidence, but consumption from a large chunk of the population who are home owners.

~~Firstly~~ However, reductions in base interest rates, or ~~expansionary~~ reflationary monetary policy sees the alteration of interest rates to manipulate AD. With lower base interest rates, loans become more affordable for consumers and businesses which could allow them to take out higher loans and therefore spend more. ~~Total~~ Additionally, those^who already have loans would have to make smaller payments in return, increasing their disposable income and therefore consumption.

These two factors are what helped to increase Australia's household consumption by 7.9% in the quarter after a fall in consumption by 12.5%, showing ~~stronger~~ strengthened confidence from consumers in their economy.

This response gets 2K, 2AN and 2AP (last paragraph). Therefore this answer attains an overall score of 6/6 marks.

(c) With reference to the second paragraph of Extract A, analyse **two** factors that caused household consumption to increase in quarter 3, 2020.

(6)

One factor that increased household consumption was the reduction in the base rate. Lower interest rates disincentivise saving because the return is very small, and so people are more likely to consume their ~~come~~ money rather than saving. The lower interest rates also boost consumer confidence which overall makes consumers borrow more and spend more money.

Another factor that increased consumption was the higher welfare payment. In order to look after the poorer households, the government offered financial aid by increasing the welfare payments. These increased payments increased the happiness of these households and boasted their consumer confidence, which drove then to spend more money on goods or services such as food or TV programmes.

This response gets 2K, 2AN and 0AP. Therefore this answer attains an overall score of 4/6 marks.

It is important for candidates to refer to the information provided, as instructed in the question, to gain access to the application marks.

Question 12 (d)

The question required candidates to examine two likely effects of the substantial increase in the rate of unemployment. Most were able to identify both the effects effectively. They could gain two application marks by effectively using Figure 2 and Extract A. However, many found it difficult to analyse the identified effect and were unable to understand that the question related to the rate of unemployment.

Evaluation was lacking and not very well written with some only identifying a single point and not explaining it well. There were some candidates who did not make an attempt of writing any points. For eight-mark questions and above, evaluation is a key requirement and should be included. It is important to recall that there are two marks each for knowledge, application, analysis and evaluation for an eight-mark question.

(d) With reference to Figure 2 and Extract A, examine **two** likely effects of the substantial increase in the rate of unemployment on the Australian economy.

(8)

Unemployment refers to the section of the working population who are able and willing to work while also actively searching for work, but are simply unable to find it. With economic recessions, lower output and therefore revenue, unemployment in Australia saw a 'substantial increase' as seen in Figure 2 and the high jump in unemployment between Jan 2020 and Jul 2020 from an estimated 5.4% to 7.5% as producers have to cut costs and therefore workers.

As a result,
Higher unemployment could create higher costs for the government as more people will be taking out welfare payments which could increase the budget deficit as also less people are able to pay taxes due to a lack of income.

Moreover, higher unemployment would mean that the economy is not utilising all its available resources efficiently, meaning that Australia could witness a negative output gap as production would decrease to lower costs.

However, the magnitude of the unemployment rate may not be considered high enough to reach that level with only a 2% increase, which in itself is about 2.5% higher than what is considered the natural rate of unemployment. Moreover, with the government's quick response with a 'Jobkeeper payment scheme' as well as speedy economic recovery, these effects may not be felt in the long term due to the quick response.

This response gets 2K, 2AN, 2AP and 2EV (last paragraph). Therefore this answer attains an overall score of 8/8 marks.

(d) With reference to Figure 2 and Extract A, examine **two** likely effects of the substantial increase in the rate of unemployment on the Australian economy.

(8)

According to the ILO, unemployment occurs when an individual was out of work for 4 weeks and is ready to start working in the next two weeks.

Firstly, the increase in unemployment will increase government spending. This is due to welfare payments. This means that the government will have less money to spend on education and healthcare, which will decrease standards of living in Australia. This will also decrease australia productive potential, and their tax revenue. ~~Secondly~~

Secondly, it will decrease the overall wellbeing of society. This is because unemployment usually causes increases in the suicide rate and divorce rate. This means that overall mental health of the society will drop.

However, ~~#~~ the increase in unemployment is usually linked with a decrease in inflation. This means that the population will benefit from lower prices of goods and services.

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Examiner Comments

This response gets 2K and 2AN for the second and third paragraph on page 1. However there is no application and evaluative comment is very limited: hence 0AP and 1Ev. Therefore this answer attains an overall score of 5/8 marks.

ResultsPlus
Examiner Tip

It is important for candidates to refer to the figure and information provided in the extract, as instructed in the question, to gain access to the application marks.

Question 12 (e)

Candidates needed to use the source to discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity. It is important that candidates select any two policies and develop their analysis by focusing on those points rather than trying to cover as many effects as possible. This will allow candidates to access the higher levels of response.

A handful of candidates were able to successfully explain the likely effects of investment in infrastructure and offering tax incentives on productivity. They were able to integrate this with the application given in the source from Extract B and supported their analysis points with accurately drawn and labelled diagram. This gave them access to Level 3. However, many candidates just copied text from the source and did not explain their points. This gave them access to Level 1 only.

Evaluation points made were fairly sound. They included references to short run vs long run considerations. Many included time lags as an evaluative comment but were not able to successfully support this point using a logical chain of reasoning. Candidates should ensure that they do this as opposed to listing a number of separate undeveloped points.

(e) With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.

8+6. (14)

Supply-side policies are policies which increase the productive potential of the economy through increased productivity and efficiency. Interventionist policies involve correcting market failure by increasing the potential for growth. Productivity is when output per worker increases. Shifts LRAS to the right.

One interventionist policy Australia can use is investment in infrastructure. This is because by investing in, for example, transport links and broadband, it makes things quicker. For instance, an improvement in transport facilities like roads (eg. reducing potholes) will enable deliveries of goods and services to increase, as more will be produced since it takes less time to get to destinations. This means that as more goods/services are improved, productivity improves because more output is being produced and per worker, and this shifts the LRAS to the right (real output increases.)

Another interventionist policy is the investment in high-quality education and training schemes.

This is because, by investing in the skills a worker needs to complete a job, it allows them to become more specialised in their job. Therefore, this leads to an improvement in the quality of their output as they will better know what they are doing. This leads to an improvement in productivity as workers will be producing better quality goods and services which give them a competitive edge (in Australia), which could lead to increases in exports from Australia (a component of AD), which shifts AD, and this causes firms to supply more as there is a profit motive to meet this demand (LRAS shifted to the right).

However, supply-side policies have a time lag. This is because they will not take effect immediately, for instance, with the education and training, it will take time for workers to retrain. This means it's not very responsive in the short-term, which could lead to Australia's productivity staying the same in the short-run.

Also, there is no guarantee that the supply-side policy will work. This is because some

workers may not retrain, even though there has been an investment in education and training. This leads to productivity staying the same, which does not increase the productive potential of the economy as LRAS will stay the same.

(e) With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.

(14)

Interventionist supply-side policies is a way for the government to enter the market and try to correct it.

There are several policies that can be put in place. Australia is already actively supporting businesses with the Jobkeeper programe discussed in Extract A.

The investment in infrastructure can increase productivity. These developements can include things like: better roads, bigger airport, New port. These investments increase productivity as they make it easier for businesses to operate. Furthermore, the developments in infrastructure can encourage people from abroad to move to Australia which could benefit it in the long run.

The investment in high quality education will result in better workers in the long run as they will be more efficient and more capable of doing work, this will ultimately increase Australia's

productivity.

Encouraging investment from abroad is a great way of growing the economy as large companies could move to Australia if it offers good tax incentives and subsidies. Domestically this can increase productivity as more businesses will be created, thus more jobs will become available.

In my opinion all of the interventionist supply side policies will benefit Australia. However, if it can only choose one (which will unlikely be the case in the real world) then it should go for investment in infrastructure as this has the most benefits in the long run.

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Examiner Comments

This response gets two L2's (on page 1) for the two supply-side policies explained. Evaluation is not fully developed (last paragraph on page 2) and hence only attains top of L1. Overall: L2 for KAA and high E1 for EV.

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Examiner Tip

Centres should ensure candidates focus on developing only two points by adding multi-stage chains of reasoning. Evaluation of these two analysis points should also carry depth to access the higher levels. Conclusion not required for this question.

Question 13

This question asked candidates to evaluate the costs of economic growth. In addition, to access high Level 4 for KAA, candidates are required to include application in their answer by referring to a country of their choice.

Most candidates were able to analyse the costs of economic growth, especially conflicts related to inflation and the environment. There were many who were unable to explain their points identified in depth by adding multi-stage chains of reasoning. Most of the answers only carried a two-stage chain of reasoning, and hence, they were not able to access Level 3 KAA. Those who identified a range of costs without any linked development were only able to access Level 1 KAA.

Evaluation included an attempt to discuss the short run versus long run impact and the magnitude of the change in economic growth. These were under developed and did not contain many stages of arguments. Those who listed evaluation points achieved Level 1. That said, most candidates evaluated using benefits of economic growth and were able to attain higher levels.

Economic growth refers to when a country is producing at its maximum. Although economic growth can seem good for the economy, it also ~~cou~~ has costs that need to be faced in order for the economy to thrive.

One cost of economic growth is that there would be an increase in the negative externalities of production. As economic growth increases, more industries would be producing a various amount of goods and services therefore emmitting large amounts of pollution into the air. As pollution starts to increase, there would be an increased likely hood of greehouse gases being emmited as well, therefore increasing the rate of global warming. Trees and forests would also have to be cut down in order to make room for urbanisation or the building of brand new factries in order to increase economic activity. ~~Thus~~ Furthermore, an increase in economic activity would mean that workers and employees at various factries would have to work longer hours at their workplaces in order to produce more goods and services to increase the productivity within the economy. Longer working hours would mean that they would have less leisure time, and time to spend with their friends and family. This in turn

would lead to an increased amount of stress for them. It may even lead to increased healthcare cost for those worker who ~~work~~ have jobs that require physical strength such as jobs in the agricultural sector or the collection of raw materials. This could affect costs especialy to developing countries such as Sri Lanka, where most jobs are in need of physical strength such as first and secondary sector jobs.

Moreover, higher economic growth would mean higher rates of inflation ultimately. ~~or more~~ As more goods and services are being produced in the economy, the ~~industries and firms would have the incentive to~~ level of aggregate demand in the economy will also start to rise, and this would give firms the incentive to raise prices. As inflation rises due to the incomes of people rising as well, there would be an increase in income inequality. Only the ~~to~~ most prestigous high income earners get to experience the benefits of the inflation, where as low and middle income earners would be left with nothing. In Sri Lanka, a majority of the labour force are low and middle income workers and they would suffer from increased amount of absolute and relative poverty in turn. This would also not benefit fixed income earners, as they earn the same as they did before.

On the other hand however, the economic growth can benefit a number of individuals.

One benefit benefit of economic growth may be that it would reduce the amount of unemployed individuals there are in the country and raise the level of employment, which salue attains to the macroeconomic policy of high high employment. This may be due to increased spending on education and training to increase the skills of the workers in the economy, so that seeking employment could be relatively easier. This would encourage more productivity in the economy in turn an produce a larger amount of goods and services, due to the labour force being skilled. This would benefit Sri Lanka on a large scale as the rate of unemployed individuals are starting to increase due to the economic crisis.

Furthermore, another upside of of economic growth would be that it could increase the standard of living for many individuals, as they would be less likely to suffer from diseases such as famine, and they also have a higher life expectancy rate due to better working conditions in many aspects of work, and they would be more likely to gain a higher income so they can pay for their day to day expenses. This would increase their level of happiness and level of GDP, relating to the Easterlin Paradox, which describes that an individual may be

happier once a they have a higher GDP. This could be true due to countries like Sri Lanka suffering from lower incomes.

Moreover, the government would also have more revenue to invest in green technology which would benefit the environment as everyone would switch to more electrical product. The government can spend on $ more renewe solar panels for houses and invest in research and technology to innovate new ways to the' convert the eco economy into a more environmentally friendy one, reducing the chance of there being increased pollution and deforestation.

In conclusion eco the economic costs can be solved along with economic growth through government intervennis & the use of ⊤ efficient use of resources.

ResultsPlus
Examiner Comments
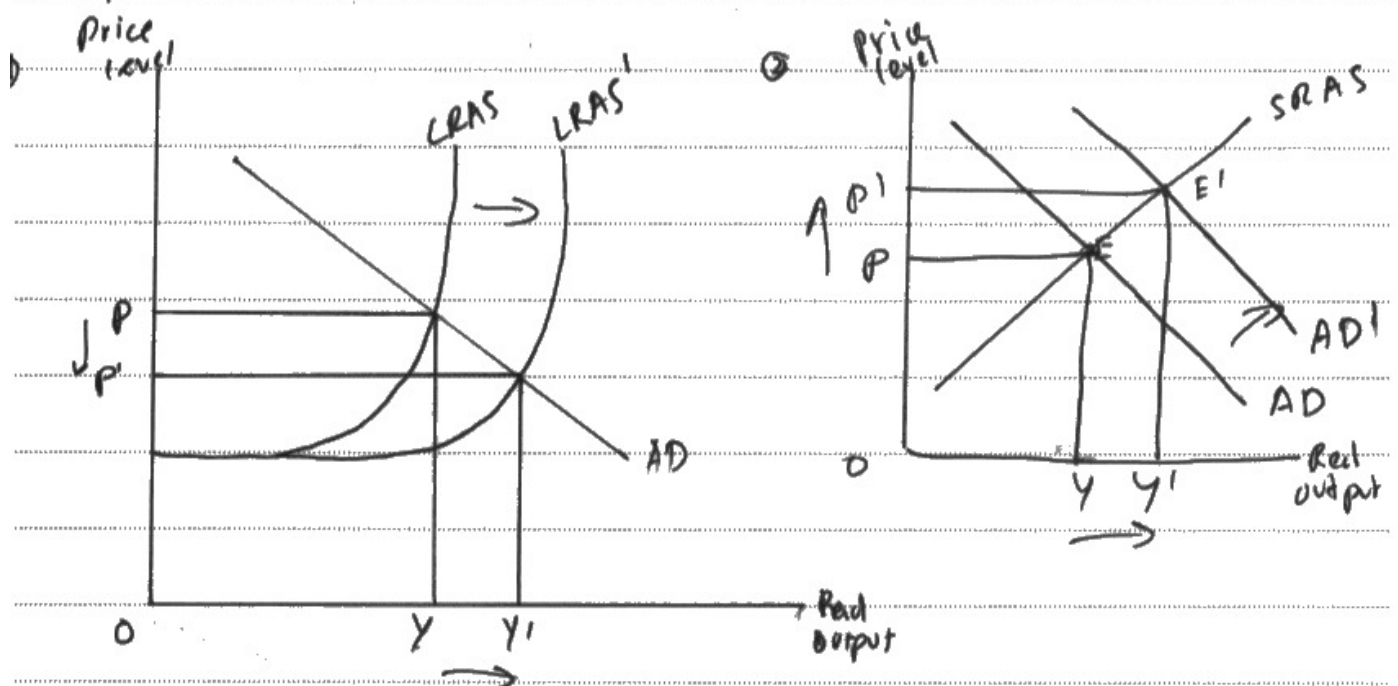
This response just manages to attain L4 for analysis. Although the answer explains various costs, the best two points are considered; in this answer, these being the first two analysis points made. Similarly, it just enters L3 for the different evaluation comments included. Top end of the levels could have been achieved in both KAA and EV if there were more chains of reasoning included with context/application effectively integrated. Overall: low L4 for KAA and low E3 for EV.

ResultsPlus
Examiner Tip

Focus on fully developing only two KAA and two EV points to maximise chances of attaining the top end of the higher levels.

Write your answer here:

Economic growth is the rise in real GDP. During economic growth, ~~the~~ ~~4~~ unemployment levels are low. ~~This would~~ countries such as China may be producing a large number of goods. The mass production may have a negative impact on the environment as more production is equall to more pollution. The pollution may have a significant impact in the long run.

Secondly, ~~du~~ ~~in~~ during ~~to~~ economic growth ~~th~~ the people in china would have a higher disposable income. this would mean ~~that~~ they may import goods and services of better quality to ~~sattfy~~ satisfy their wants. As a result the marginal propensity to import increases this would result in a negative impact on ~~the~~ ~~balanc~~ china's balance of payment.

Thirdly, ~~duri~~ economic growth in china would mean that the firms can make greata investments. The factories in China ~~could~~ ~~could be able~~ would start being more capital intensive and thus this would lead to a rise in the unemployment rate in china.

Additionally, during economic growth ~~would~~ the firms produce a lot therefore they may use a lot of

non-renewable resources that can not be replenished over a period of time. This would reduce the resources ~~at~~ available for the ~~future~~ generation.

Moreover, during economic growth the aggregate demand in ~~the~~ China would be high. ~~Hence the~~ As consumers have a ~~dis~~ higher disposable income ~~they may see~~ the consumption expenditure would be high. As a result this would lead a rise in the general prices (inflationary pressure).

Conversly, ~~th even though the the~~ economic growth would enable factories in China ~~to~~ invest in green technology. This would mean that the harm caused to the environment would decrease or be eliminated.

Further during times of economic growth, there may be a fall in the unemployment levels. Some firms in China may be labour intensive this would ~~b~~ mean that they would have to employee more people in order to meet the ~~dem~~ total demand in the economy.

Economic growth would mean that ~~the~~ China is working at its ~~maximise~~ maximum productive capacity. ~~This~~ Therefore they could produce goods for a cheaper rate which would increase their international price competitiveness having a favourable impact or the balance of payment as the net exports would be greater.

Lastly, during economic growth the government expenditure on welfare payments and benefits would fall. This would mean that the other infrastructure in China can be developed. As a result there would be a favourable impact on the government budget.

In conclusion, eventhough economic growth has severals costs the economies country may have various benefits, such as employment, exports which include employment and exports. Most of the countries across the world are working towards economic growth due to benefits it offers.

ResultsPlus Examiner Comments
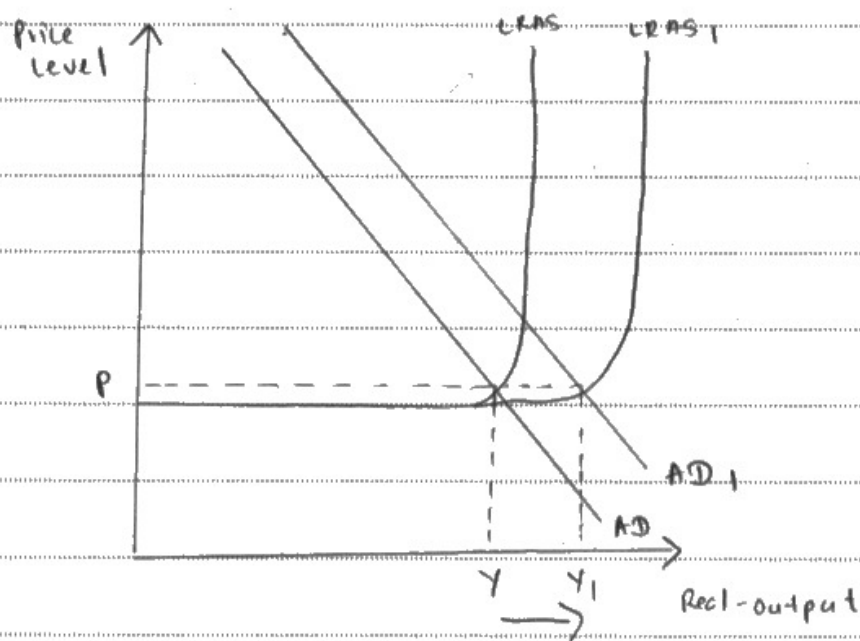
This response gets top of L2 for the various costs explained. Similarly, it only gets L2 for the different evaluation comments included. The arguments are not fully developed and hence the answer attains top of L2 for KAA and E2 for EV.

ResultsPlus Examiner Tip

Centres should ensure candidates focus on developing only two points by adding multi-stage chains of reasoning. Evaluation of these two analysis points should also carry depth to access the higher levels. There is a lot of breadth to answers and this limits the ability of candidates to develop their arguments.

Question 14

This question asked candidates to evaluate the costs of a high rate of inflation. Moreover, to access high Level 4 for KAA, candidates are required to include application in their answer by referring to a country of their choice.

The most common answers used costs as their analysis and benefits as their evaluation. Costs included impact on price competitiveness and purchasing power of consumers. Most answers demonstrated some chains of reasoning, but they were not always fully developed or had some key stages omitted. These candidates were not able to access more than Level 3 KAA. Those who mentioned causes of inflation did not attain many marks.

Evaluative comments were not well written. Many offered solutions to controlling high rate of inflation. These were some, however, who were able to explain the benefits of higher inflation, and this was credited. For points that were quite generic and did not have any chains of reasoning, candidates did not achieve more than Level 1.

Inflation refers to a general and continuous rise in price levels. There are several types of inflation such as demand-pull inflation and cost push inflation. Inflation ~~As a result~~ of inflation in the USA has increased by 4.8% between June 2020 and June 2021.

As a result of inflation, consumer confidence will fall. This ~~would~~ is because consumers are uncertain about the future as prices may be constantly changing. This would mean that they may delay spending decisions, ~~until this too~~ and may save more because of uncertainty about the future. This would lead to an increase in the marginal propensity to save and a reduction in the marginal propensity to consume. This would lead to a ~~rise~~ fall in consumption across the economy, which would reduce aggregate demand. This would have an adverse effect on ~~econ~~ economic growth.

Furthermore, during times of high inflation, business ~~there~~ confidence would also fall. This ~~means~~ is because like consumers, businesses would also be uncertain about the future. This would mean that businesses may reduce ~~inf~~ or delay investment. According to the multiplier ~~concept~~ effect, this reduction in

investment would cause an even bigger reduction in income. As a result of the reduction in investment, Aggregate demand would fall from AD to AD₁, but because of the multiplier effect it would further fall to AD₂. This would lead to a reduction in real GDP of Y₁ Y₂.
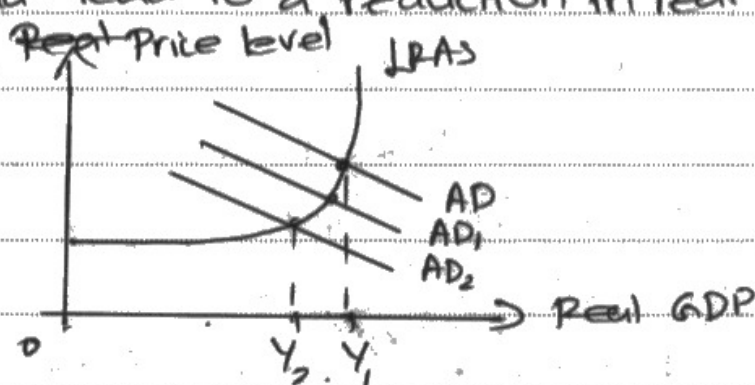
In addition, when inflation is high, shoe leather costs are also high. These are the costs that businesses will incur when searching for cheaper suppliers. This would lead to an increase in short run aggregate supply, which could cause a further increase in price levels due to cost-push inflation.

Moreover, during periods of high inflation, businesses will also encounter higher menu costs. This is because prices are changing constantly, so businesses may have to incur higher costs to print new leaflets, brochures, and advertisements. This would also reduce SRAS, which would contribute to cost-push inflation.

However, inflation may be due to an increase in aggregate demand in the economy. This would lead to an increase in GDP which would also lead to an increase in GDP per capita. This would

mean that consumers may be able to enjoy higher living standards.

Furthermore, if workers are able to bargain for higher wages, and as a result if their real wages also rise ~~due to~~ along with inflation, then their consumer confidence may not be affected adversely. In fact, they may even spend more as their real wages have increased, so economic growth wont be negatively affected.

Moreover, as a result of inflation, the real value of debts would have reduced. Therefore, if firms took any loans to finance any investment in capital, their ~~~~ real value of their loan would reduce due to inflation. This may even encourage firms more ~~workers~~ to borrow money in order to invest, as this may actually lead to an increase in business confidence. Therefore the level of investment in the US economy would rise, which would help increase the productive potential of the economy.

In conclusion, even though inflation can have some positive effect such as a reduction in the real value of borrowing, it is more likely that the negative effect of high inflation would overweigh them. This is because when inflation rises, interest rates are also likely to rise so not many businesses will be able to exploit this

reduction in the real value of borrowing. This is because Therefore it is likely that inflation will cause business confidence to reduce, Which will have costly effects on the US economy.

Write your answer here:

The inflation rate refers to the percentage increase of the price of a basket of goods in an economy over a period of time.

The rate of inflation ↑in the USA increased from 0.6% in June 2020 to 5.4% in June 2021. This can is quite a high rate of inflation, which can come with bears many costs.

Firstly, A high↑and fluctuating rate of inflation promotes uncertainty in a country, as firms and households cannot accurately plan for the future. As such, consumer confidence would decrease and so many aggregate demand. For instance, consumers may not feel safe keeping their money in the USA and may therefore save it abroad.

In addition to this, many would experience a decrease in their quality of life due to their income ↑significantly less purchasing power. This leads to frustration and a decrease in well being throughout the population, particularly the lower classes.

Consumers may now prefer foreign goods purchased online, as opposed to those in the US, due to their comparatively lower prices. As such, the country's imports would increase throughout the country, which may cause a deficit on the balance of trade of goods and services. This would result in US producers ↑growing loosing out on profits and may ↑therefore cause job losses and others throughout the country.

$ The marginal propensity to save will also decrease, due to uncertainty of the value of these consumers in regards to the real value of their saving. They would then rush to purchase other 'inflation-proof' assets, such as houses, resulting in the prices of these investments skyrocketing due to demand-pull inflation. Further inflation may or be created through this process and many individuals may again see their income being able to par purchase less

However, the costs of a high rate of inflation in the US depend on the duration of said rate. If the inflation rate remains high for many consequent years, the country may face real problems issues but if the inflation is simply a side-effect of an economic boom or recovery cycle, these issues may ^{would} not appear to such an extent.

Moreover,
In addition to this, the costs described would not happen right away but instead in the future at some time in the future due to the complex nature of the US economy. This is referred to as a time-lag.

Inflation is ^{also}, as previously mentioned, a side effect of economic growth. As such, its benefits may outweigh its costs. After facing a recession in 2020, the USA would benefit from the increased aggregate demand and aggregate supply that would may have brought about such inflation.

In addition to this, a ^{tho.} inflation rate and unemployment rate are inversely proportional, i.e as one increases the other decreases. Therefore, According to the Phillips curve, the very high inflation rate may be a result of increased employment and thereby thereby increased aggregate demand in the

US economy.

It can therefore be stated that the benefits factors which caused inflation may outweigh its cost. In the case of the United States of Americas.

[margin note: this high rate of inflation]

Paper Summary

The main implications for centres regarding future teaching, learning and examination preparation are:

- Ensure that all parts of the specification are taught and internally assessed. This needs to include addressing all the quantitative skills (as found on page 69 of the specification).
- Candidates must read all questions carefully, and make sure that they have addressed all parts of a question in their response. In a few different questions on this paper, not understanding requirements of the questions, in terms of its depth and breadth, was the main reason for low scores.
- Encourage candidates to draw accurate, appropriate, legible and labelled diagrams to support their arguments, even if not required. This would help add depth to arguments.
- Section B: for diagram-based questions, all marks can be achieved through a diagram and no written explanation is required. This is an inefficient use of time. For calculation-based questions, all marks can be achieved through working out the right answer. For questions where a text response is required, candidates should focus on identifying one point and developing it. Giving a list of points will only get knowledge marks.
- Section C: Ensure that candidates refer to the relevant extracts but do not copy from them. Brief quotations are acceptable but, in themselves, will not achieve higher level marks. Remember that the 4 – and 6-mark questions do not require evaluation, so please use the time given effectively and avoid assessing the analysis points made.
- Section C 14-mark question and Section D essays: Encourage candidates to develop a chain of reasoning by analysing two salient points in depth. By contrast, covering a lot of points in a superficial way will limit the mark to a low Level 2 at best. In addition, analysis needs to be contextualised by using relevant source information (Section C), appropriate examples (Sections C and D) or context at the start of Section D questions.
- In addition, ensure that candidates are aware that evaluative comments should be linked to the context of the question being asked. These should have a chain of reasoning or sufficient development to be able to achieve at least Level 2. To achieve Level 3 for evaluation in Section D it is necessary to include an informed judgement.
- Candidates are encouraged to have a clear structure to their answers. They must avoid writing essays in bullet points or in long blocks/paragraphs without making a distinction between their analysis and evaluation points. The nature of essay questions means that they draw on a student's knowledge accumulated throughout their course, and on their ability to apply that knowledge directly to the question.
- Encourage candidates to make full use of the specimen papers, previous examination papers, mark schemes and principal examiner reports. Paying greater emphasis on time management is also vital for the completion of the paper.

Grade boundaries

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

https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html