

Examiners' Report/ Principal Examiner Feedback

Summer 2016

Pearson Edexcel International GCSE
in Economics (4EC0) Paper 01

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Publications Code 4ECO_01_1606_ER

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General comments

This paper proved to be accessible for the majority of students and produced a wide range of responses. There was continued evidence of preparation regarding the structure of answers to the six mark questions, but on many occasions the attempts at a judgement were only repeats of previous points rather than actually adding anything to the answer.

Particular areas of the specification which appeared to cause difficulties for students this session are listed below:

- Understanding of the term currency speculation
- Interpretation of data to explain a recession
- Understanding of the term economic cycle
- Identifying external benefits
- Explanation of the difference between internal and external economies of scale

Comments on individual questions

Question 1

Q01aii - The majority of students were able to identify and develop a demand factor such as a change in taste, a fall in income or a fall in price of a substitute, and therefore gain 2 marks. Some students lost marks by not developing their points to describe why these factors led to a downward trend in prices.

Q01aiii - Many students correctly identified a supply factor, but some confused it with demand factors and others stated the wrong direction, such as costs of production increased.

Q01aiv - A good number of students correctly drew both an elastic and an inelastic supply curve and were able to explain the difference between the two. Where marks were lost for the explanation, many were gained for illustrating the respective changes on the diagram.

Q01bi - Some students failed to complete the full definition, only stating resources are limited or finite and not going on to say wants are unlimited or infinite.

Q01biv - This question proved challenging for many students. An example of a response which scored 6 marks is given below:

The UK economy has a strong energy requirement. North Sea Oil reserves are running down supplies, so the UK has started to increase imports of oil. This has been at a cost to balance of payments, now in deficit (it is one of a number of causes for this).

Shale gas discovery means UK will have its own increased source of energy, so less imports. The shale gas can be used alongside the energy sources, e.g. wind, wave, nuclear.

This will improve the balance of payments, international debt will be reduced, and UK will have more money to use for infrastructure development, health, education etc. SO the country becomes richer.

There are possible negative externalities. There are concerns about water pollution, land tremors. Also local house prices (to fracking sites) may reduce, so owners may seek compensation.

On balance, this is likely to be a good discovery that improves the country's economy, but there needs to be safeguards and careful handling of the local communities. One suggestion is that local communities should receive financial rewards.

Q01ci - Students who scored well on this question usually did so with use of a short definition such as state or government owned, followed by an example, such as the NHS.

Q01cii - The only real issue with this question, which did not occur too frequently, was failure to refer to the data in thousands (or use 000 when stating figures). In such an instance only 1 mark was awarded for reference to a fall/decrease in public sector employment in Greece.

Q01ciii - The majority of students were able to discuss whether a wage increase for public sector bank workers in India would lead to them losing their jobs. Students are reminded that to achieve full marks they need to give a justified conclusion.

An example of a response which scored 6 marks is given below:

Increase the wage for public sector bank worker could cause the average cost increases, so the bank will try to cut down the number of workers to decrease the cost. In addition, increase in wage also reduce the government money which used to build new banks; therefore less jobs in public banks available.

However, if the economy is in boom, the aggregate demand is high, more people need to use bank services (derived demand), the government can receive more tax revenue and use to encourage workers to motivate them and increase the efficiency. If the productivity of workers increases at the same time, and can produce more service using the same amount of resources, the government is not likely to sack them.

In short, the unemployment is not all depends on the wage changes; it also depends on the state of the economy and how much the wage increase. If the economy is in recession, there is less aggregate demand; the firms would recruit fewer workers for the decrease of production.

Question 2

Q02aiv and 2av - A pleasing majority of students achieved full marks on this question. Those who struggled failed to understand the meaning of a fixed cost and made reference to just driver wages or petrol.

Q02avi - A number of students confused revenue with profit and therefore lost marks on this question. A few, who correctly calculated the profit, failed to use a '£' and so lost a mark.

Q02bi - This question was tackled very well by many students. An average cost curve showing where economies and diseconomies of scale were accessed 3 marks. The further 2 marks were available for definitions.

Q02bii - Although a number of students tackled this question well, several confused external economies with internal economies, or simply did not understand the concept at all.

An example of a response which scored 5 marks is given below:

External economies of scale occur when the area around a firm is created to follow the needs of a firm. For example if the firm sells cars, the factories that assemble the pieces of cars will locate themselves near the firm so that no time is wasted to transport the pieces and less money is wasted on transportation. Another external economy of scale is when the roads around a firm make it easier for consumers to reach it.

I think external economies of scale are important but internal economies of scale are fundamental. Low average costs means prices will be lower so consumers will buy more and demand will increase making the firm have a higher profit.

Without external economies of scale a firm would survive while if a firm doesn't have internal economies of scale it won't expand and in the long run it will not have a good enough profit to keep going.

Q02cii - Many students were able to correctly identify and explain a private benefit of a transport project like Crossrail, selecting either profit to the company or ease of travel / cost saving for passengers in most cases.

Q02ciii - Unlike the previous question, many students struggled with external benefits. If an answer was given, it was often another private benefit and so scored 0 marks.

Q02civ - Two measures were needed to access all marks on this question and it was attempted very well on the whole.

An example of a response which scored 6 marks is given below:

One measure that could be taken by the Chinese government to minimise the external costs of car pollution could be to increase taxes on car owners. E.g. by increasing the tax on petrol direct taxes on individuals who drive cars. This would serve as a financial incentive to reduce the use of cars and then pollution, as car owners would have to pay more money in taxes or higher prices for petrol to drive a car, discouraging them from driving. However, if China is going through a period of economic growth and domestic incomes are increasing, those who prefer to use cars and can pay taxes and still have sufficient disposable income will continue to do so.

Another measure that the government could take to reduce external costs of pollution (e.g. poor public health, water contamination) could be to introduce a congestion charge in zones where there is a greater density of traffic. This would minimise those driving into central areas with congestion charges as they would have to pay more to enter and drive in those areas. However, if people choose to take public transport instead, the number of buses needed could increase, them also contributing to pollution from vehicles.

Overall, various financial measures can be used to reduce pollution, but should be paired with government legislation and regulation to effectively minimise the external costs.

Question 3

Q03ai - There was a mix of responses for this question. Many who gained full marks listed the four stages of the cycle rather than attempting a definition.

Q03aii - The biggest issue preventing students accessing full marks on this question was the lack of data used. The question tells candidates to 'reference data in Figure 3'. Therefore, the only way to gain full marks will be to 'reference the data'!

Q03aiv - A good range of limitations of GDP were identified and explained. Non-inclusion of the hidden economy and inflation were popular options.

Q03av - Students answered this question quite well in the main, although there were issues with understanding fiscal policy from a notable number.

An example of a response which scored 5 marks is given below:

Expansionary fiscal policy is the measure taken by governments to try to increase the aggregate demand in an economy in terms of increasing government expenditure and reduce taxes.

If the government increase the money spent on the infrastructure e.g. build more roads or schools, there will be more jobs created and reduced unemployment, helping the economy grow. Decreased taxes could stimulate people to spend more to buy goods for goods become relatively cheaper, and the aggregate demand will increase.

However, if the government spends more on benefit, the worker will choose not to work and increase the voluntary employment, which has negative effects on economic growth. In addition, if the government cuts down tax too much, there might be demand pull inflation and also less tax revenue, so the government would have increase on debt.

In conclusion, expansionary fiscal policy effects on the economic growth depends on how the government spend the government expenditure and how much tax is cut down.

Q03bi - This question was answered very well by many students. A clear understanding of the functions of money was shown by many and they were able to accurately explain the two functions selected.

Q03biv - Although students generally were able to examine two negative consequences of a sustained period of inflation, they sometimes lacked sufficient detail in judgement or development to score full marks.

An example of a response which scored 4 marks due to lack of (too limited) final judgement is given below:

Inflation causes prices to rise, as a result people have to pay more for products. It can lead to poverty due to the fact that part of the society is not prepared to pay more and cannot afford goods. As a result demand for goods will fall which will lead to smaller economic growth. Moreover firms will have lower profits and no money to invest and innovate which will also slow down the economy.

Government cannot offer enough help in the form of subsidies, because as people buy less, the government revenue decreases.

It depends on how high the inflation becomes. Later on it can become hyperinflation.

Question 4

Q04ai - On the whole, students did not understand what is meant by currency speculation. A great many defined exchange rates, but few were able to offer an understanding of the concept.

Q04avi - A good understanding was shown by students with regards to the impact of an appreciation of the country's currency on its imports. Many were able to gain full marks by relating the fall in price of imports to exchanging less currency and therefore there being an increase in their demand.

Q04bi - Again, a good range of responses to this question. Reducing trade barriers and settling trade disputes were the most popular selections for explanation.

Q04biii - Students were very good at discussing the advantages and disadvantages of a trade bloc. However, answers with judgement were more limited.

An example of a response which scored 5 marks is given below. Please note this is a weaker response but does meet the criteria of the mark scheme:

The members in a trade bloc have a bigger market and the aggregate demand is likely to be higher and also it could make customers have more choice. Furthermore, because of competition in trade bloc, the firms are likely to run more efficiently and to produce average cost, also enjoy economies of scale.

However, trade between members is free trade; imports become cheaper for no tariff. This increases competition between foreign and domestic firms, and causes domestic firms to sell less products and lose market share, which could cause an increase in unemployment. An increase in the number of imports has also adversely affected the current account.

In short, becomes a member of a trade bloc has both positive and negative effects, which side is greater depends on the competitiveness of domestic firms.

Q04cii - The final question was also tackled well by many students. Once again, however, it was the final judgement that let many down.

An example of a response which scored 5 marks is given below:

If a country offers amount of money to a less developed country that could help the less developed country to spend more on infrastructure, which can reduce the unemployment, the living standard is likely to be increased. Furthermore, if the less developed country used the money on education, it would increase the productivity of labour and increase employment, and the firms can spend less money on training, the average costs could fall and pass on to customers with lower price, so they could buy more goods and services.

However, if the money used in war and buy equipment wouldn't increase the standard of living. If the money used to increase benefit, it could benefit people but also increase the number of voluntary unemployment, so the standard of living wouldn't increase in the long term.

The effect of aid to a developing country to standard of living depends on types of aid e.g. food will benefit country which suffering from starving and how the government uses the aid, how to allocate the aid.

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