

Examiners' Report/  
Principal Examiner Feedback

January 2014

Pearson Edexcel  
International Advanced Level (IAL)  
Economics (WEC02) Unit 2

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Publications Code IA037691

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## **Introduction**

This was the first sitting of the new IAL Economics with a relatively small number of students.

The paper was split into 2 sections: Section A had 8 supported multiple choice questions (SMC) with a total of 32 marks and Section B had a choice of 2 data-response questions, each with 5 items and a total of 48 marks. The total available marks was therefore 80.

## **Section A – Supported Multiple Choice**

### **Question 1**

This question was meant to be a very accessible introduction to the paper, and as such was answered very well by the majority of candidates. However, some candidates lost marks for imprecise definitions and a lack of explanation for rejection marks.

Please ensure that definitions of unemployment and/or unemployment rate are precise. Simply stating “out of work” is not sufficient for a mark here. For rejection marks it is necessary to explain why for example, a depreciation of the euro or a rise in school leaving age may decrease unemployment. More is required for a rejection mark than an unsupported assertion that these will cause unemployment to fall.

### **Question 2**

This question was answered well by the majority of candidates with nearly two thirds achieving full marks. Many candidates were clearly aware that taxation is an aspect of fiscal policy and were able to explain the likely impact of increased income tax upon inflation. Most candidates were able to achieve a rejection mark for identifying interest rates and reserve ratios as examples of monetary policy. A few candidates were also awarded a rejection mark for identifying price controls as an example of direct controls.

### **Question 3**

Many candidates secured full marks on this question, annotating the diagram and offering an explanation for the shift in LRAS. However, some did not follow the instruction to annotate the diagram provided and created their own diagram. While these candidates were not penalised, it is likely that they spent longer on the question than was necessary, reducing the time available for other questions.

### **Question 4**

Most candidates were able to offer a precise definition of a recession. However, many candidates lost marks as they simply repeated the correct answer rather than offering any explanation of the mechanism behind

falling consumption, rising unemployment and the output gap. In the same way, rejection marks were lost as candidates did not explain why an incorrect answer could not be correct.

### **Question 5**

This question was not answered as well as the previous ones. While many candidates appeared to be able to define a net injection and/or net withdrawal from the circular flow of income, they did not seem to be able to apply this knowledge to the stem of the question IE. Tax revenues exceeded government expenditure by S\$36 billion. This meant that in a significant number of cases candidates were only achieving 2 marks for the question, even though they had chosen the correct answer in part a. There was also some evidence of a lack of understanding of the circular flow of income and multiplier models. These are both identified in the Specification and must be learned.

### **Question 6**

This question created problems for some candidates who did not seem to understand that the graph showed a negative balance of trade throughout the period and that the balance of trade includes goods and services. Some candidates confused it with the current account, or just said that it was "exports minus imports" ( $x-m$ ). Most candidates were able to achieve a rejection mark, showing an awareness that the graph did not tell us anything directly about government spending, savings or investment.

### **Question 7**

Many candidates had clearly learned the AS/AD diagram well, although some shifted the AD curve inwards. Very few candidates achieved a mark for an example of a commodity. This was a relatively easy mark to achieve and one for centres to pass on to future students. The same could also be said for a definition of a commodity.

### **Question 8**

This question was generally not well answered with a significant number of candidates apparently believing that falling inflation meant the average price level was falling too. There was evidence of some confusion between 'prices' and the 'average price level'. Some candidates defined inflation as a "change" in the average price level rather than an increase. The use and understanding of the term 'disinflation' was extremely rare but was rewarded appropriately. It is important that candidates are given appropriate practice at interpreting and commenting upon graphical information.

## **Section B – Data Response**

Around 75% of candidates attempted Q9 rather than Q10 for Section B. There were many formulaic/generic answers which did not apply knowledge to the data/ countries in question. There was also some confusion between the “causes” and “effects” of policies or changes in economic variables and this sometimes meant that candidates under-performed on this question.

### **Question 9a**

This calculation question was generally well done, however candidates need to be reminded to include the Units in their answer (Malaysian ringgit millions). It is also a good idea to include workings in answers, as credit can be given for workings even if an incorrect final answer is offered.

### **Question 9b**

This question was not generally answered well by candidates for a number of reasons. It was evident that a significant number of candidates did not understand that the current account includes more than the just value of goods imports and exports. This limited their reference to the data. Some candidates only gave one reason and their response was therefore restricted to a maximum of 5 marks. Also, candidates must use the data. A number of reasons identified were not in the data but were valid for Malaysia at the time (EG value of the currency). However, other reasons given were theoretically possible, but not relevant to the Malaysian context.

### **Question 9c**

Again, candidates are expected to refer to the case study. Many responses showed that candidates did not understand that investment figures were given as a percentage of GDP and GNI and consumption figures only as a percentage of GDP. It is important that candidates accurately refer to the data. A small fall in consumption as a percentage of GDP does not indicate falling consumption if GDP is growing by 5%. Candidates would be advised to read the case study carefully, highlighting data and data labels so that accurate references are made in their response. Those candidates who made appropriate data references and qualified their analysis with evaluative points were well rewarded.

### **Question 9d**

This question was generally well done, with most candidates offering good definitions and data references in this instance. Responses which lacked any data references were awarded a maximum of 4 marks as the question specifically referenced Figure 3.

### **Question 9e**

While this question was generally answered better than question 9c, there were many formulaic/generic answers with little or no references to the case study. The result of this was to restrict candidates to the low level mark ranges. Centres must ensure candidates respond to the data and do not simply reproduced learned, generic responses. There were some candidates who discussed the likely causes rather than the likely impact of increased investment and consequently did not answer the question.

### **Question 10a**

This question was not well done and it was clear that many candidates who attempted question 10 either did not understand the difference between nominal and real wages or else did not know how real wages could be calculated. There were common mathematical errors, where candidates were calculating a positive change for 2010 and a negative change for 2011. Or else not being able to calculate the change accurately by adding the  $-0.41\%$  in 2010 to the  $+3.63\%$  in 2011 to reach  $+4.04\%$ .

### **Question 10b**

This question was generally answered well, with two costs of inflation identified and explained by most candidates. It is important that if the question asks for two costs then candidates do attempt to identify two costs and do not try to cover more than this in a six mark question.

### **Question 10c**

This proved to be an accessible question for most candidates, with many able to examine the likely impact if rising wages on AD and/or AS. Candidates must, however, focus on the question. The question asks about the likely impact upon the price level and real output, not unemployment or even the current account.

### **Question 10d**

While this question proved to be accessible to those who attempted it, many responses simply outlined the likely advantages of expansionary monetary policy, rather than using the data to assess a case for a reduction in interest rates in India. This restricted their marks and their opportunity for evaluation.

### **Question 10e**

This question was answered very well and this seemed to be because candidates misread the question. The question was not about the likely impact of increased or decreased government spending; it was about a "government investment stimulus". Examiners did accept many interpretations of the question, including reduced subsidies and deregulation. Candidates should be aware of the range of methods available to governments to stimulate investment including: tax incentives for business; subsidies to education and training; infrastructure investment; finance for business start-ups; regional development policy.

## Conclusion

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

- Make sure that your answers address the exact question asked. This could mean looking at only a selected time period, or having to take into account certain additional assumptions.
- Study graphs carefully and make sure you understand them before answer related questions.
- In questions that explicitly ask you to use an AS/AD diagram in your answer, up to 4 marks will be available for a diagram. To be awarded all of these marks, you must make sure that you label the axes correctly, label the curves correctly, show correct shift(s) in the curve(s), and label the initial and final equilibria.
- In evaluate or assess questions, try to apply your evaluation to the specific, analytical point that you have just made, rather than making a brief comment at the end of a paragraph that "it depends on the elasticity of the AS curve" etc. Explain what depends on this, why it does and how this may affect your initial argument. Expanding on your evaluative points in this way will help you to access the higher evaluation marks.
- Make sure that you are happy with the relationships between the price level and the rate of inflation; real GDP and the economic growth rate; nominal and real wages. In particular you must understand that a lower but still positive rate of inflation/economic growth mean that the price level/real GDP is still increasing, just at a slower rate.
- Be careful with your timing throughout the exam paper and try to incorporate some time for planning your answers to the longer questions. You should try to avoid spending too long on the supported multiple choice questions as these are worth less than half of the marks on the paper.

## **Grade Boundaries**

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

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>





