



Examiners' Report June 2022

IAL Economics WEC14 01

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Introduction

This is the June 2022 series for assessment of WEC14 Developments in the global economy. The examination tests the candidates' abilities to select and apply appropriate economic concepts, theories and techniques in a variety of contexts. As Unit 4 is a synoptic unit, the examination may draw on material from Units 1, 2 & 3.

In **Section A**, the multiple-choice section, candidates performed best on globalisation (question 1). The question with the focus on terms of trade was the least well answered question (question 6) and this part of the specification may need attention by centres. On the remaining questions, candidates performed better.

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

Q07(a): Candidates only access two marks by correctly calculating national debt. Most candidates scored two marks for the correct calculation.

Q07(b): Most candidates were able to analyse two disadvantages of an increase in Iran's national debt. However, only a small percentage of candidates could fully explain the impact to access both analysis marks.

Application marks were frequently awarded for appropriate references to Figure 3. Some candidates evaluated their analysis points, but this was not credited as this is not a requirement of the question.

Q07(c): This question required explanation of 'trade restrictions'. Two relevant pieces of data were required from Extract A to attain the two application marks. Many simply mentioned protectionist policies in the definition and they were only able to access 1 mark.

Q07(d): A vast majority of candidates were able to examine two likely economic effects of trade restrictions reimposed by the US Government on Iran. Two knowledge and two application marks were often awarded for relevant use of the sources. However, several candidates copied paragraphs from the extract and were not able to obtain analysis marks. This is an area which all the centres are advised to address. Many responses were also not able to access evaluation marks as they gave solutions to these problems rather than directly answering the question.

Q07(e): Most candidates made effective use of the source and were able to discuss the strategies introduced by the Iranian Government to promote economic development. 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 measures as possible but without any development in the analysis. As this is a data response question, the candidates are required to examine the factors that have been provided in the extract and not from their own knowledge, unless specifically mentioned.

In **Section C**, candidates have the opportunity to choose two out of three questions. Candidates found this section was more demanding than previously, and this is reflected in the mean scores on all three questions. Question 10 was most popular followed by question 9 and then 8.

In all three 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 Q07(e), 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 enough time to develop them. Some candidates drew appropriate and accurate diagram(s) and incorporated sound analysis points with it. This allowed them to consistently achieve 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. A reference to a country will always form part of the questions in Section C. Candidates are expected to have an awareness of countries to form a basis of their arguments and 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 B.

Question 7 (a)

Candidates needed to calculate Iran's national debt in 2020. Although 70% of total candidates scored the maximum of 2 marks this still indicates that 30% were not able to calculate a percentage change correctly. It is important to use the data carefully for calculation-based questions.

(a) In 2020 Iran's GDP was \$635.72 billion.

With reference to Figure 3, calculate Iran's national debt in 2020. You are advised to show your workings.

(2)

Iran's National Debt (2020) = 45,4% of GDP

GDP (2020) = \$635,72 billion

\$635,72 bn = 100%

x = 45,4%

$$x = \frac{45,4\% \cdot \$635,72 \text{ bn}}{100\%} = \$288,61688 \text{ bn}$$

Iran's ND in 2020 \approx \$288,62 bn



This response attains 2/2 marks.

(a) In 2020 Iran's GDP was \$635.72 billion.

With reference to Figure 3, calculate Iran's national debt in 2020. You are advised to show your workings.

$$\$ 635.72 \div 45.4 = 14 \quad (2)$$



This response attains 0/2 marks. The workings are inaccurate.



Always show workings to pick up one mark in case the final calculation carried out is incorrect.

Question 7 (b)

This question required candidates to analyse two disadvantages of an increase in Iran's national debt. Most responses included the impact on crowding out and debt servicing representing an opportunity cost to future generations. They were also able to access the two application marks by using relevant data from Figure 3. Some candidates confused national debt with current account deficit and were unable to access any marks.

(b) With reference to Figure 3, analyse **two** disadvantages of an increase in Iran's national debt.

(6)

National debt is the ~~absolute~~ debt accumulated by the government by repeatedly going over their budget when spending.

National debt of Iran increased from 11,7% GDP to 45,4% of GDP in 10 years, since 2010. This increase has many disadvantages.

First of the disadvantages is a decrease in the ability to spend on projects. With high rates of debt the Iranian government has to sacrifice some of its budget each year to pay back the accumulated debt, and as a result they cannot invest it in any projects, helpful for the country's economy.

Another disadvantage is worsening of their financial credibility. If the Iranian government has such issues of falling in debt, the World Bank may be significantly discouraged from lending them money in time of need, as they will suspect that the Iranian government will have trouble with paying the money back. This means that in times of external shocks to the economy it will be hard for them to loan money to fight the consequences, and therefore may suffer even more.



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

(b) With reference to Figure 3, analyse **two** disadvantages of an increase in Iran's national debt.

(6)

National debt is the accumulation of an annual deficit.

The first disadvantage is about the saving gap. Increasing the national debt will ~~aggre~~ aggregate the saving gap, decreasing the ~~pass~~ ~~capacibility~~ capability of investment. Slow down the ~~growth~~ economic growth.

The second disadvantage is about the ~~lack to~~ ~~foreign~~ foreign currency gap. Thus, ~~the~~ less foreign currency ~~reduce~~ is unaffordable to the ~~ess~~ demand of ~~essenti~~ ~~essencial~~ essential imports such as raw materials, food stuffs ... ~~The~~ It will cause negative impacts to the economic development.

In 2010, the Iran's debt is 11.7% of a GDP.

In 2020, the Iran's ~~be~~ debt is 45.4% GDP.

~~The~~ The debt increased 33.7% during the decade.



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Examiner Comments

This response gets 1K (for identification of foreign currency gap), 2AP (last paragraph) and 0AN. Therefore this answer attains an overall score of 3/6 marks.



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Examiner Tip

It is important to read the check points regularly to ensure the question is being directly addressed.

Question 7 (c)

Many candidates were able to successfully explain trade restrictions and only a handful did not attain full marks. A common response was to explain it in terms of protectionist policies such as tariffs and quotas to protect domestic industries. To access both the application marks, candidates had to include two pieces of data from the extract. Some candidates only offered one, and not both. Given the nature of the question, it is key to cover all aspects of the answer in knowledge and application.

(c) With reference to the second paragraph of Extract A, explain what is meant by 'trade restrictions'.

(4)

Trade restrictions are trade barriers such as tariffs ~~and~~, quotas or embargoes which try to limit trade with a country or to protect domestic producers. In terms of Iran they want to decrease their trade restrictions imposed by the US due to their excessive and over-limit production of nuclear energy. Trade restriction with Iran by imposed by the US has caused a fall in export and export revenues. ~~as they~~



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Examiner Comments

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

(c) With reference to the second paragraph of Extract A, explain what is meant by 'trade restrictions'.

(4)

Trade restrictions are protectionist methods implemented by governments to limit trade.

In 2013, Iran's president, Mr Hassan Rouhani, began negotiations with the USA and other advanced economies to remove the trade restrictions imposed on Iran's exports and imports.

Trade restrictions in the forms of tariffs, quotas, among others, limit the ability of a country to import goods and services from countries that have imposed trade restrictions and the ability of a country to export their goods and services to the countries that have imposed trade restrictions.



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



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Four mark questions carry two marks for knowledge and two marks for application. The application to the answer can be found from the sources provided. These need to be included to get both application marks.

Question 7 (d)

The question required the candidates to examine two likely economic effects of trade restrictions reimposed by the US Government on Iran. Most candidates were able to identify the problems from the extract and were also able to gain the two application marks required. However, many found it difficult to analyse these points and struggled in understanding that this question related to the impact on Iran. Many just copied paragraphs from the extract and did not explain it. This did not allow them to gain the higher marks.

Evaluation was lacking and not very well written with some only identifying a point and not explaining it well. There were some candidates who did not make an attempt of writing any points. For 8-mark questions and above, evaluation is a key requirement and should be included.

(d) With reference to Figure 1, Figure 2 and the last paragraph of Extract A, examine **two** likely economic effects of trade restrictions reimposed by the US Government on Iran.

(8)

Trade restrictions are policies that aim to reduce the amount of trade. ~~the~~ Examples of such restrictions include tariffs, quotas and embargoes. The US Government accused Iran of breaking the agreement and reimposed trade restrictions in 2018. In 2020, Iran experienced a trade deficit of \$11.68 billion, having had trade surpluses between 2005 and 2018. A trade deficit means that the value of all ~~the~~ imports exceeds the value of all exports in a given country. Since oil exports were Iran's main source of export revenues, after reimposing trade restrictions in 2018 the amount of exports from Iran fell harshly. This led to the number of imports exceeding the number of exports and therefore a trade deficit. The significance of this trade deficit depends on how much of other goods and services Iran can export and how significant they are in the overall GDP of the country. ~~the~~ Another likely economic effect is a fall in Iran's GDP. GDP is the Gross National Product of a country and it is the value of all goods and services inside of a country. Since oil exports were Iran's largest source of export revenue, after the trade restrictions ~~the~~ ~~the~~ the amount of oil exports fell ~~to~~ and this led to Iran exporting less goods. This

means that the country's GDP will fall as less goods and services are sold. The extent to which the GDP will fall depends on how big of an export oil was for Iran. It will also depend on the types of restrictions the USA imposed, if the trade restriction is a tariff and demand for oil is inelastic, then the GDP will fall but less harshly.

Due to the trade restrictions imposed in 2018, Iran's monthly inflation rate has increased greatly from around 10% to around 51% in January 2019, ~~as seen~~ as seen in figure 2. The annual ~~the~~ GDP growth rate also fell from around 2.5% in Q1 in 2018 to -10% in Q1 in 2019, as seen on figure 1. These are all consequences from the reduction of trade of oil caused by the trade restrictions.



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

(d) With reference to Figure 1, Figure 2 and the last paragraph of Extract A, examine two likely economic effects of trade restrictions reimposed by the US Government on Iran.

(8)

Trade restrictions are restrictions imposed on a country exports and imports by another country. It can be in a form of a tariff or a quota.

In 2018 the USA reimposed trade restrictions on Iran.

Reimposed trade restrictions, lower the amount of exports in a country, because of the 'decline in oil exports' in '2020 Iran experienced a trade deficit of 11.68 billion, even though between '2005 and 2018 there were trade surpluses'. A significant trade deficit lowers economic growth, therefore reducing GDP, what is visible in Figure 1, that from 2018 Iran experienced a decline in annual GDP growth rate, which reached even around -12% at the end of 2018.

Also Iran had a decline in foreign direct investment, because of lowered business confidence and the restrictions, which lower profit. This also reduces GDP and creates unemployment, because FDI's are job creators. A fall in GDP also increased ^{in the} ~~the~~ inflation rate, in figure 2 it is shown that the highest inflation rate was in mid 2019, where it reached more than 50%.



This response gets 2K, 2AN and 2AP. It does not include any evaluation and hence loses out on these two marks. Therefore this answer attains an overall score of 6/8 marks.



Application for points-based question can be found in the sources provided. Always remember to include two pieces of relevant data. Two marks are also reserved for evaluation in every 8-mark question.

Question 7 (e)

Candidates needed to use the source to discuss the strategies introduced by the Iranian Government to promote economic development. It is important that candidates select any two factors and develop their analysis by focusing on those points rather than trying to cover as many measures as possible, some of which are not in the source provided. This will allow candidates to access the higher levels of response.

A handful of candidates were able to successfully identify and explain factors such as industrialisation and infrastructure development. They were able to integrate this with the application given in the source from Extract B. This gave them access to Level 3. However, many candidates just copied the source and did not explain their points. This gave them access to Level 1 only.

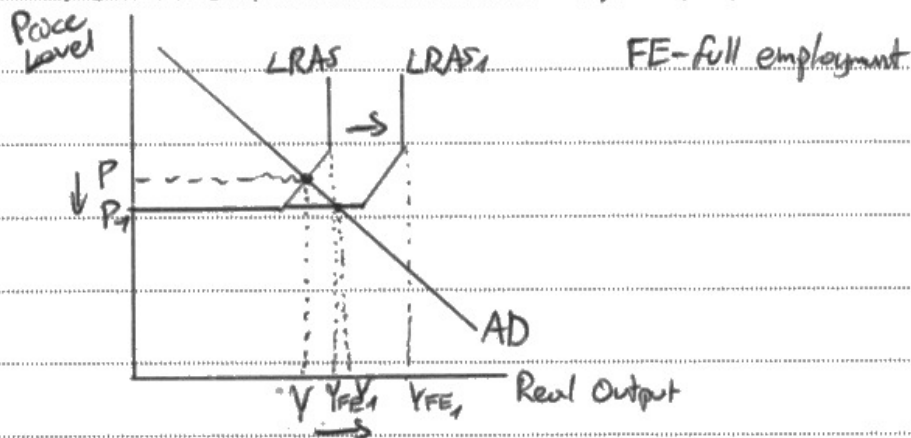
Evaluation points made were fairly sound. They included references to short run vs long run considerations. Many included time lags as an evaluative comment but were not able to successfully support this point using a logical chain of reasoning. Candidates should ensure that they do this as opposed to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

(e) With reference to Extract B, discuss the strategies introduced by the Iranian Government to promote economic development.

(14)

Economic development is a progress made in people's well being and their quality of life in a given country.

Iranian Government introduced an interventionist supply side policy of investment into the infrastructure of its economy. They increased their spending into developing of telecommunication industries and as a result they increased the number of people with access to mobile phones from 58.4 million in 2013 to 131 million in 2021.



This increased the access to the internet for a lot new potential workers as they could find work more easily ^{and could gain more skills from the internet}. Therefore, as the employment increased it led to improved efficiency in Iran's economy, and hence the productive potential of Iran's economy increased. This led to an increase in Long-run aggregate supply (LRAS) from LRAS to LRAS₁, hence resulting in an economic growth. As there is an economic growth the government receives more fiscal dividend as the tax revenue is greater as more workers are working and the benefits for unemployed decrease. Therefore, the Iranian government can further spend this money on healthcare, which will improve the life expectancy and on education ^{which} will increase schooling years. Therefore, as these are the component of Human Development Index (HDI) it

results in an increase in HDI and hence in development of Iranian economy. Therefore, the state's strategy of increasing spending on infrastructure would greatly promote the economic development.

However, the Iranian Government restricts the content that its citizens can access. As a result, it decreases the freedom of information of their citizens and may lead to increased corruption that resulted from ~~data~~ disinformation and propaganda. As freedom from corruption and ability to access valid information is another indicator of economic development it may result in a decrease of economic development in Iran due to Government restrictions on available content.

Another state strategy to promote economic development was privatization of state-run companies. By doing so these companies will have a profit motive. This will lead to increased innovation and efficiency as companies will try to cut costs to increase their profit. As a result, the investment ~~and consumption~~ will increase. If lower prices will be passed onto consumers the consumption will increase as well. Therefore, the aggregate demand (AD) will increase and shift left causing an economic growth. This will result in households having more disposable incomes and they could use it to spend on quality of life improvement goods and services. Therefore, as quality of life increases through ~~increase~~ ^{increased} living standards it will result in a increase of economic development in Iran.

However, if the state owned monopolies will be privatized it may result in having a privately owned monopolies. As they have market power and a profit maximization motive they might not decrease prices for consumers. As a result, the quality of life for them won't improve

as the ~~good~~ disposable income for them won't ~~rise~~ rise. Therefore, the living standards may not increase resulting in a fall in economic development in Kan.



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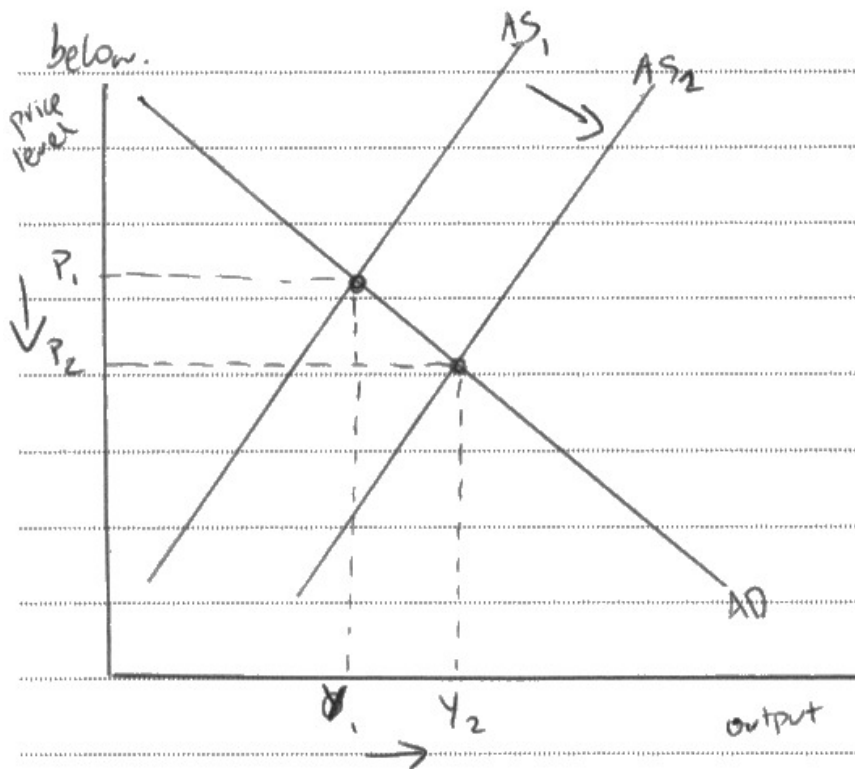
This response gets top of L3 for both the strategies fully explained using multi-stage chains of reasoning. It also gets top of L3 for both evaluation points. Overall: high L3 for KAA and high E3 for EV.

(e) With reference to Extract B, discuss the strategies introduced by the Iranian Government to promote economic development.

(14)

The Iranian Government has implemented multiple strategies which aim to promote economic development. Economic development may be achieved through an increase in GDP or an improvement in the country's balance of payments. Since 2018 the Iranian Government has implemented a strategy of diversification into non-oil exports in order to promote economic development.

The Iranian Government has pursued a strategy of industrialisation and infrastructure development, particularly by investing in Iran's telecommunications industries. This is a supply-side policy that allows ~~Iran's~~ Iran's output of goods and services to increase. Investing in infrastructure development may increase the country's productive capacity. This happens when the labour force becomes more productive due to the better and easier work conditions they get offered. Iran will also ~~also~~ ~~also~~ increase the number of exports as they will have new goods and services to sell. This will ~~also~~ cause the decline of the trade deficit. ~~Through~~ Through increasing the labour force productivity, by investing in infrastructure development, has led ~~to~~ to the country's ~~an~~ aggregate supply increasing. This may be seen on the diagram



Output is increased from Y_1 to Y_2 and price levels fall from P_1 to P_2 . This allows for the country's GDP ~~to increase~~ and international competitiveness ~~to~~ to increase and improve the balance of payments, hence promote economic development.

~~The extent to which this will~~ The extent to which this will ~~promote~~ promote economic development depends on the magnitude of the ~~the~~ investments done by the Iranian Government. The government may also invest ~~poorly~~ poorly ~~in~~ in wrong areas which would not result in significant changes in economic development. The ~~improvement~~ improvement in economic development also depends in how the labor market responds to the government investments.

If the labour force will not increase productivity then significant changes in economic development will not be seen.

On the other hand, the Romanian Government has proven to be successful in promoting economic development. The number of people with access to broadband increased from 530 000 in 2014 to 95 million in 2021. The number of people with access to mobile phones also increased from 58.4 million in 2013 to 131 million in 2021. These are very significant changes and prove that economic development has been improved.



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This response gets only one L2 (on page 1 and 2 combined) for one of the strategies explained. It does not get L3 as it does not link it directly to economic development. Evaluation is only explained in the last paragraph on page 3) and is not sustained, hence only attains top of L1. Overall: L2 for KAA and E1 for EV.



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Centres should ensure candidates focus on developing 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 is not required for this question.

Question 8 (x)

This question asked candidates to evaluate the likely macroeconomic effects of an increase in the top rate of income tax. In addition, to access high Level 4 for KAA, candidates are required to refer to a country of their choice in their answer.

Many were able to explain the impact on this increase in direct tax. They discussed the consequences of impact on tax revenues, incentives to work and consumption/AD. Most of the answers only carried a two-stage chain of reasoning, and therefore, they were not able to access Level 3 KAA. Some focussed on corporation tax, and this meant that they were not able to access more than Level 1 as their analysis was not accurate. Those who identified a range of effects without linked development were only able to access Level 1 KAA.

Evaluation included an attempt to discuss the short run versus long run impact. Some candidates used the positive effects as KAA and the negative effects as EV (and vice versa). This was credited. Many were only able to explain one point with the other points often just being identified. Those who listed evaluation points achieved Level 1.

Income tax is a direct tax, so it is levied directly onto the consumers.

Firstly, an increase in the top rate of income tax is likely to ~~be~~ lower inequality in the country. For example, in 2020 the Government of Chile increased the top rate of income tax from 35% to 40%. That means that the top earners in the country now have to pay more in ~~the~~ taxes. If this additional tax revenue for the government is used to redistribute income more equally, then inequality will be lowered. The additional government income could be used to increase welfare payments such as unemployment benefits or pensions, without a worsening of the fiscal balance. In Chile as in most countries, the poorest people are those that are unemployed or are retired. A higher income tax for the richest will lower their incomes and if this is later used to increase welfare benefits, it will increase the incomes of the lowest earners. Such a policy is likely to decrease income inequality in a country, such as Chile.

On the other hand, this will not happen if the government is corrupt or spend that additional tax money elsewhere. For example, a country such as India has had very high levels of government corruption. As a result, if the government of India could increase the top rate of income tax, they might not invest that money back into the economy to redistribute incomes and reduce inequality. Government officials could take the additional government income for their own benefit or spend it in an inefficient way, such as ~~on~~ on new government transportation. As a result, if the government is corrupt, the effect of an increase in the top rate of income tax on the reduction of inequality will be limited.

Secondly, a higher income ~~rate~~ tax for the top earners in the economy could reduce the incentive to work. For example, assume that the government of Chile went even further and increased the top rate of income tax from 40% to 80%, a double increase. This will result in some people losing the incentive to work. They might not wish to work harder and earn more as the government will take most of that additional income. Some workers will simply migrate to other countries, such as the neighbouring Argentina and Peru, where they can earn more as tax rates are lower. As a result, if the marginal

rate of tax on the next ~~Chilean Peso~~ Chilean Peso earned is high, people might loose their will to work harder and increase their incomes.

On the other hand, this depends on the scale of the increase. For example, if the Chilean government ~~increased~~ increased the top rate of income tax even further from 40% to 45%, this will have limited impact on the willingness of Chilean workers to work. Since the marginal rate of tax on the next Chilean Peso earned is low, it is likely to not affect ~~the~~ the willingness of a worker to work hard. The tax rate increased by such a small amount that most workers will still see it as profitable to continue working hard. As a result, the impact of the income tax increase on the incentive to work will be highly dependent on the scale of said increase.

Lastly, an increase ~~in~~ in the top rate of income tax is likely to increase the government revenue and thus improve the fiscal balance of a country. For example, since the Chilean government increased the top rate of income tax from 35% to 40%, it is likely that their tax revenue increased. Since the top earners started to contribute more to the tax payments, the government

income will rise. Since the fiscal balance is calculated by subtracting government spending from government revenue an increase in government revenue will improve the fiscal balance. As a result, an increase in the tax rate for the highest earners is likely to increase government revenue and thus improve the fiscal balance.

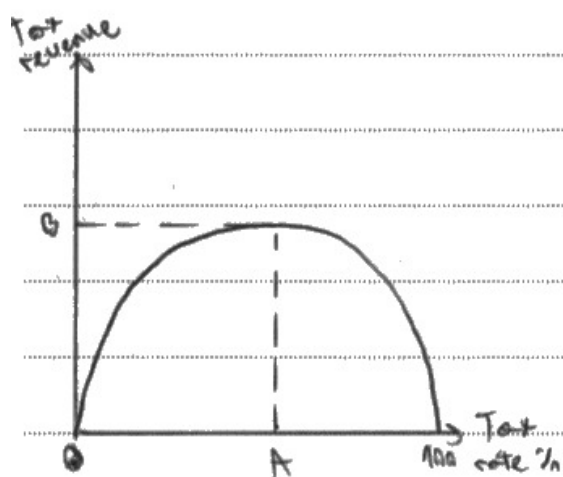


Figure 1.

On the other hand, an increase in the tax rate for the top earners in Chile could decrease government revenue and lead to a worsening in the fiscal budget. This can be explained through the Laffer curve seen in Figure 1. The optimal level of the tax rate is at A, i.e. where the tax revenue is maximised as seen by point B. Any further increase will lead to a fall in the tax revenue for the government. As a result, the top rate of income tax increase from 35% to 40% in Chile could lead to a fall in government revenue. As a result, this will also lead

to a worsening of the fiscal balance of the country.

Overall, an increase in the top rate of income tax is likely to have many macroeconomic effects, both positive and negative. It could lead to lower inequality and higher government income, but it could also disincentivise workers from working. The effects will also largely depend on the scale of the increase, whether there is government corruption, and at what point of the Laffer curve is the economy operating.



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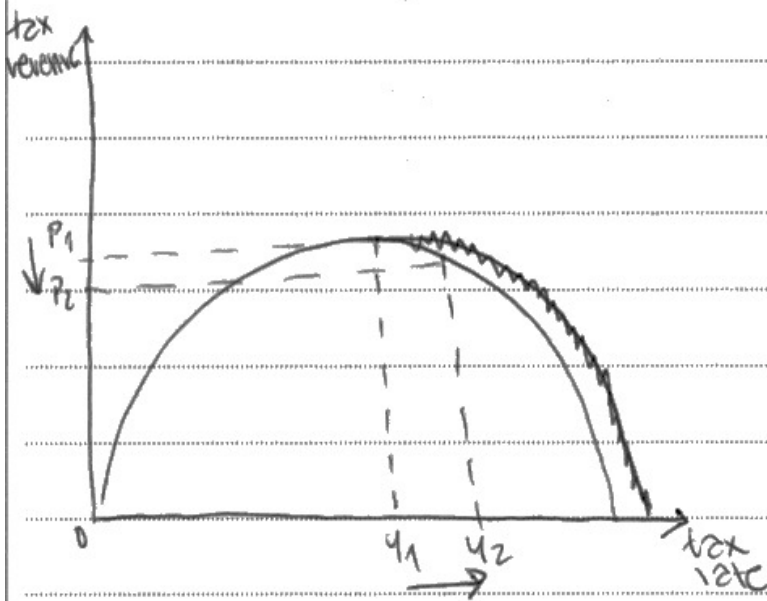
This response just manages to attain L4 for analysis. Although the answer explains various effects, the best two points are considered; in this answer, these being the first two analysis points made. Similarly, it gets L3 for the different evaluation comments included. Top end of the level could have been achieved in KAA if the chains of reasoning included effectively integrated the context/application. Overall: low L4 for KAA and top E3 for EV.

Income tax is a tax directed on income it is a direct tax. In many countries ~~increases~~ the % of income tax varies depending on the amount of income you earn and then it would be a regressive tax. In Chile ~~regressive~~ direct taxes are regressive, that's why in 2020 the government of Chile increased the top rate income tax from 35% to 40%.

An increase in income tax from 35% to 40% in Chile can be discouraging. Many people will ~~not~~ be discouraged from earning more. For example, let's say there are three tax brackets ^{on incomes}, the first tax bracket is the lowest % of income tax that has to be paid and the third one is the highest. If a person is working in a corporation and they are offered a promotion, where they will have a higher position, a little bit more work ~~and~~ but they will have a higher income. If the person accepts the promotion, they will move from the second to third tax bracket and because of that they will receive lower real income.

A rise in taxes discourages from working, this will reduce efficiency. People will avoid earning more money so they won't have to pay higher taxes, this can be shown at

the latter curve:



It is visible on the latter curve that as the tax rate increases, the tax revenue decreases. Because people will find their way to pay less tax, since for some it is not worth, being in the top rate of income tax, and paying 40% of the tax like in Chile.

If there is an increase in income tax, real income will ~~be~~ reduce. A reduction in real income will reduce consumption and ~~the aggregate demand~~ and there will be a reduction in aggregate demand.

As there is a reduction in ~~consumption~~ demand for example for luxury goods, then luxury goods producers will have less profit than before the tax, what will make them cut costs and this will increase unemployment.

However if there is a rise in top rate of income tax, then this should reduce inequality. The government ~~should~~ should

receive higher tax revenues. ~~From those revenues~~ From those revenues the government can give subsidies or welfare benefits to the less fortunate ones. Also they can invest in education and trainings which will increase the country's human capital. ~~And they can also invest in infrastructure, for example better roads, this can attract FDI and increase economic growth.~~ They can also invest in infrastructure, for example better roads, this can attract FDI and increase economic growth.

However if people are discouraged because of higher taxes and labour will become less efficient, this will unattract FDI's.

~~Regarding the effect of a rise in top income tax will depend if the government is aware~~

Reasoning everything will depend if the government has enough and accurate information if a rise in top income tax will ~~be~~ affect the economy and people.



This response just gets L3 for the two points explained. It was not able to access higher levels as there was no context integrated with the analysis points discussed. Similarly, it only gets top of L1 for the different evaluation comments included. All the arguments are not fully developed and hence the answer attains bottom of L3 for KAA and top of E1 for EV.



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 9 (x)

This question had asked the candidates to evaluate factors that influence a country's international competitiveness. To access Level 4 for KAA candidates are required to refer to a developed country of their choice in their answer.

Most were able to identify the factors. The most common points being focused on exchange rate and productivity (and its links to unit labour costs). Some answers carried a two-stage chain of reasoning without application to key terminology and concepts, and therefore, candidates were not able to access Level 3 KAA. Those who linked it back to economic growth did not attain the higher-level marks.

Candidates struggled to evaluate effectively. The majority of candidates gave solutions how to increase productivity of New Zealand and this got no credit. Other points were quite generic and not very well developed; they did not achieve more than Level 1.

International competitiveness is a measure of how competitive a country is in terms of inflation, productivity, exchange rate or labour cost in relation to other countries.

Relative unit labour cost is a factor that influences a country's international competitiveness. Poland is a developed country that is more internationally competitive, as it has highly skilled workers that receive lower wages, relative to other countries. As unit labour cost is total wages divided by real output, Poland has a significantly lower ^{relative} unit labour cost as total wages are smaller ^(by about 10-20% relative to Germany) whereas real output is similar. As there is a lower relative unit labour cost it leads to a cheaper costs of production ^{and the profits made due to that may be reinvested into improving the productive potential of the economy.} Relative to other countries Poland's economy due to lower ^{unit} relative labour cost ~~is~~ may grow at a higher rate. Therefore, becoming more internationally competitive. In consequence, relative unit labour cost is a great factor that influences country's international competitiveness.

However, it all depends on the inflation. Poland has relatively higher inflation (14%) than other developed countries like Germany which has about 8%. This leads to Poland being less internationally competitive as the goods price of goods produced there in real terms ^{is higher} so taking inflation into account, will be more expensive. Therefore, exports from Poland, mainly vehicle parts, won't be the internationally competitive. In consequence, relative unit labour cost is not a factor that influences

the international competitiveness of a country.

Another factor that influences a country's international competitiveness is their relative exchange rate. If a country's currency depreciates it will result in an increase in exported goods as they will be relatively cheaper for international consumers. Poland ~~has~~ ^{experienced} a ~~decrease~~ ^{depreciation} in their exchange rate ~~in~~ with ~~to~~ US dollars. In 2018 1 US dollar was 3.7 pln and now it is almost 4.4 pln. As a result, consumers from USA will be more likely to buy polish car vehicle parts, ^{as they are cheaper} so increasing Poland's total export value. Therefore, relative exchange rate influences the international competitiveness of purchasing goods from abroad. If there is a lower ^{relative} exchange rate countries may tend to import goods from that country resulting in an increase of aggregate demand for them. Therefore, resulting in a higher rate of economic growth for them. In consequence, the relative exchange rate is a factor that ~~however~~, greatly influences the international competitiveness.

However, it depends on the price elasticity of demand ~~for~~ for products from a given country. If it is ~~elasto~~ elastic then ~~even~~ even if the currency appreciates countries will still import from them. ~~In~~ In consequence, ~~then~~ the value of a current account will increase at a higher rate compared to countries like Poland. Therefore, the relative exchange rate ~~is~~ is not a great factor influencing the international competitiveness.

In conclusion, as factors like relative unit labour cost or relative exchange rate have a ~~slight~~ ^{medium} influence on the ~~of~~ international competitiveness they should be measured in the real terms in order to have a greater effect on international

competitiveness as it will take an inflation to the account which will act as a leveling field to compare.



ResultsPlus
Examiner Comments

This response gets the top of L4 for analysis for its first two points made on unit labour costs and exchange rate. Similarly, it manages to get L3 for evaluation comments on inflation and PED. Top end of the level could have been achieved in EV if there were more chains of reasoning included with context effectively integrated. Overall: high L4 for KAA and low E3 for EV.

International Competitiveness may be influenced in various ways. It is the measure of how competitive the exports of one country are compared to another. New Zealand's productivity rate was 40% lower than of other advanced economies, which made it less competitive.

Firstly, international competitiveness is determined by the Unit Labour Costs. When unit labour costs are low, exports are more competitive. This largely depends on the human capital. ~~As~~ The education and training of the workforce is important because if they are ~~if~~ well trained they are ^{more} productive whilst the costs remain the same, thus prices go down as productivity is higher than costs. Furthermore, if the employees are well trained and are flexible, they can interchange their skills and switch between jobs, which again makes them more productive, increasing the output while keeping costs ^{at} the same ^{low} which translates into lower prices. As prices fall, demand for their exports rise, making them more competitive. For instance, the UK is known to be very internationally competitive in terms of services, because they have a ^{strong} ~~good~~ educational curriculum.

However, ~~the~~ low unit labour costs may be challenged if a country has high minimum wages. In such cases, even if productivity and output are high, costs in terms of wages are relatively high too, which means they can't translate into lower prices, decreasing the competitiveness of the goods and services.

Infrastructure is important because if it is developed, then the costs of transportation are much lower. It is faster and easier to move labour and capital around. As the costs of production fall, this translates into lower prices. Additionally, this factor may attract FDI as foreign investors will not have to face the costs and expenses of setting up the infrastructure. As FDI rises, investment in technology and capital goes up which can improve innovation. When goods and services are cheaper and have innovation making them unique, the competitiveness rises.

However, there is an opportunity cost. The money spent on infrastructure improvements could be allocated to healthcare and education instead. The improvement of training and health could lead to a significant improvement in human capital instead. Furthermore, the ~~fact~~ FDI doesn't guarantee that the money will be used on technology and innovation, which limits the effectiveness of this measure.

Lastly, relative inflation matters. If inflation rate domestically is relatively low, ~~the~~ compared to other economies, then the ~~po~~ exported products may be more competitive as their prices on the market will be lower than in other countries. Nonetheless, if inflation is high like in New Zealand compared to other economies, then the exports will be relatively more expensive, making them uncompetitive.

However, ~~the~~ it is significant to note that competitiveness ~~depends~~ relies on globalisation and interdependency. As countries become more reliant on each other, external shocks are greater. If the export market of trading partners is declining like the EU or UK after the financial crisis, no matter how low or high the prices are, the exports will not be ^{consumed} ~~buy~~ as expected as the macro-economic conditions step in.



ResultsPlus
Examiner Comments

This response gets bottom of L3 for the various factors explained but not fully developed. Similarly, it only gets low L2 for the different evaluation comments included. All the arguments are not explained in depth and did not have integrated context throughout. Hence the answer attains bottom of L3 for KAA and E2 for EV.



Centres should ensure candidates focus on developing only two points by adding multi-stage chains of reasoning and in context. 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.

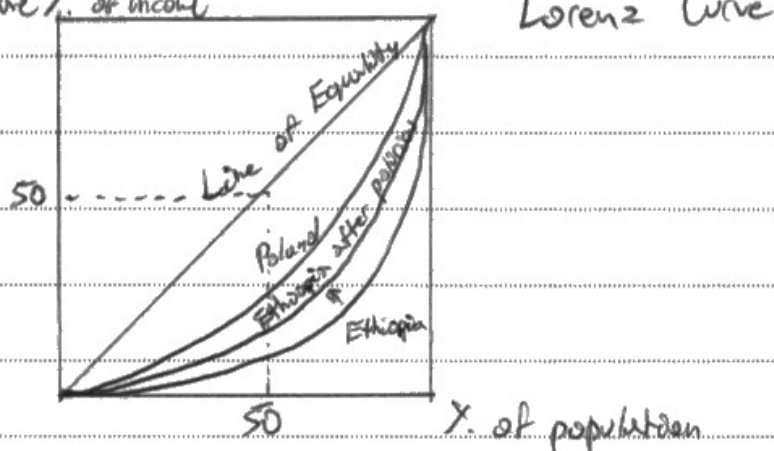
Question 10 (y)

This question asked the candidates to evaluate government policies that could be used to reduce income inequality. In addition, to access high Level 4 for KAA, candidates are required to refer to a developing country of their choice in their answer.

The most common policies mentioned were linked to an increase in progressive taxes, minimum wages, and welfare payments. Most answers demonstrated chains of reasoning, but they were not always fully developed or had some stages omitted. These candidates were not able to access more than Level 3 KAA. Those who mentioned causes of income or wealth inequality did not attain any marks.

Evaluative comments were quite well written. Many offered points on why government policies are not likely to be successful but often went on a tangent and did not answer the question. These were also not always explained in good depth. Rest of their points were again quite generic and did not have any chains of reasoning and did not achieve more than Level 1.

Income inequality is the disparity in income between high income households and low income households.



An ~~so~~ interventionist supply side policy of increasing spending on education may be used to reduce income inequality in developing country like Ethiopia. Ethiopia has an HDI Gini Coefficient of around ~~0.65~~ ^{0.65} which indicates that it ~~is~~ has a very high income inequality. If there would be an increase in spending on education it will result in a more skilled labour in the future. As there would be training for workers their human capital ~~is~~ may increase. This may lead to workers from lower income households to become more efficient and hence productive in their work. In consequence, their work will become more expensive as they would be a greater asset for the work. Therefore, they will be payed more for their jobs and hence have higher incomes. This will result in a decrease of the gap between low and high income households and will decrease the Gini Coefficient in Ethiopia, so reduce the income inequality.

However, it will depend on whether the Ethiopian Government will

spend the money on training for jobs that are needed like doctors, teachers or specialist in ~~cut coffee~~ farming, as they export a lot of coffee and cut flowers. If the supply side policy would train workers in general and not specialise them in a given field or specialise them in a field where there is no need for new workers, then the policy won't reduce the income inequality as there will be no demand for that kind of workers. Therefore, they won't be receiving more income and might become unemployed or underemployed which will result in the same or worse income inequality.

Another policy that the Ethiopian Government could pursue to lower the income inequality may be lowering corporate tax. As Ethiopia has lower corporate tax than 15% which is in many international countries they will encourage Foreign Direct Investment. When there would be a reduction in corporate tax FDI will increase in Ethiopia as firms will have a higher return on their investment. Therefore, they will set up firms in Ethiopia which will provide jobs for Ethiopian people. Moreover, this will lead to a fall in unemployment. Moreover, these firms will train workers and may pay them more for their jobs. This will result in more income generated by low income workers and a reduction in unemployment. Therefore the income disparity will lower so the Lorenz curve will be closer to the line of perfect equality, hence reducing the income inequality.

However, firms may use the lower corporate tax to perform a Brass-Plaque Move where they move only their headquarter to Ethiopia. This results in a ~~very~~ very small job creation and there will be no need for the firm to upskill their workers as they will take skilled workers with them. This will create only few jobs like cleaners, drivers, ~~call~~ ^{or} call

centre which are not highly ^{payed} ~~paid~~. Therefore, the reduction in unemployment won't be significant and there might not be any income increases. In consequence, there won't be any decrease on the income gap resulting from the policy of decrease in corporate tax. Therefore, it won't reduce the income inequality in Ethiopia.

In conclusion, to reduce the income inequality in Ethiopia, their Government may want to implement both policies of increasing spending on education in relevant job sectors and cuts in corporation tax. By doing so they would provide skilled workers for the Multinational companies that would ~~may~~ hire them as they wouldn't need to train them. Therefore, it would reduce the income inequality in Ethiopia.



ResultsPlus
Examiner Comments

This response gets L4 for analysis for its first two points made on education and taxes. Similarly, it manages to get top of L3 for the evaluation comments. Top end of the level could have been achieved in KAA if there were more chains of reasoning included with context effectively integrated. Overall: L4 for KAA and high E3 for EV.

Income inequality refers to the disparity between the earnings of individuals. As seen in the case of Angola, the Gini coefficient increased from 0.43 to 0.51 which suggests an increase in the level of inequality. There are many government measures to reduce income inequality in developing nations.

One policy a government may use could be increase government spending through supply-side policies such as education and training. In developing nations it is common that the population works mostly in agriculture and does not have a lot of disposable income. In Nigeria 40% of the GDP comes from agricultural products. That is more, they are dependent on extracting and exporting uranium. This means that people are uneducated and do not have a new developed asset of skills that would allow them to find a better job, which would improve living standards. Thus, government spending on education and training may improve the quality of the workforce, also allowing them to move away from primary product dependence. This will lead to a fall in income inequality as more people will be able to have the opportunity to find a better job and increase their disposable income.

On the other hand, it can be said that this policy may not be too effective. Firstly, governments in developing nations do not have a lot of revenue that they can spend on large-scale

investments such as large reforms in training of workers. For example Nigeria can be seen as a rather poor country that does not have the resources to invest in such long-term projects. What is more, if the government chooses to borrow money, this will only increase their national debt which they may not be able to pay back. Additionally it is important to note that due to poor levels of infrastructure in a country like Angola or Nigeria, even if the workforce becomes more educated, they may not be able to use their skills and educate them effectively.

Another policy that the government could use may be increasing welfare benefits as well as introducing a progressive tax. This may result to a fall in income inequality as it will allow the people living in poverty to have more disposable income. Welfare benefits will mean that citizens will have additional income to spend on necessities that will affect their quality of life, such as access to better food or healthcare, improving living standards. What is more the introduction of a direct tax on individuals may have a progressive effect as the higher the income, the higher the proportion of the tax will be paid. Thus, this may increase the income equality as it will allow for an opportunity for the most disadvantaged ones to improve their living standards. On the other hand, it can be said that such a policy may not be effective enough. Low-income earners living in developing countries will have 'hand to mouth' tendencies. This means that as their disposable incomes increase, they will have the habit of spending it right away which means

that they are not likely to allocate it in a way which will improve their living standards in the long-run. Additionally, developing countries such as Nigeria have more structural and persistent problems that can also lead to income inequality such as a high-fertility rate which leads to a demographic trap and cycle of poverty. This is a serious issue that progressive taxation may not resolve.

Another policy that the government could introduce may be protectionist measures that will reduce the influences of TNC's. It can be said that due to technological advancements imposed by TNC's in factories in developing countries, people loose jobs which will increase unemployment and cause a rise in income inequality. This occurs because TNC's tend to automate production and impose new, productive machinery that is supposed to replace workers at the lowest skilled positions since this will increase efficiency and output for them. If the government restricts the power of TNC's influences by imposing regulations or protectionist measures, people will be able to keep their jobs, for example in agriculture which is always better than being unemployed and replaced in a factory. On the other hand, we can say that TNC's may actually help reduce income inequality as they invest in infrastructure in developing countries and increase employment levels. This may lead to a rise in living standards and people enjoying more diversified and better quality goods. With better infrastructure, workers may also have better job opportunities which will increase disposable incomes and lead to a fall in inequality.



This response gets into L2 for the various policies explained. Similarly, it only gets L2 for the different evaluation comments included. All the arguments are not fully developed and hence the answer attains bottom of L2 for KAA and top of E2 for EV.



Focus on fully developing only two KAA and two EV points to maximise chances of attaining the top end of the higher levels. The recurring theme is that there is a lot of breadth to answers and this limits the ability of candidates to effectively develop their arguments.

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: 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 B 14-mark question and Section C 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 B), appropriate examples (Sections B and C) or context at the start of Section C 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 C 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.
- Encourage candidates to make full use of the specimen papers, previous examination papers, mark schemes and principal examiner reports.

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>

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