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# Examiner's Report Principal Examiner Feedback

## Summer 2018

Pearson Edexcel International GCSE  
In Economics (4EC0) Paper 01R

edexcel 

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## **Introduction**

This paper proved to be accessible for majority of candidates and produced a wide range of answers. Some responses were very good, showing high levels of economic understanding and analysis, as well as paying attention to the requirements of the command word in the question. Unfortunately, some candidates did not have enough knowledge and either wrote answers of little merit or failed to fully address the question.

Areas of the specification which appeared to cause the most problems for candidates included:

- Price Elasticity of Supply
- Regional policy
- Exchange rates
- Currency depreciation

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

- Price Elasticity of Demand
- Minimum wage
- Specialisation
- Economies of scale

### Q01aii

After correctly identifying 'D' in 1ai this response scored 2 marks for the last sentence, 'the supply increased' received 1 mark but only because it was explained by 'machines producing more ice cream with lower costs'.

Exemplar:

1 Figure 1a represents the UK market for ice cream.

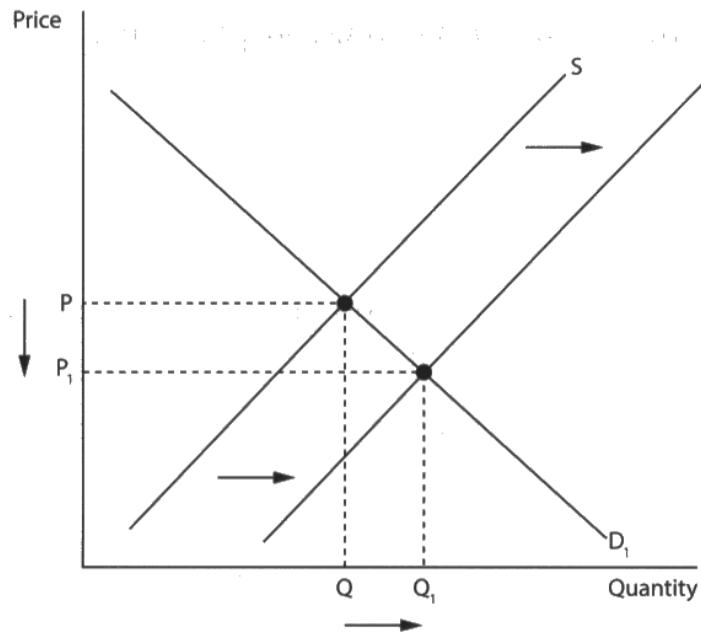


Figure 1a

(a) (i) In Figure 1a the change in price from  $P$  to  $P_1$  is most likely to have been caused by

(1)

- A an increase in costs.
- B an increase in indirect tax.
- C an increase in demand.
- D an increase in productivity.

(ii) Explain the reason for your answer to a (i).

(2)

The supply curve shifted from  $S$  to  $S_1$ , which shows an increase in productivity. The supply increased may be caused by new machines which helped to produce more ice-cream with lower cost.

### Q01bi

2 marks awarded for 'responsiveness of quantity supplied' (1) 'to a change in price' (1)

Exemplar:

The UK price elasticity of supply of ice cream is estimated to be +1.75.

(b) (i) What is meant by 'price elasticity of supply'?

The responsiveness of quantity supplied to a change in price. <sup>(2)</sup>

### Q01bii

Awarded 4 marks. 2 reasons were given; 'easy to store' (1) and 'does not take a lot of time/manufactured good' (1). Both of these reasons are explained for 1 further mark each.

Exemplar:

(ii) Identify and explain **two** possible reasons why the UK price elasticity of supply of ice cream is elastic. <sup>(4)</sup>

- 1 easy to store - ice cream can easily be stored in freezers so if price demand and price increase, supply of ice cream can be increased too. ice cream is a manufactured good.
- 2 does not take a lot of time or depend on the weather - ice cream can be produced using machines which means <sup>since</sup> they <sup>can</sup> work <sup>without tiring</sup> 24/7, supply of ice cream can be easily increased / decreased. ice cream is a manufactured good.

### Q01biii

3 marks awarded 'taken from animals' (1) so 'takes a long time' (1) 'therefore even if there is an increase in price, then supply cannot increase' (1).

Exemplar:

Beechdean is the third largest ice cream manufacturer in the UK and can manufacture 10,000 litres of ice cream per hour. It makes its ice cream from the milk of its own Jersey cows.

(iii) Explain why the supply of milk might be price inelastic.

(3)

This is because milk has to be taken from animals and takes time to be produced, as well as milk cannot be stored for long periods of time as it goes bad. Therefore even if there is an increase in price, then supply cannot increase.

### Q01biv

Awarded 4 marks. 2 factors identified 'income of consumers' (1) and 'advertisement' (1) and both are explained for 2 further marks.

Exemplar:

(iv) Identify and explain **two** factors that might affect the demand for Beechdean's ice cream.

(4)

1 income. If consumers' income fall, they do not have excess income to buy ~~these kinds~~ such kind of goods, so the demand will fall.

2 advertisement. If the firm which produces ice cream ~~do~~ <sup>have</sup> a lot of advertisements, people will be attracted by them so the demand will rise.

### Q01ci

Awarded 6 marks for a 2-sided argument showing the positive and negative effects of a minimum wage on Beechdean, along with a reasoned judgement.

Exemplar:

Beechdean pays the minimum wage to the majority of its employees.

(c) (i) How might an increase in the minimum wage affect Beechdean?

(6)

An increase in the minimum wage has many advantages. The employees who once receive a little money <sup>below</sup> will receive more money than before, it will improve their living standard. The workers will become more motivated at work, so their productivity will increase. Beechdean can now earn more profit.

However, it's still many problems. If there's many employees in the company and Beechdean ~~is~~ <sup>raise</sup> ~~raise~~ all of them's wages, the company will pay too much more money. The cost of production will be increased. In that way, the company may cut ~~the~~ <sup>those</sup> who has less efficient and ~~to~~ many employees will lose their job in order to maximise the profit. If not, the company will earn less profit.

In conclusion, an increase in the minimum wage has good effects, it helps Beechdean earn more profit for the productivity of employees is increased. However, it may lead to unemployment and increase the cost of production for company. Anyway, it still depends on how much the wage is increased, how many employees will get extra money, and whether the company is wealth enough to do so.

### Q01cii

2 marks awarded for full explanation of derived demand. Demand for something (1) is influenced by demand for demand of another product (1).

Exemplar:

(ii) Beechdean's demand for labour is a derived demand. Explain the term 'derived demand'.

(2)

It is when demand for something is influenced by the demand of another product e.g. ~~demand~~ Beechdean's demand for labour increases if demand for its ice cream does as they need to increase production.



### Q01ciii

6 marks awarded for a 2-sided argument showing the benefits and drawbacks of specialisation to Beechdean (4). It also has a reasoned judgement for the final 2 marks.

Exemplar:

Beechdean employs over 50 production staff who specialise in different parts of the production process.

(iii) Specialisation benefits Beechdean. Do you agree with this statement? Explain your answer.

(6)  
Specialisation allows firms' workers to become proficient and skilled in <sup>parts of</sup> production. A benefit Beechdean ~~receives~~ receives is improved productivity. As staff become specialised in one part of the production process, they become more efficient at it, ~~reducing~~ reducing costs and time taken. The firm benefits as the production process as a whole becomes faster and the good/service quality improves so output increases at a <sup>lower</sup> cost.

However, specialisation can become a problem. In the case of strikes or massive <sup>absences</sup> illnesses, parts of the production will be unmanned without the required staff as the firm becomes too dependent on each staff team functioning. ~~This~~ <sup>This</sup> leaves no room for substitutes who <sup>could</sup> easily take over production, so overall output suffers. Beechdean ~~who~~ would be disadvantaged as supply decreases in these cases with profits ~~then~~ falling too, as well.

Overall, the benefit depends on whether workers can adapt. If workers only specialise in a single part of production, then when they are absent, massive losses outweigh the advantage. If the workers are specialised in <sup>various</sup> ~~from~~ different parts of production, then supply would not decrease as much and the <sup>firm</sup> overall benefits overall.

(Total for Question 1 = 30 marks)

### Q02aii

1 mark awarded for an appropriate example

Exemplar:

(ii) Give **one** example of a business operating in the services sector. (1)

~~Bank~~  
Retail store.

### Q02aiii

2 marks awarded for identifying that GDP from services is lower in developing economies (1) and explaining why (1).

Exemplar:

(iii) Identify and explain **one** way the GDP by sector of a developing economy might differ from a developed economy. (2)

GDP from services lower in developing than developed  
↳ developed has more government revenue, which is used to invest in public services. Also, people in developed may prefer services, while people in developing rely on primary/manufacture.

### Q02bi

2 marks awarded; 1 for the fixed cost and 1 for the variable cost.

Exemplar:

Jean Scott runs a small hotel with six rooms in Montego Bay, Jamaica.

(b) (i) Give **one** example of a fixed cost and **one** example of a variable cost that Jean might have to pay. (2)

Fixed cost  
Rent.

Variable cost  
Cost of electricity.

### Q02bii

4 marks awarded for the correct answer of \$360 (4). 1 mark was available for stating the formula, 1 mark for the calculation of TR and 1 mark for the calculation of TC, should the final correct answer not be given.

Exemplar:

Jean charges \$150 per room per night. She estimates that the variable costs are \$60 per room per night and the fixed costs \$1,800 per week.

(ii) Calculate her weekly profit if six rooms are rented out for four nights a week. You are advised to show your workings.

(4)

$$\text{Total revenue} = 150 \times 6 \times 4 = 3600 \text{ \$}$$

$$\text{Total cost} = 60 \times 6 \times 4 + 1800 = 3240 \text{ \$}$$

$$\text{Total profit} = 3600 - 3240 = 360 \text{ \$}$$

### Q02biii

Awarded 6 marks for a 2-sided argument looking at why competition is and is not always good for the consumer, along with a reasoned judgement.

Exemplar:

There are over 400 hotels in Montego Bay competing for tourists.

(iii) Competition is always good for the consumer. To what extent do you agree with this statement? Explain your answer.

(6)

Competition is good for the consumer as there would be a large variety of goods and services for the consumer to choose from. This means that the consumer has many choices and will be more likely to find the good/service that satisfies their demand. This is because firms (or hotels in this case) compete by offering different things to consumers, with the intention of being unique so the consumer would be more attracted to their good/service.

Competition might be bad because since the firms are competing, they could compete via advertising (non-price competition, in an attempt to increase demand). However, if more money is spent on advertising, that means that less money is being spent on ensuring that the quality of that good/service is high, which is bad for a consumer, as a consumer would always want high quality goods and services.

However, the extent to which competition is good for the consumer depends on how the firms are competing. If they are competing using lower prices, it would be good for consumers as consumers would pay less. If they are competing using non-price competition methods (e.g. advertising), it could decrease the quality of the goods/services as less would be spent on ensuring the quality of goods/services are high.

### Q02biv

Awarded 4 marks for identifying 'purchasing economies' (1) and 'finance economies' (1) and for explaining each (2).

Exemplar:

The Montego Bay Grand Hotel has 520 rooms and can take advantage of economies of scale.

(iv) Identify and explain **two** types of internal economies of scale that might benefit the Grand Hotel. (4)

1 ~~Finance~~ Purchasing economies of scale which mean if the hotel buy goods such as ~~to~~ chairs or beds together in bulk, the price of total will be lower. Thus, the average cost will decrease.

2 ~~Marketing~~ <sup>Finance</sup> economies of scale which means if the hotel want to borrow some investment from the bank, the interest rate will be lower ~~than~~ than others.

### Q02bv

Awarded 2 marks for the full definition 'Rising average costs' (1) 'because the business became too big' (1)

Exemplar:

If the Grand Hotel were to expand it might begin to experience diseconomies of scale.

(v) Define 'diseconomies of scale'. (2)

Diseconomies of scale is the ~~for~~ rising average costs because the business become too big.

## Q02bvi

Awarded 6 marks for a 2-sided response looking at how a small business can and cannot effectively compete with a much larger business and a reasoned judgement.

Exemplar:

(vi) Evaluate the extent to which a small business such as Jean's hotel can compete effectively with much larger businesses such as the Grand Hotel.

(6)

A smaller business may be able to compete effectively against larger businesses because of the service they can provide. Smaller businesses are able to more personally cater to consumers more efficiently, allowing them to compete against bigger businesses. ~~Another reason is that smaller businesses are able to provide the quality of service.~~ Another reason is that smaller businesses may be able to provide unique services and products that bigger businesses cannot, making the competition effective as consumers will be attracted to the smaller business because of the unique products and services.

However, larger businesses can thrive on the benefits of economies of scale and as a result provide lower prices to consumers, this will lead to a strong dominance of over smaller firms, making them less effective in competition as smaller businesses may not be able to afford lowering prices due to a lack of finance.

The effectiveness of a smaller business competing may depend on how unique their product is and the availability of substitutes. Also, it depends on what the government is doing to regulate competition. ~~It may also depend on the government support on small businesses as the government may subsidise them,~~ allowing them to grow and survive compete.

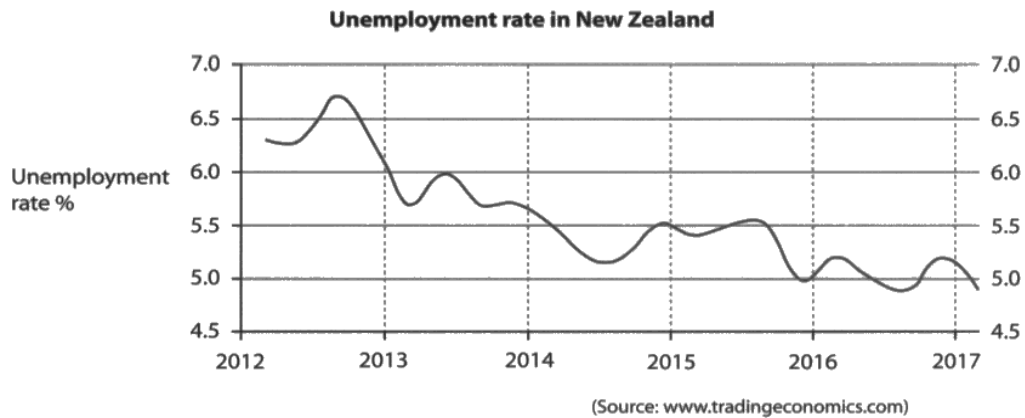
(Total for Question 2 = 30 marks)

### Q03ai

All 3 marks awarded for a description of the overall 'downward' trend (1) using the figures '6.25% in 2012' (1) and '4.9% in 2017' (1).

Exemplar:

3 Figure 3a shows the unemployment rate in New Zealand, 2012 to 2017.



**Figure 3a**

(a) (i) Describe the overall trend in the unemployment rates shown in Figure 3a.

(3)

The unemployment rate, has gradually decreased overtime, with, certain fluctuations, such as in early 2013, and late 2014. In 2012, it was  $\approx 6.25\%$ , while moving to a low in 2017,  $\approx 4.9\%$ .

### Q03aii

Awarded 4 marks for 2 reasons, each with an explanation. 'pay for unemployed workers' (1) 'so government expenditure increases' (1) and 'aggregate demand falls' (1) because 'people who are unemployed don't have money to purchase goods and services' (1).

Exemplar:

(ii) Briefly explain **two** reasons why unemployment might be a problem for the New Zealand economy. (4)

1. The government needs pay for the unemployed worker to help them survive. So government expenditure increases in this area, there is less money to invest in the infrastructure, health care or education. People may have poor living standard.

2. Aggregate demand fall. People who are unemployment don't have money to purchase goods and services, so aggregate demand in the economy falls and economic growth becomes slow.

### Q03aiv

Awarded 2 marks for the reason of 'decline in their dominant industry' (1) with an explanation (1).

Exemplar:

Canterbury has the lowest unemployment rate of any region in New Zealand of 3.7%. The region of Gisborne and Hawke's Bay has the highest unemployment rate of 8.1%.

(iv) Explain **one** reason why unemployment rates might vary between different regions. (2)

Due to structural unemployment. Changes in demand pattern cause some regions facing a decline in their dominant industries. If a dominant industry in a region declines, lots of lab workers get unemployed. Unemployment rate is higher.



### Q03av

Awarded 6 marks for a 2-sided argument looking at the effectiveness of regional policy, alongside a reasoned judgement.

Exemplar:

(v) Discuss the effectiveness of regional policy in reducing variations in unemployment rates such as those in New Zealand.

(6)  
Regional policies can reduce <sup>varying</sup> unemployment rates. Tax breaks, better infrastructure and grants to firms can all help to incentivise businesses to relocate and create jobs in the new region. As more jobs are created, this means more people can work. With more people working unemployment levels for that region drops, while the redundancies back at the old region become unemployed, balancing the ~~over~~ rates between the two regions.

However, the policies may not be effective compared to training & education. In the region with higher unemployment, the problem may be that the people are not skilled enough. Increased spending on training & education improves the labour force's skill which can then lead to a decrease in ~~demand~~ unemployment.

The effectiveness depends on the cause of unemployment. If the variation is caused by a lack of jobs in the other region, then regional policies are effective. However, if the problem is that the majority of ~~people~~ people in that are ~~unskilled~~ not skilled enough to work, then government expenditure on training would be more effective. It all depends on the main problem causing unemployment.

**Q03bii**

Awarded 2 marks for visible trade being 'goods' (1) and invisible trade being 'services' (1).

Exemplar:

(ii) Explain the difference between visible and invisible trade.

Visible trade is trade done with physical goods. (2)  
Invisible trade is trade done with services.

### Q03ci

Awarded all 5 marks for a 2-sided argument looking at the usefulness of GDP as an indicator of economic growth along with a reasoned judgement.

Exemplar:

According to figures from the Organisation for Economic Cooperation and Development (OECD), in 2016 New Zealand was the third fastest growing economy in the developed world with an increase in GDP of 3.6%.

(c) (i) Assess the usefulness of GDP as an indicator of economic growth.

(5)

GDP allows ~~from~~ countries to compare economic growth with other countries using simple percentages. They can be used over time to allow countries to see if the economy is benefitting compared to the past and decide on policies.

However, it may not be quite consistent as inflation, hidden markets and home-produced output aren't accounted for. This leads to GDP being actually lower or higher than reality. This reduces usefulness due to inaccuracy.

Overall, GDP may not be the best indicator of economic growth. Real GDP is better, as it accounts for inflation which ensures that ~~the~~ GDP isn't as high as it seems. With knowledge on output that isn't recorded like home-made goods and the black market, Real GDP may become more useful than ~~nominal~~ nominal GDP.

### Q03cii

Awarded all 6 marks for a 2-sided argument looking at whether economic growth should or should not be the main macroeconomic objective alongside a reasoned judgement.

Exemplar:

(ii) Economic growth should be the main macroeconomic objective of an economy. Do you agree with this statement? Explain your reasons.

(6)

Economic growth can be a main macroeconomic objective since if economic growth, the country has more money to build infrastructure and provide better medical treatment and education hence people's living standard would increase. Moreover, after the growth of economy, people would have more disposable income hence rising demand for goods and services and hence more people are needed to work hence unemployment rate would decrease. However, the growth of economy may lead to environmental damage since more production leads to more polluted gas hence globe warming and water pollution would seriously occur. ~~Here~~ Moreover, since economic growth, the more disposable income leads to higher demand, the excess demand would lead to demand-pull inflation hence consumers would suffer from high price. In ~~conclusion~~ conclusion, if the economy is in recession, economic growth won't contribute to inflation hence it depends on the state of economy. In addition, if the government monitors the ~~production~~ production activities well and ~~give~~ <sup>charge high</sup> tax on those firms which produce pollution, pollution may not occur since firms afraid of extra cost hence it depends on the degree of government monitoring.

(Total for Question 3 = 30 marks)

**Q04aii**

Awarded 2 marks for a full definition of the term multinational.

Exemplar:

(ii) Define the term 'multinational'. (2)

A firm / business which operates in more than one country  
(this could be in the form of FDI).

### Q04aiii

Awarded the full 6 marks for a 2-sided argument regarding whether countries such as Zambia should or should not encourage as many foreign national as possible to invest in them, along with a reasoned judgement.

Exemplar:

FQM has paid more than \$3 billion in taxes in the last 11 years and has created employment for more than 8,500 people.

(iii) Countries such as Zambia should encourage as many foreign companies as possible, such as FQM, to invest in their countries. To what extent do you agree with this statement? Explain your reasons.

(6)

Countries such as Zambia should encourage foreign countries to invest in their countries as more business creates more employment for workers, which reduces unemployment and poverty as incomes rise. Also <sup>increased</sup> ~~the~~ tax revenue gained by the government could be used to improve infrastructure and services such as healthcare and education, making the country more developed and increasing the standard of living. However multinationals have been known to exploit labour <sup>(long working hours, poor conditions)</sup> in developing nations. They have also increased pollution in many cases, harming the health of locals. These are both due to the lack of legislation in developing countries to prevent this. These negatives can damage the economy and multinationals may even rid nations of their natural resources, leaving them worse off. Overall, if the government has legislation in place to protect ~~the~~ its nation from ~~bad~~ MNCs bad practices, then FDI will only benefit the ~~countries~~ country's economy.

### Q04bi

Awarded 5 marks; 3 marks for an accurate diagram and 2 marks for the explanation of 'increasing equilibrium price' (1) 'reducing the quantity imported' (1).

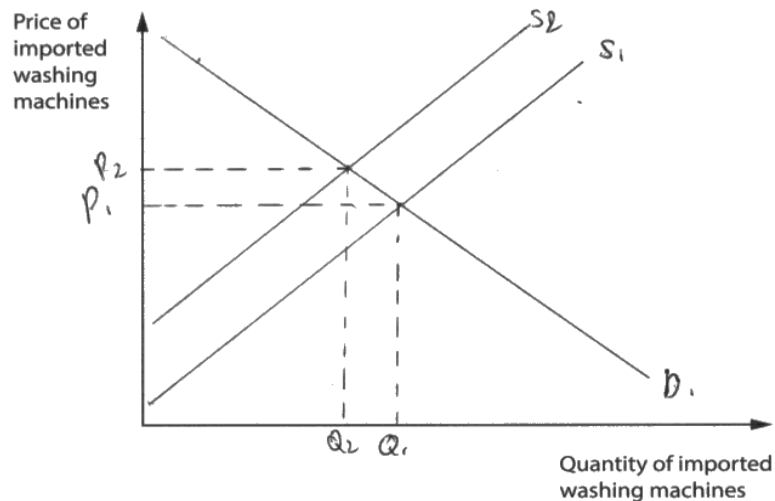
Exemplar:

Zambia places a tariff of 25% on most goods, such as washing machines.

(b) (i) Using a suitable diagram, explain the impact of this tariff on the sale of imported washing machines in Zambia.

(5)

#### Diagram



#### Explanation

Tariffs are taxes which are implemented upon foreign goods. These taxes would discourage foreign companies from exporting their goods into Zambia causing a fall in supply increasing equilibrium price for the goods washing machines & reducing the quantity imported. Cost push inflation causes the increase in price.

### Q04biii

Awarded 3 marks for identifying 'quota' (1) along with the explanation that this is a 'physical limit for the goods to import' (1) 'to decrease the supply' (1).

Exemplar:

(iii) Apart from tariffs, identify and explain **one** other form of trade protection that Zambia might use. (3)

Quota. Quota means the physical limitation for the goods be imported. It ~~is~~ <sup>number of other countries to</sup> limit the <sup>within</sup> import/export here if there are the max number these goods be imported. It decrease the supply of import and increase its price as well. ~~And~~ people can not buy it even have a large amount of money if these goods be sold out for a fixed number.

### Q04ci

Awarded 2 marks for a correct calculation of '10 x 10.02' (1) = '100.2 ZMW' (1). The correct answer alone would also have scored both marks provided it included the units 'ZMW'.

Exemplar:

Table 4a shows the exchange rate of the Zambian Kwacha to the US Dollar in January 2013 and January 2017.

**Exchange rate Zambian Kwacha (ZMW) to US Dollar (\$)**

Date	ZMW to \$1
January 2013	5.25
January 2017	10.02

**Table 4a**

(c) (i) In 2013 an imported US T-shirt costing \$10 sold for 52.5 ZMW in Zambia. Using Table 4a, calculate how much the \$10 T-shirt would cost in ZMW in January 2017. (2)

$10 \times 10.02 = 100.2 \text{ ZMW}$



### Q04cii

Awarded 4 marks for identifying 'increase in demand of US exports' (1) and explaining 'people have to exchange more US dollars...leading to the appreciation of the dollar' (1) plus identifying the 'decrease in interest rate in Zambia' (1) and explaining 'people won't save their money in Zambia' (1).

Exemplar:

(ii) Identify and explain **two** factors that might have caused the change in the exchange rate shown in Table 4a.

(4)

- 1 Increase in demand of US exports. If the demand in Zambia for US exports increases, people have to exchange more US dollars. The increase in demand of US dollar leads to ~~more~~ the appreciation of US dollar or depreciation of ZMW.
- 2 Decrease in interest rate in Zambia. Since interest rate is lower, people won't save their money in Zambia and if US interest rate is high, they would save money in US banks and exchange more US dollars hence demand for US dollars increases this lead to depreciation of ZMW or appreciation of US dollars.

### Q04ciii

Awarded the full 6 marks for a 2-sided argument about why depreciation of a currency is and is not always good for an economy alongside a reasoned judgement.

Exemplar:

(iii) The depreciation of a currency is always good for an economy. Do you agree with this statement? Give reasons for your answer.

(6)

Depreciation can be helpful to an economy since the exchange rate falls and price of exports falls and price of imports rises. This leads to increased demand on exports and low demand on imports hence balance of payment can be corrected and since the increased demand on exports, more domestic production leads to more GDP and economic growth. At the same time, increased productivity needs more workers hence unemployment rate is decreased. However, above can occur only when both exports and imports are price elastic. If price inelastic, demand of exports can't be pushed up using decreased price and the increased prices of imports leads to cost-push inflation which makes the power of the money lower and lower living standard. In short, it depends on the state of economy. If the economy is in recession, inflation may not occur. What's more, if the country's production is capital intensive, the demand of labour won't be increased hence no change in employment rate.

## **Summary**

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

- Learn definitions
- Use the appropriate economic terminology
- Read the questions carefully
- Show workings on calculation questions
- Take care when interpreting diagrams, graphs and tables
- Look for the command words
- Use appropriate symbols to complete answers (e.g. \$ or %)
- On the 6-mark questions make a reasoned judgement or conclusion

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