



Examiners' Report

June 2019

IGCSE Economics 4EC1 02

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Introduction

This was the first paper for the new specification and overall, candidates' performance showed a sound grasp of economic concepts.

Answers suggested that candidates, on the whole, had been well prepared for this paper. There appeared to be use of precise economic terminology throughout all sections of the paper.

The more-able candidates demonstrated excellent application of their knowledge to the precise question set, whilst the less-able candidates attempted questions from a 'common sense' approach rather than demonstrating any economic concepts.

The examination paper required candidates to apply their understanding; more-able candidates performed strongly, with clear development of points. Examination timing skills appeared to be very good.

Question 1 (c)

There were two parts to the explanation of interest rates and candidates should have referenced the cost of borrowing **and** references to a reward for saving. Candidates had to provide both parts to gain 2 marks.

References were also accepted to an interest rate being expressed as a percentage of the total borrowed/saved. Marks were not awarded marks for the use of an example or that it was set by a central bank.

Many candidates were able to gain both marks for this question.

(c) What is meant by the term interest rate?

(2)

An amount charged for borrowing money, normally expressed as a percentage. It's a fee or cost to the borrower (debtor) and a 'reward' to the lender (creditor)



This response identifies that it is the amount charged for borrowing and a reward for saving.

This example also refers to interest rates being expressed as a percentage, although this is not needed but would have also been rewarded if given as part of a response.

2 marks



Always provide two parts for this type of question

Do not use examples

Question 1 (d)

Again, this question required candidates to provide a possible impact for 1 mark and to develop this impact for an additional mark.

A range of possible impacts was accepted. The most popular was that consumers would be more likely to take out loans and then this would lead to more consumer spending.

Credit was also given for noting that there would be less incentive to save.

(d) Describe **one** impact on consumers of a decrease in interest rates.

(2)

A decrease in interest rates could leave consumers with more disposable income as the cost of borrowing will be less. Consumers will therefore make more loans, meaning that they will have more income to spend, increasing their spending and demand for goods and services.



This response receives credit because it gives an impact and provides the development of the impact.

Marks are given for:

- consumers have more disposable income due to the cost of borrowing being less (1)
- the development, in terms of consumers being able to take out more loans (1)

2 marks



For 'Describe' questions, ensure that:

- there are two parts to your response
- the impact is developed or fully explained

Question 1 (e)

Many candidates were able to calculate the correct answer of £7.26 so achieved 2 marks.

Marks were not awarded if the £ sign was missing or if the answer was not given to 2 decimal places.

The vast majority of candidates were able to achieve 1 or 2 marks for this question.

It is essential that candidates show their workings to gain 1 mark if an incorrect answer is given or if units are missing.

Rachel buys a t-shirt for 1 000 Kenyan shillings (KES) when she is on holiday.
The exchange rate is £1 = 137.73 KES.

(e) Calculate, to two decimal places, the price in sterling (£) of Rachel's t-shirt. You are advised to show your working.

(2)

$$1,000 / 137.73 = \underline{\underline{£ 7.26}}$$

There are 1000 KES to the pound, therefore divide the amount paid by the exchange rate, giving the cost of the product.

T-shirt cost £ 7.26 in Sterling



This response demonstrates a correct answer.

2 marks



Always:

- check you have given your answer to the correct decimal places
- use the correct units

Question 1 (f)

Marks were awarded for the correct shift of the supply curve to show the impact of the quota and labelling of the new equilibrium price and quantity.

If a candidate shifted both curves, 0 marks were awarded.

On the whole, this question was answered well by candidates.

- (f) Using the diagram below, draw the effects of the introduction of a quota on the equilibrium price and quantity of a good.
Label the new curve, the new equilibrium price and new equilibrium quantity.

(3)

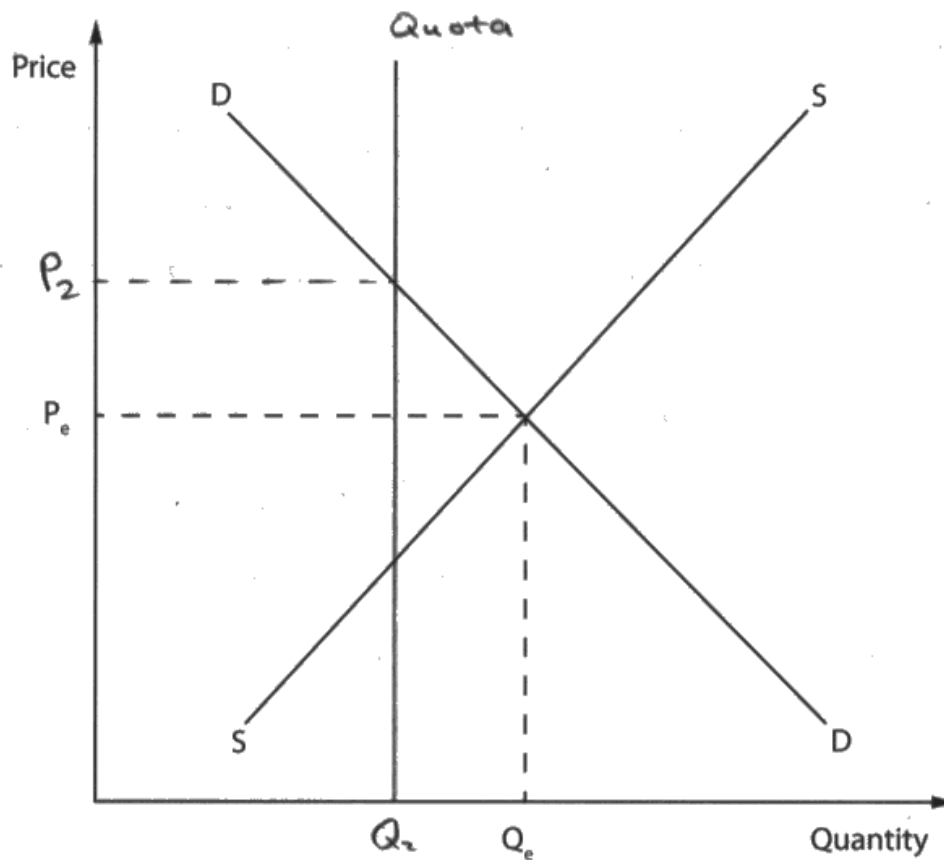


Figure 1



This response gains all marks for the:

- correct shift of the supply curve (1)
- new equilibrium price (1)
- new equilibrium quantity (1)

3 marks



To gain all 3 marks, make sure you label the:

- curve
- new equilibrium price
- new equilibrium quantity

Question 1 (g)

A mark was available for any suitable way and many candidates referred to the WTO helping with negotiations, settling trade disputes and being a mediator between Canada and the US.

An additional mark was available for developing the stated way.

The third mark was available for the response being in context, such as referring to the 300% tariff.

Many candidates confused the WTO with trade blocs or gave a generic response and therefore only scored 2 marks, rather than 3 marks.

In 2017 the US government wanted to introduce a 300% tariff on imported aircraft made by Canadian manufacturer Bombardier.

(g) Explain **one** way the World Trade Organisation could promote free trade between countries such as Canada and the US.

(3)

The world trade organisation could help to promote free trade between countries such as Canada & the US by helping to settle trade disputes. This may encourage free trade as it may encourage the US to remove the 300% tariff on imported aircraft from Bombardier. This is because the US may have done this as retaliation so by settling the trade dispute, the US will be prepared to remove it.



This response receives all marks.

Marks are awarded for:

- the way (helping to settle trade disputes)
- how this encourages free trade
- use of context (300% tariff)

3 marks



Make sure your response is in context and relates to the information given in the stem and question

Generic responses will only receive a maximum of 2 marks

Question 1 (h)

This was the first of the new levels-based questions. The question concerned how a government could use fiscal policy such as spending more within the economy to create jobs, or how by lowering taxation, unemployment could be reduced.

The focus had to be on aggregate demand rather than aggregate supply. Application could be referenced to the:

- 5.5% unemployment figure
- ways in which the government could spend money on public services
- application of the economic theories or concepts

Many candidates gave a list of ways rather than developing or analysing how fiscal policy could reduce unemployment. Many candidates evaluated the use of fiscal policy, which was not required for this type of question. This approach wasted time that could have been used instead to develop chains of reasoning.

In January 2018, Australia had an unemployment rate of 5.5%.

(h) Analyse how the Australian government might reduce unemployment by using fiscal policy.

(6)

Fiscal policy involves using taxation and government spending to shift AD to the right and cause economic growth. The Australian government could reduce income tax, this will increase the disposable income of consumers, so they will spend more, this means that demand will grow, and to meet that demand firms will need to hire more workers, reducing unemployment. The Australian government could also spend more of its budget on construction programmes. This will require a workforce which will mean the government will hire people to do the job, reducing unemployment below that 5.5%. The government could also reduce corporation tax, so businesses have more profit to invest and grow, that will require a greater amount of workforce, so unemployment will be reduced.



This is a Level 3 response.

It has developed chains of reasoning throughout and focuses on how unemployment could be reduced with fiscal policy.

The response demonstrates clear knowledge and understanding of fiscal policy and there is an excellent analysis.

6 marks



It is the quality not quantity of the chains of reasoning that is important and will allow access to the higher marks

Avoid giving an undeveloped list because this will only achieve Level 1

Question 2 (c)

This is the only 'State' question on the examination paper. Candidates were asked to state an example of how businesses can damage the environment.

The specification gives 5 examples (visual, litter, noise, air, water pollution) and any type of pollution linked to these was accepted.

Pollution on its own was not rewarded and candidates had to state a type of pollution.

Candidates did not have to explain their example. Mining or examples of business activities such as mining were not accepted unless it was shown how the business activity damaged the environment.

Overall, this question was answered well by all candidates.

(c) State **one** way businesses can damage the environment.

(1)

Extracting raw materials from the earth can cause noise pollution and visual pollution and destroy habitats for animals.



This response gives two forms of pollution – noise and visual. Only one mark is available.

1 mark



'State' questions do not need to be fully explained because they are only worth 1 mark

Question 2 (d)

References were required to policies designed to increase productive capacity for 1 mark and a reference to aggregate supply for another 1 mark.

No marks were available for examples of supply-side policies such as education and training.

Many candidates gained at least 1 mark for this question.

(d) What is meant by the term supply-side policy?

(2)

gouvernement policies which aim to increase
aggregate supply in an economy.



This response receives marks for :

- references to government policies (1)
- the idea of increasing aggregate supply (1)

2 marks



Make sure you give **two** parts in order to gain both marks

Be precise with the economic terminology

Question 2 (e)

This question looked for a possible advantage of a depreciating currency for 1 mark.

Many candidates were able to refer to

- an improvement in the current account
- increased growth
- increased demand for exports

Marks were then awarded for the response being in context such as the peso or dollar, and for the development of the advantage.

Many candidates were able to gain at least 1 mark and many received 2 marks and above, for this question.

In October 2017 the currency of the Philippines, the peso, fell to its lowest level against the US dollar in more than 11 years.

(e) Explain **one** advantage of having a depreciating currency for an economy such as the Philippines.

(3)

A depreciating currency makes exports cheaper and imports expensive, this improves the balance of payments for the economy. Imports become ~~more~~ more expensive i.e. more peso is needed to pay in terms of a dollar, exports become cheaper, hence the demand for exports increases thus increasing the money moving into the country. More of Philippines' exports are demanded in the international market as they are cheaper hence more money moves into the country.



This response receives full marks for a full development of an advantage, in context.

3 marks



Make sure you link the advantage to the development of the advantage

The command word is 'Explain' so make sure that you explain fully what you are being asked to do

Question 2 (f)

Many candidates were able to give a possible reason and develop why multinational companies (MNCs) may have located in a country such as India. The specification lists four reasons.

Acceptable reasons were:

- cheaper resources, such as labour/raw materials
- improvements in transport
- being able to benefit from economies of scale
- higher population
- saturated home market

Often, context was lacking and the response had to be in context to gain all 3 marks.

According to the UN there are now over 63,000 multinational corporations (MNCs) and the number is growing daily. Many well-known MNCs, including PepsiCo, the Tata Group and Microsoft, are expanding in India.

(f) Explain **one** possible reason for the emergence of MNCs in a country such as India.

(3)

Higher population - India is the second-most populated country in the world and thus would have a wider market compared to other countries which subsequently means that demand in India would be much higher and therefore would allow MNCs such as PepsiCo, the Tata Group and Microsoft to have higher revenue due to increased demand in India as they may be able to have a higher market share.



This response receives full marks.

The response has plenty of context (India being second most populated and references to Pepsico etc) and shows full development of the reason.

3 marks



Often, context is lacking for the Explain questions. Make sure your response is not generic and does have some context

Question 2 (g)

This was the first 9-mark levels-based question on the examination paper.

Many candidates were able to use the information effectively in the extract to help give benefits of being part of a trading bloc.

Better responses were able to use the information in the extract to contextualise the benefits **and** disadvantages in a balanced way.

A conclusion is not required for the 9-mark 'Assess' questions, although many candidates provided this.

The Association of South East Asian Nations (ASEAN) is a trade bloc. It was set up in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Later it was joined by Brunei, Laos, Vietnam, Myanmar and Cambodia and became a 10 member trading bloc in 2016.

1967 ASEAN-5 Indonesia, Malaysia, the Philippines, Singapore and Thailand		2016 ASEAN-10 Brunei, Laos, Vietnam, Myanmar, Cambodia, Indonesia, Malaysia, the Philippines, Singapore and Thailand
185 Million	Population	634 Million
2 950 Thousand Km ²	Land	4 326 Thousand Km ²
56 Years	Life Expectancy	71 Years
\$122 Current Prices (US)	GDP/Capita	\$4 021 Current Prices (US)
\$9 707 Million (US)	Trade	\$2 218 534 Million (US)

Figure 2

(Source: adapted from <https://www.fwd.news/50-years-major-regional-trading-bloc-looks-closer-cooperation/>)

(g) With reference to the data above and your knowledge of economics, assess the benefits for a country, such as Thailand, of being a trade bloc member.

(9)

A trading bloc is an economic integration that exists where there is free trade between nations usually in the same region and common external barriers may be developed for non-members.

Firstly, due to free trade, Thailand may have seen more

economic growth in their country due to domestic firms selling to a wider market. In order to increase output, they would employ more workers (since labour is a derived demand). The GDP per capita increased from 1967 to 2016 where it rose from \$122 to \$4021 implying higher living standards. Consumers can benefit from lower prices of goods (due to increased competition) and higher quality goods. Therefore, poverty may reduce and life expectancy rise.

However, despite in 2016 as the ~~more~~ trading bloc increased in size, domestic firms may have faced competition from the now wider market so some firms could have been forced out of the market. This may increase unemployment as firms lay off ~~these~~ workers if their goods are not selling ~~at~~ abroad. ~~Despite~~ ^{since} imports and exports ^{are} being cheaper, some consumers may prefer imported goods as compared to domestic goods as they may be of a higher quality. This can worsen the balance of payments current account.

In conclusion, it depends on the price elasticity of demand for imports and exports. If exports are more elastic, ~~they~~ domestic firms may face higher competition in international markets causing them to be more efficient. If imports are of better quality, the demand for imports may rise especially because they may have a low price so consumers would opt to purchase these higher quality goods in replace of domestic goods. The current account balance of payment may worsen. It also depends if the country is over-reliant on some imports i.e. inelastic demand. There could be leakages

from the economy as money may be paid to other countries within the trading bloc in the form of imports. Furthermore, it also depends on whether other ^{non-member} countries retaliate by forming trading blocs globally. This may ~~see~~ cause 'trade wars' which can have disadvantages especially on necessity goods eg. Oil from another country like Saudi Arabia part of another trading bloc.

(Total for Question 2 = 20 marks)



This response receives full marks and demonstrates all of the criteria in the Level 3 descriptor.

There is balanced evaluation and although a conclusion is used, this did form part of the 'offers more than one viewpoint' and shows a full awareness of the advantages and disadvantages of trading blocs.

9 marks



Use the information to help contextualise your response

It is there for a reason, so use it rather than give generic responses

Question 3 (c)

This question required candidates to explain a method of government intervention to protect the environment.

The specification gives six methods and a range was used by candidates.

Many candidates were able to gain 1 mark for the method and 1 mark for the explanation of the method.

Often context was lacking for the third mark.

(c) Explain **one** method of government intervention that could be used to protect the environment.

(3)

Subsidies - the government can offer grants, tax allowances or any other forms of a subsidy to a firm in order to reduce their activity that damages the environment. For example, a firm can receive a subsidy to build a ~~post~~ plastic-recycling plant. This may encourage households or other firms to recycle their plastic instead of dumping it, which will reduce pollution.



This response receives 3 marks and:

- gives a method (1)
- puts the method in context (1)
- explains how this method could be used to protect the environment (1)

3 marks



Only give **one** method if asked for one method

Many candidates gave a list, which will only ever receive 1 mark

Question 3 (d)

This question concerned the impact of unemployment in terms of:

- government spending on benefits
- less government revenue
- an increase in poverty

Many candidates gave a list of impacts rather than providing a developed chain of reasoning, which therefore restricted the mark awarded to Level 1. Developed chains of reasoning were required for the higher levels.

Many candidates focussed mainly on social costs, for example crime, as the main impact.

(d) Analyse the possible impact of unemployment on an economy

(6)

Unemployment is when people are actively seeking for work but are unable to find a job. Unemployment can be caused by too much inflation as firms have to raise prices due to a raise in costs, and in order to keep profit margins they lay off workers. Unemployed people are a cost to an economy, it is a waste of resources. Unemployed people receive financial aid from government, unemployment benefits, so if unemployment rises, government has to allocate more money to pay unemployment benefits and cut spending in public sector services. If there is people unemployed they do not contribute to production and to improve productive potential of an economy so they make economy inefficient. People that are unemployed have less money to spend as they depend of unemployment benefits so they will have less purchasing power and there will be less demand in economy so firms will start to supply less, laying off even more workers.



This is a Level 3 response.

The response demonstrates clear knowledge and understanding and has a very good analysis of the impact of unemployment on an economy.

5 marks



Always use economic terminology throughout your response

Try to show selectivity and organisation to access Level 2 and above

Question 3 (e)

This question was not answered as effectively as the previous 9-mark question on the examination paper.

Candidates were able to give the negative impact of high levels of inflation in terms of:

- higher prices
- shoe leather costs
- less confidence

However, the counter-argument was often lacking or there was an evaluation of how the Turkish Government could reduce inflation, which was not the question being assessed.

Turkey's inflation rate (%)

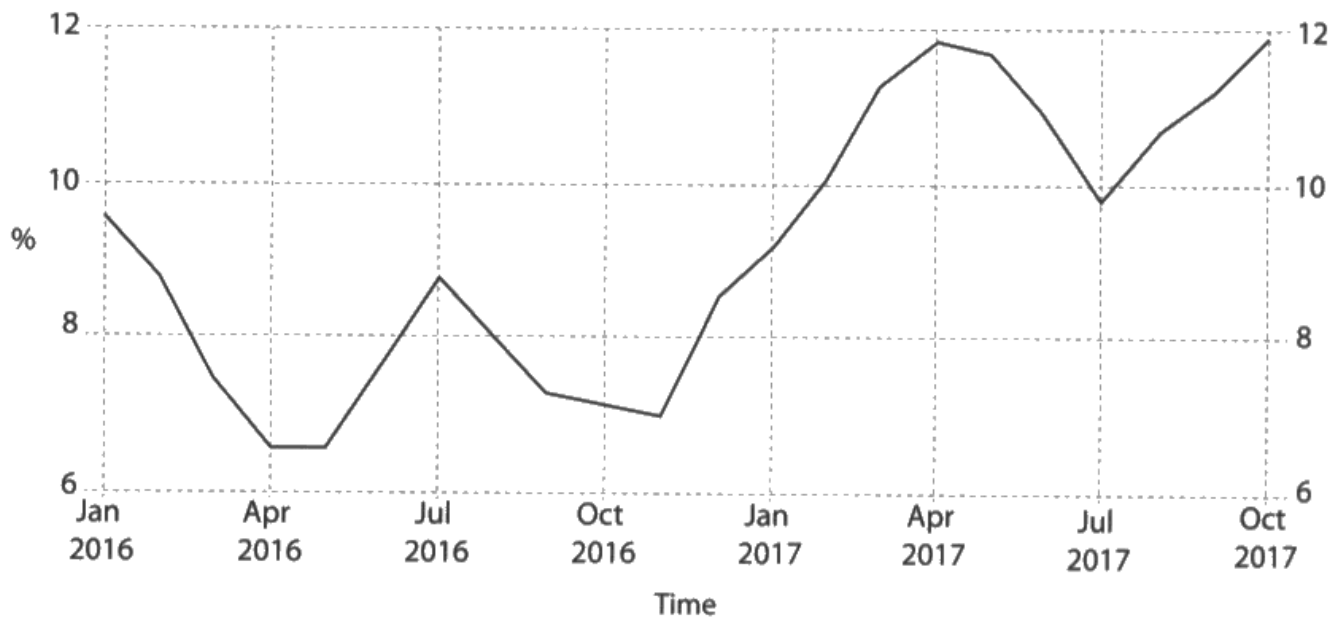


Figure 3

Inflation remains a major problem for Turkey's economy. Annual inflation in Turkey increased to 11.9% in October 2017. The highest price rises were for transportation, which rose by 16.79% and food, which increased by 12.74%.

(e) With reference to the data above and your knowledge of economics, assess the impact of inflation on a country such as Turkey.

(9)

Inflation is the general increase in price levels over a sustained period of time. From January 2016 to April 2016, the rate of inflation decreased, that means that prices were still rising but at a reduced rate. This could mean that the economy is becoming more stable. Inflation usually reduces ~~the~~ purchasing power so consumers have less ability to pay goods and services. It also worsens the conditions of workers with fixed income as the real value of money falls so in realistic terms, they earn less. ~~Therefore~~ Pensioners may also suffer as their pensions are fixed. There is less saving as more people spend money to sustain their standard of living.

However, inflation also has positive benefits. From November 2016 to April 2017, inflation increased to a level of 11.8%. This can benefit debtors as they pay less than what they borrowed. Firms that produce price inelastic goods make very high profits and shareholders that have shares in such companies also make more profit. An increase in inflation could also mean a high level of AD in the economy, so there could be economic growth improving Turkey's Balance of Payments Current Account.

In conclusion, it can be said that inflation has positive and negative effects. However, high inflation can be disadvantageous for the Turkish economy as it results in unemployment.



This response assesses the impact of high levels of inflation.

It begins by explaining the negative impact of this and then provides a counter-argument as to who benefits in times of high inflation.

8 marks



The 'Assess' question does not require a conclusion but a balanced evaluation, which offers more than one viewpoint

Always use the data in graphs and charts to help contextualise your response

Question 4 (a)

Many candidates correctly calculated the GDP per capita and so gained 2 marks.

Again, many candidates did not include \$ sign and therefore only received 1 mark.

- 4 GDP per capita is a measure of a country's economic output that accounts for population. Figure 4 shows the population and gross domestic product (GDP) for Vietnam in 2016.

	2016
Population (million)	92.7
GDP (US\$ million)	202 600

Figure 4

(Source: © 2018 The World Bank Group)

- (a) Calculate, to two decimal places, the GDP per capita for Vietnam in 2016. You are advised to show your working.

(2)

$$\frac{202600000000}{92700000} = \text{US\$ } 2185.54$$



This response shows the correct calculation.

2 marks



Check you have given your answer to the correct decimal places **and** included the correct units/currency

Question 4 (b)

This question required a one-sided argument.

Some candidates were able to show the link between falling unemployment and:

- an increase in inflation due to increased consumer spending (demand pull inflation) **or**
- higher wage costs due to a shortage of workers (cost push inflation)

Many candidates again evaluated methods to reduce unemployment or inflation, which was not required for this type of question.

The unemployment rate fell in Vietnam between 2015 and 2016 but in the same period the inflation rate increased.

(b) Analyse how a fall in unemployment may have caused an increase in Vietnam's inflation rate. unemployed ↓ Inflation ↑

(6)

In Vietnam, more people are employed thus unemployment rate has fallen. They now have a source of income and even some disposable income. With this more people are able to buy goods and services thus they demand more as they have the means to purchase them with so in turn aggregate demand in the economy increases. Due to the high demand firms may not be able to supply fast enough to meet the demands so they respond by raising prices which causes Demand Pull Inflation.

Moreover, due to the reduction in unemployment rate more wages must be paid to the labourers. This raises the firms cost of production. Firms main motive is to generate profit so they may in turn raise the prices of their goods and services they are selling. These suppliers have made their products/raw materials more expensive and in turn firms buying the products face higher costs so in the economy there is cost-push inflation.



This response demonstrates and develops the link between a fall in unemployment and an increase in inflation.

5 marks



Application can either be the:

- use of the data in the question **or**
- application of the economic concepts

Question 4 (c)

This was the highest mark question on the paper.

Many candidates were able to explain the benefits of progressive taxation. They commented on how the government could use taxation for public services such as education and training to help people into work and therefore reduce poverty.

The counter-argument was not as well-developed. The question was looking for the disadvantages in terms of either:

- the disincentive to work or
- how fair it was to tax the higher income earners rather than just focussing on alternative methods, although alternative methods were also rewarded as part of the evaluation.

Better responses used the information in the extract to help contextualise the answer.

A conclusion was required for this question and this was often lacking or was just a repeat of the points made previously.

A report by the charity Oxfam, stated that Vietnam has 210 super-rich people. Their combined earnings for one year are enough to take 3.2 million people out of poverty and end absolute poverty in Vietnam. To reduce inequality and poverty, Oxfam is calling on international leaders to increase taxes to fund healthcare, education and job creation. Oxfam also asked business leaders to pay employees a living wage and pay their fair share of tax.

- (c) With reference to the data above and your knowledge of economics, evaluate whether an increase in progressive taxes is the most effective way to reduce inequality and poverty for a country such as Vietnam.

(12)

An increase in progressive taxes means increasing the percentage of income taxed the more income you earn. This would mean rich people would pay a larger proportion of income as tax as opposed to poorer people. This form of taxation allows the government to redistribute income throughout the population and reduce poverty and inequality. It would work in a country such as Vietnam, where over 3.2 million people live in poverty. An increase in progressive taxes would raise more money for the government which allows them to then spend more on improving poverty. Oxfam states Vietnam has 210 super-rich people, a more aggressive taxing method would allow the government to take more money from these people and give it back to the poor. The government could also use the money they raise from more taxes to create more jobs which reduces unemployment. By reducing unemployment, the government ~~can~~ helps people to find jobs and earn wages for

themselves. This will reduce poverty and inequality.

However, in Vietnam progressive taxation may not work. This is because the super rich and rich may avoid taxes by offshoring money or simply evading it. By doing this, progressive taxation will not affect them but instead harm the middle class. As a result, the government will not raise enough money to end poverty and will instead be making the middle class suffer. As a result, aggregate demand could decrease from less consumer spending. In turn, economic growth will suffer and Vietnam could see poverty and inequality rise as a result.

Instead, there are other ways to reduce poverty and inequality. The government can enforce a minimum wage which will ensure that workers are paid fairly and can survive off wages. This is also what Oxfam suggests, as forcing business leaders to pay a fair living wage will decrease poverty. The government can also invest more heavily in education and training. By doing this, people learn skills that are needed to get jobs. This will lower unemployment and more people will be working for their wage. This will reduce poverty as people earn money.

In conclusion, although progressive taxation could reduce poverty and inequality, it is not the best way since people can avoid paying taxes by offshoring. (Total for Question 4 = 20 marks)

Instead, the government can invest in education and training to train workers and help them find jobs. They can also enforce a fair minimum wage to ensure workers are treated fairly.

TOTAL FOR PAPER = 80 MARKS



This response reaches Level 3.

There is a very good evaluation of the use of progressive taxation to reduce inequality and poverty.

The response is balanced and uses the information provided to help contextualise the economic concepts.

Alternative methods are also considered, with a conclusion.

This response was placed in the middle of the level because the conclusion did not add anything new and was a repeat of points made earlier.

10 marks



Have a well-structured evaluation, which offers more than one viewpoint and comes to a conclusion.

For the conclusion, do not just repeat earlier points but consider what it depends on or how effective a course of action will be.

There are more than enough lines for a response to achieve full marks and yet again, it is quality of the evaluation not quantity, that is necessary to achieve Level 3.

Paper Summary

Because this was the first sitting of the new IGCSE paper, there are several points which could raise performance in future sittings.

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

- Read the questions carefully in terms of the command words. It was clear that some candidates were not aware of the demands of the question or how to structure their responses
- 'What is meant' questions will always require two parts to the explanation and examples are not rewarded
- Quantitative Skills will be tested throughout the paper and these may be in the form of calculations, diagrams or using the data from the Extracts
- For calculation questions, it is essential that the answer has the correct units or is to two decimal places if specified
- The 'Explain' questions will always have one context mark so ensure that there is context in the response to gain all 3 marks
- Analyse – this question only requires a one-sided argument and evaluation is not required for a 6-mark Analyse question
- The command words 'Assess and 'Evaluate' are evaluative command words so candidates must provide both sides of an economic argument in order to achieve full marks
- Use of relevant application is required throughout and this can be from the Extracts provided or using examples provided by the candidate themselves. The Extracts are there for a reason – so use them
- Use economic concepts rather than generic 'common sense' answers
- Examination timings – make sure there is enough time to answer the 12-mark question

Grade Boundaries

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

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