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Examiners' Report

Principal Examiner Feedback

Summer 2017

Pearson Edexcel IGCSE
In Economics (4EC0) Paper 01

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Summer 2017

Publications Code 4EA0_01_1706_ER

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General comments

This paper proved to be accessible for the majority of students and produced a wide range of answers. Some responses were very good indeed, showing high levels of economic understanding and analysis.

Unfortunately, some candidates made careless mistakes which cost them marks. Some candidates did not have enough knowledge and either wrote answers of little merit or left the page blank

Particular areas of the specification which appeared to cause the most serious problems for students included:

- External costs
- Fiscal policy and unemployment
- Regional unemployment
- Exchange rates

On the other hand these areas of the specification were generally answered well:

- Demand and supply
- Division of labour
- Economic growth
- tariffs

Question 1

1a (i) and (ii) Most candidates were able to complete the diagram correctly.

1a (iii) Most candidates offered two correct factors here but not all developed them to gain full marks

1b (i) Mostly well defined

1b (ii) mixed success here, while many were able to correctly identify possible reasons for price inelasticity a significant number repeated the answer to 1a (iii) and looked at factors influencing demand.

1c (i) Successful candidates were able to identify derived demand, labour productivity and the use of machinery as factors. Many incorrect responses looked at factors affecting the supply of labour instead, some also mistook increasing labour productivity to mean an increase in the demand for labour.

1 c (ii) The majority of candidates understood the division of labour and could identify both advantages and disadvantages and so found it relatively easy to pick up three or four marks. However, many stopped there rather than offer some kind of evaluation or judgement. Those that did developed the idea that job rotation could prevent or reduce some of the problems.

An example of a response that gained 5 marks is below

Division of labour is the splitting up of larger tasks into smaller tasks. This normally allows the firm to be more efficient as the workers for each small task becomes more skilled on that task as they do it over and over again. Since efficiency is improved, the waste materials lost due to inefficiency is less and so production costs are less.

However, over time workers may become bored and less motivated to do their task as they might find it repetitive to do it over and over again. This would make the firm less efficient.

This does depend on whether or not job rotation is used as job rotation can prevent boredom of the workers.

1 c (iv) Most candidates offered the case for an increase in wages causing a fall in employment but were not always so convincing on the case against. Fewer still were able to offer any kind of evaluation.

Question 2

2a (i) Although the majority could offer valid examples of external costs caused by obesity, many failed to explain why it was an external cost.

2a (iv) Most candidates could explain why or how taxation might reduce an external cost but some could not develop a counter argument. Better candidates brought in price elasticity/inelasticity and often used this as an evaluative point.

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

Taxation can be used on goods that create external costs. By taxing the good or service the price will increase. Due to the increase in price it will receive a fall in demand. This will reduce consumption decreasing external costs. Furthermore, the taxation increases the tax revenue allowing a larger budget.

On the other hand, the best way to reduce an external cost is by subsidising other goods that produce less external costs. By giving a subsidy to a better firm they are able to use the grant to invest and lower cost of production meaning they are able to lower prices and attract more demand.

In conclusion, it depends on the PED of the good, if the good is inelastic taxation will not be effective as the increase in price will not cause a big change in demand. However, if the good is elastic the taxation will cause a significant change in demand.

2b (i) Surprisingly, this question did cause problems for many candidates, with many showing a small primary sector and a much larger tertiary sector.

2b (ii) Nearly all responses were correct.

2c (i) and (ii) Despite correctly identifying the trend many failed to offer a valid explanation.

2d (ii) Some responses were rather unrealistic but many could offer suitable potential policies such as regulation or financial incentives to smaller/new firms. Counter arguments were not always as well developed and only a minority managed valid evaluation.

2d (iii) This was perhaps one of the better answered 6 mark questions with many candidates appreciating that monopolies had the potential to be both good and bad from the consumer's point of view and offering some kind of judgement.

2b (ii) A surprising number of candidates struggled to identify a non-financial method, often adding a second financial method.

2b (iii) As with 2 a (v) this was a generally well answered question with candidates offering both sides of the issue but again only a few were able to go to achieve five or six marks with a considered judgement. This is perhaps something centres need to work on.

Question 3

3a (i) Many candidates identified the difference in growth rates and were able to use figures from the extract to justify this.

3a (ii) Mostly well answered with an advantage and disadvantage being identified and developed.

3a (iii) This was a generally well answered question with candidates offering both sides of the issue but again only a few went on to achieve five or six marks with a considered judgement. This is perhaps something centres need to work on.

3b (ii) Generally well answered although some candidates repeated their reasons.

3b (iii) Economic growth by itself was usually well understood and many candidates were well prepared with answers that looked at both the advantages and disadvantages.

3c Most could offer a method but not all were able to explain how it would work.

3d (i) Generally, this was a poorly answered question and many struggled to offer any kind of valid possible reason. Differing population levels was a common response despite the figures being shown as a percentage. Better responses were able to look at structural change or different regional policies.

3d (ii) Although most candidates could explain how changes in fiscal policy could influence the level of unemployment, counter-arguments were not as good and once again, few could develop valid evaluation.

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

Fiscal policy is the most effective way to reduce unemployment as increased government spending increases aggregate demand so demand for labour from firms increases as they need to increase output to meet the increase in demand. Increase in demand for labour with the same supply of labour will cause an increase in wage rates.

Expansionary fiscal policy may cause demand-pull inflation which increases demand for imports so jobs will not be created in Australia but in countries that produce cheap imports like China. Inflation also increases the price of exported goods in other countries so demand falls and unemployment increases further.

In conclusion, it depends if the money is kept in the economy and doesn't leak out in the form of imports. It also depends on what type of unemployment it is, if it is seasonal unemployment it will not be affected by increased aggregate demand.

Question 4

4a (i) Not always well defined with many partial explanations that did not accurately explain the term.

4a (ii) Mostly well answered with cheap labour and a corresponding reduction in costs of production being the most common.

4a (iii) For many candidates this response was similar to previous 6 mark questions. A clear awareness was present of the two sides to the benefits of FDI, but evaluation marks were often missed. Those responses that did provide a judgement were often perceptive and thoughtful.

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

FDI will lead to an increase in employment in a country, achieving one of the macroeconomic goals, This is because firms will now employ staff from the developing country. Also, the firms may decide to build infrastructure saving the government money and also attracting more FDI.

Negatives of FDI are that firms may destroy a countries natural landscape leading to worsening of the environment. Factories can also produce emissions which are harmful to the environment. Firms may also choose to exploit workers offering them very low wages. This can lead to a decrease in the standard of living.

Whether FDI benefits a developing country depends on whether the government has regulations protecting workers and the environment. For

example, if a government imposes a minimum wage then firms cannot exploit workers.

4b (i) As with 4a (i) many partial explanations as well as accurate ones.

4b (ii) Many well answered responses with protecting domestic industries and raising revenue as the most common.

4b (iii) Most could suggest a way that Vietnam might benefit but this was not always explained fully.

4a (iv) Once again movements in exchange rates proved to be a difficult topic for many students. Many got their movements mixed up and described the impact of an appreciation and so failed to score any marks.

Conclusion

Based on observations from this exam series, candidates are advised to:

- Learn definitions
- Use the appropriate economic terminology
- Read the questions carefully
- Take care when interpreting diagrams, graphs and tables
- Look for the command words
- On the 6 mark questions make a reasoned judgement or conclusion

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