

2017 Edexcel AS Economics Paper 2 Macroeconomics Paper

Model Answers

This document is helpful for longer essay questions/responses. Please reference the Mark Scheme for answers to Multiple Choice questions.

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Examiners' Report June 2017

GCE Economics A 8EC0 02





Question 1 (a)

This is a straightforward percentage change calculation that candidates should be able to answer relatively easily, and the majority were able to do this. It is vital that time is spent practicing calculations such as this. Candidates also need to be careful to read the question and the data carefully, as a number of candidates lost marks because they selected the wrong two pieces of data.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

UK Consumer Prices Index (the base year 2005=100)

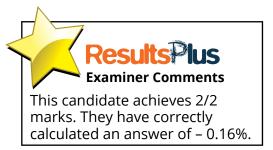
September 2013	126.8
September 2014	128.4
September 2015	128.2

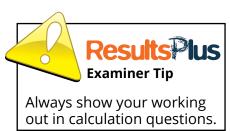
(Source: http://www.ons.gov.uk/ons/publications/re-referencetables.html?edition=tcm%3A77-323657)

(a) Calculate the percentage change in the UK Consumer Prices Index from September 2014 to September 2015. You are advised to show your working.

(2)

128.2-128.4 = -0.2 x 100 = -0.16% 128.4





Question 1 (b)

This question requires a short but precise definition of deflation. It is important that candidates are clear in their answers.



This candidate has an accurate definition of deflation and as such achieves the 1 mark available.

Question 2 (a)

Between 2008 and 2014 the number of people in the UK looking to work longer hours and therefore receive more total pay increased from 76482 to 142788. Over the same period the unemployment rate fell to 5.7%.

> (Sources: https://www.gov.uk/government/statistics/numbers-of-part-timersseeking-full-time-employment and http://www.ons.gov.uk/ons/ taxonomy/index.html?nscl=Unemployment+Rates#tab-data-tables)

(a) With reference to the statement above, explain the term 'under-employment'.

(3)

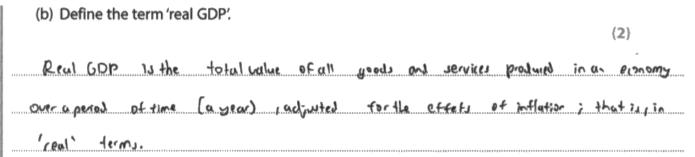
Underemployment is where a worker is currently employed and wonts to work more hours or is overqualified for their job. You can see an increasing underemployment as the number of people in the UK looking to work longer hours work from 76482 to 142788. And because unamployment must fell took to 52% this may be because of compenies employment more people of the peop

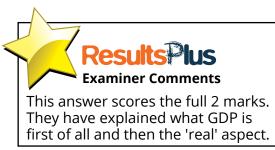


This candidate scores full marks. They have explained what under-employment is, applied it to the information provided, and also analysed this in terms of falling unemployment and zero hours contracts.

Question 3 (b)

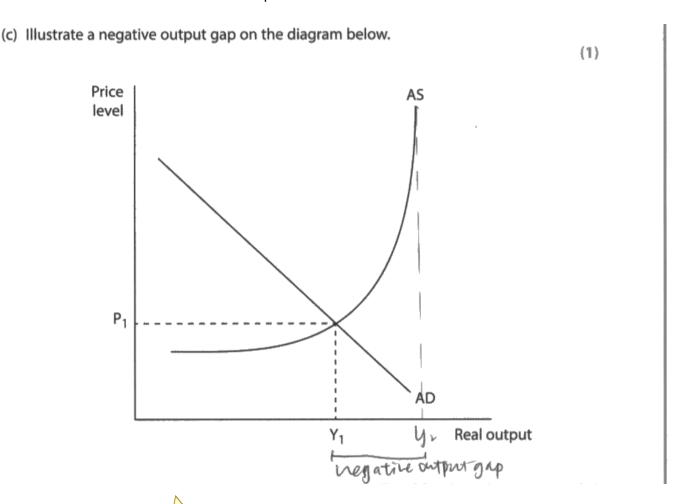
This question is asking for a definition of real GDP. With 2 knowledge marks available there are two specific things candidates need to include. They need to define the 'real' part and the 'GDP' part.





Question 3 (c)

There is 1 mark available for this question, for showing an output gap on the diagram. Whilst a lot of candidates did get this correct there was also a significant number who clearly didn't know what to do to answer this question.





This candidate has correctly identified an output gap as the difference between full employment and the current level of output, and thus achieves the 1 mark available.

Question 4 (a)

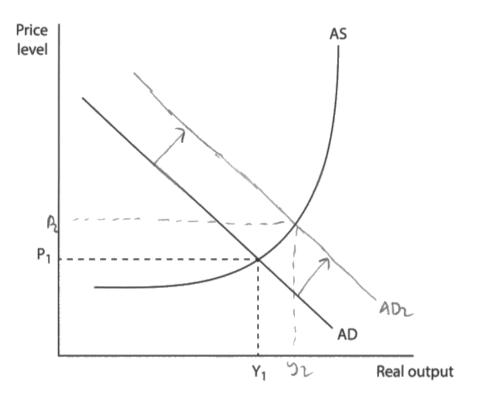
This question requires candidates to draw the effect of the increase in the personal allowance in terms of an AD/AS diagram. Marks were awarded as 1 mark for the rightward shift in AD and 1 mark for a new equilibrium showing higher price level and real output. Most candidates achieved the 2 marks on this question.

4 The Chancellor announced in the 2015 Budget that the personal allowance (the annual income that can be earned before starting to pay income tax) would increase from £10 600 to £11 000 in April 2016. This means most consumers will pay less income tax.

(Source: adapted from http://www.telegraph.co.uk/finance/personalfinance/how-budget-affect-me/11721785/Budget-2015-what-to-expect-for-income-tax-and-the-personal-allowance.html)

(a) Annotate the aggregate demand and aggregate supply diagram below to show the likely impact of the increase in the personal allowance on the UK's price level and real output.

(2)





This answer achieves the full 2 marks – the shift in AD is correct and they have illustrated the new equilibrium and the change in price level and real output with the dotted lines.

Question 4 (b)

With these questions it is important that candidates do not waste time. The question has asked only for a definition of a direct tax, so that is all the candidates should write. In terms of what constitutes a correct definition, it is a tax on income or profits (or similar words).

(b) Define the term direct tax!

(1)

It is a tax on the income of a person or

firms



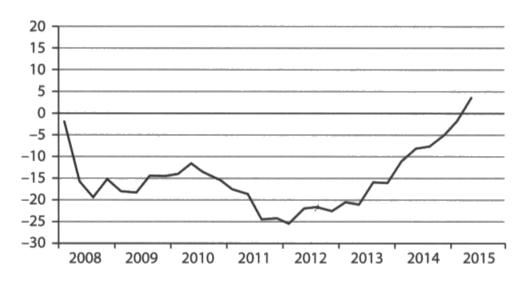
This answer scores full marks – a short but accurate definition of a direct tax.

Question 5 (a)

In this question the 3 marks are divided between knowledge, application, and analysis. Knowledge comes from identifying a likely reason. Application comes from studying the chart and seeing that between 2012 and 2015 consumer confidence has increased. Analysis comes from explaining the reason. One mistake that candidates made was not reading the question carefully – it refers specifically to the time period 2012 to 2015, when consumer confidence had improved, as you can see on the chart. As such answers discussing a reason for confidence falling (as it did in earlier years) are unlikely to receive many marks.

5 The chart below shows the results from a survey of UK consumers' confidence in their financial situation. A negative balance means that, on average, consumers reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change. This is recorded on a scale from –100 to +100.

UK consumer confidence



(Source: http://www.ons.gov.uk/ons/dcp171778_418064.pdf)

(a) Explain **one** likely reason for the change in consumer confidence between 2012 and 2015.

(3)

Consume considence is how conquent forsured

feel in lox economy and how conquent bry are

loo consume goods and served. A reason

Consume congidence uncruyed by warmed

18% from 2012 to 2015. A reason for the

Could be Tob fos a sale fall in unemployment.

They would feel muce comparable in their son

and therefore feel muce secure and he muce

Consider to consume your tremen



This answer scores the full 3 marks. They have correctly interpreted the graph to see the consumer confidence has risen. They have identified falling unemployment as a reason, and have then gone on to explain this.



It is important that candidates can quickly and easily interpret charts such as this. It is therefore worth practicing this as part of exam preparation.

Question 6 (a)

6 (a) With reference to Figure 1, explain the term 'net trade'. (4)refers to X-14 so the value Not treede of Exports (x) minus the value of Imports (m). This means that it exports are greater their imports the but trade is regative, resulting in the a tra balance trade deficit. The Un is cuirently operating net -treude (and so a balance of at -21. This may be one to trade deficit the quarter mensional propermity to import of Uk conjumers due to greater somand This could be down to countries their more service based and less manufacture based than facthard nery raw mouterials aw goes such have to import (ountries with geographical ad stantages, like China, muy export more (50 net trade (BOT surplus) as export more due to more natural resources



Mour fecturing

This answer scores the full 4 marks available. They explain what net trade is and have two relevant pieces of application.



Always be clear and precise in definitions of key terms such as net trade.

Question 6 (b)

This question builds on the previous question, considering reasons why the UK might have a current account deficit. In these longer questions the focus for a candidate needs to be on the quality of their answer, bearing in mind the levels mark scheme. They should ensure they are clearly giving step-by-step explanations their reasons. This would then cover the exam skills of knowledge, application, and analysis. There are also 4 marks available here for evaluation – presenting the counter-argument and considering why these reasons may not be valid explanations. Popular comments revolved around the exchange rate and real incomes, coupled with the UK's high marginal propensity to import.

(b) With reference to the information provided and your own knowledge, assess the depen Texport than imports (10) likely causes of the UK's trade deficit. less earoun, a trade deficit is when the amount of experted goods and Services exe is less than the imparant of imported goods and semies. This is known as a current acourt desert The current account descrit reached 6% die to been box export grown The course of len eaports can be cleu to the exchange ran The rule of the pound may be strong making experts more expensive for freeze countries, the high prices du to this strong pound causes the UKS good to not be a competitive, overseas people showould import foreign gents Muy be put of by these high price. Bloveser this depend on the good or sence the UK is pronding, Migh pries mg put orecesian's dois down demand - cens is the good or some is price includic, change in the price level will not hopes the Chuncy elemend for the good. Also If the goods or semas the UR is exporting is of lings quality, the consumer abroad mg not be pury by higher prices. 19 Exports may uso be lawdur to high increst rules in

Sheleenan will are likely to put of from in the UK from investing and expanding their finis be produce mes yords and semisby inching in capital. This The arrival Grown rue of the UR had only reached 2.7% rela the funger of 81. Throp insense rues Luch of missing Cluster from to not in wear the amount of expert heave the Low arment rale of exports. Hoverer some work of the interes Clashing of mes ment. Some believe high interest takes class relie the amount of incomment a poin will do. Migh muses rates circulo likely to this up me wekongs We earning a source stronger pound his pumber pus for abroad byegen from buying from Me OK as It is more Laxensin & Lach of intestment causes from to become less officers as they don't rivest in new mallynum low produmb can Course Muse pries & nie which may teren their competitions Go acrees makes There mey he aduck of eapons due to there being My Aggregate demunes whin the docal eccorum (VK) casin firms to sell their yords and remies is localeconing rather than expering as high projets may be obtained. Herene In the short fun forms may no Morerer in the hop Aggregate demond in the economy may be a sign that they infrarior all nk and guemment men higher interes nows so they may be put of from investing in the local unon



This is a more able response, scoring the full 10 marks. It clearly and logically explains different reasons for why the UK has a current account deficit and also offers relevant evaluation of these points along the lines of elasticity, which where relevant is often a good topic to use for evaluation.



Keep the levels in mind – in this case you are aiming for KAA Level 3 and Evaluation Level 2.

Question 6 (c)

This question asked candidates for one specific reason, so it is important for candidates to make the most of their time in the exam and not explain two reasons. A number of possibilities could be explained here, such as interest rates and business confidence. Popular application included the 5% growth in UK investment and unemployment falling. Candidates should remember that in these shorter questions examiners are looking for specific pieces of application.

(c) With reference to Extract A, paragraph 2, explain one likely influence on UK investment.	
	(5)

Business investment gien by 5% - a straile margin that rould have been	
dimulated by the lowinterest rates in the UK. Lowinterest rates reduce the	
(0) + of Jarroning For firm, and make laving less attractive, which leads to	
the firms taking out more locars and very them for investment pur	ener in an
eronomy that has seen a sustained recovery and lower unemployment.	



This brief answer provides exactly what the examiner is looking for. A relevant point in the form of interest rates which is clearly analysed along with application from the extract.



Be concise and stick to the point in these shorter questions.

Question 6 (d)

This question asks candidates for 'two likely reasons...'. It is important that candidates focus specifically on their reasons, as too much time was wasted on explaining what nominal GDP per capita at PPPs was. Each reason needed to be identified and analysed and there are also marks for application.

(d) With reference to Figure 2 and Extract A, explain two likely reasons why the growth of the UK's nominal GDP per capita at PPPs was slower than that of Germany after 2010. (6) to be law and thefre we we wally to experence laver level of growth.



In the first part of the answer, the candidate correctly identifies the UK's current account deficit as a likely reason and they have some application. However, their analysis is confused and they appear to have drifted into talking about a budget deficit. Their second point is better and includes all three exam skills of knowledge, application, and analysis. Overall therefore this answer achieves 5/6 marks.



Make sure you know the difference between a current account deficit and a budget deficit.

Question 6 (e)

This should be a straightforward question, with candidates simply needing to explain supply-side policies to improve productivity. Again candidates needed to ensure they answered the question being asked, as there are quite a few answers where the focus was on 'policies'. Candidates hadn't stopped to consider what types of policies would be suitable as a means to improve productivity. The other key issue with any question about productivity is that candidates too often confuse it with production – the aim here isn't to specifically produce more, it is to produce more efficiently.

10:500 55 (e) Evaluate policies the government could use to increase the UK's productivity. (15)education in the manycohir seeler himprove the skills of labour. bein worker in the skills that orms vill forms need i.e in construction excely in the corresponde incre The manyeounty sector will not have a superficant impact on Whole preshehing she labor maket. The

also problems i the long term Ove specialisation in this sector will lead to appearence immediative in this seeper. This strictured inemployment may be will be an issue in the genre Desgulation is anothe supply side policy A policy is relating the planny system in orde to manic mer have building This will reduce the costs production go gims and due to - proji- manine they are encouraged to procedure more at a Love to cost pe wit. In This will increase predictionly without grows. This is also lead to grow berything from economies & scale Which as the lay on gell in the cost per lenit. Honer that may cause - gell it the girlis & the housing market The regulations may have been impt put i plece que reason. For elample la procesa He rights & Bornes & dayers equipment Here - loosening The reles may disinamine bornes who will stop it his will cause a fell in predictiny & = high cos pe units One example is changing the kx breeker Recently the ne lex brecker was ineressed for £11,000 1 £11,500. This will at as an income for law income laners he work thade as they can keep many their income. This will cause an increase in

predentily. However it is intikely their carber

vill be able to expand and could be large hour

given in pleasible banking hours I have lables



This is a high quality answer. The candidate discusses education, but thinks about the context here by specifically referring to the manufacturing industry. They also have some well-considered evaluation of this point and analyse and evaluate deregulation as a measure to increase productivity. There is also some discussion of changing income tax bands to improve incentives for workers. With highly developed points that are clearly focused on productivity as well as evaluation that clearly critiques these analysis points this answer is worthy of the top Level 3 for both KAA and evaluation.



Ensure you understand key economic concepts such as productivity.

EITHER

- CAO - 6) wed economic grant

(f) Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7).

(20)

OR

(g) Evaluate the view that another recession is 'inevitable' in the UK (Extract A, line 24). (20)

Indicate which question you are answering by marking a cross in the box \boxtimes . If you change your mind, put a line through the box \boxtimes and then indicate your new question with a cross \boxtimes .

— Chosen question number: Question 6(f)

☑ Question

Question 6(g)

Write your answer here:

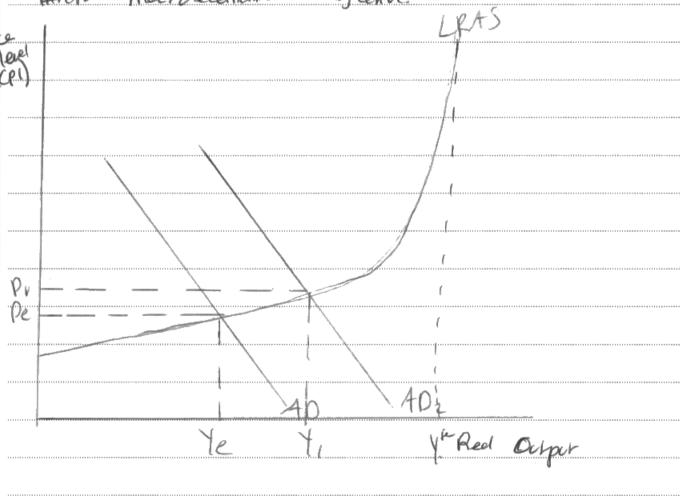
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One benefit to economic grath is to the

e low unemployment. The UK wemployment reconstructure

Centerly 4.5%. La unemployment is en

parers mecro economic Sjeehve



[nemployment fells due to an inexested in AD Firms employ mor galott 5 prediction i.e labour it ande In dispad he highe law of denot in the economy = AD ships four AD, he AD2 This causes an inerece in sect organ pron Ye in V, This is ackel economic gooth The low enemployment means there are higher toges more people will veges & bette poid ones. This means consumer car appared more here their standord living increasing Howeve this leads to demand side inflationary pressues it the economy -s the general pro level merceses from Pe to P. Ingline grades the perchasing pass of money which will have other negetive impaces a consumer Especially for love income earners This may also leed by itylcha me being obore the larger of 21 ±11 (CPI) Set by the Atoneray Potry Committee MPC. This leeds he carplat with the macro according this her As consiner become suche they can appoint h buy more agod I serves The mayor prepasing h imper cill also increase , leading Ir - dekoraha is the construction! Gostly Un Uh has a persistent agreet account depart (240) of - 2.3/. 5 th GOP. This mean the while

g amports is grew than the s lepasts. The la l steble polare s paymen is another mechecamic objection. If there is a CAD Wer there has he he a proract coest Supples in orde to make up the difference by Exergin direct investment. This makes the Uh economy vez ulneable hereigh reession cs the M is dependent on FOI to make up In dypace In recession confidence gells here fereign incolor all poullar a New investment in the UK Circle import is also a withdravel & Henard in the UN circle flow & incomme Imposts will lead to a regenire multiplie eyens due la a lack of melhple rowds of sespending 1. The economy This will lead h Should economy grath in the long on as M is a compount g AD when AD = (+ G + (1-11) this will cast or inved ship of the Stoppy can go AO, h AO. The extent to which or inhe! male withdatel melliplied le cause - grede redichan in see apper is then as the melliple who In the UN IL is apprecially collected to be about 1.4. This will cause

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apraed Com ceherly



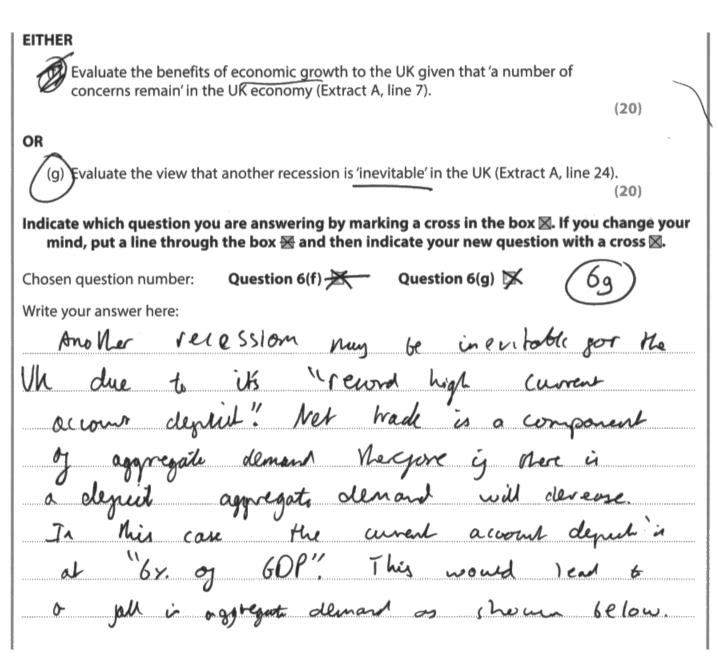
This is a more able response which clearly fits the criteria for the top levels of both KAA and evaluation. There is a thorough explanation of how lower unemployment occurs as a result of rising GDP, along with an AD/AS diagram to illustrate the point. There is also a clear explanation of why this is a benefit with reference to rising living standards. This is followed by a well-developed evaluative argument about the problem of rising inflation and the resultant impact on the current account deficit. Their second point is similarly well-argued and evaluated, focusing this time on the government's finances and whether they will improve or not.



Make sure your answers are fully related back to the question – in this case make sure you explain why/how it's a benefit/downside of economic growth, don't just state that it is.

Question 6 (g)

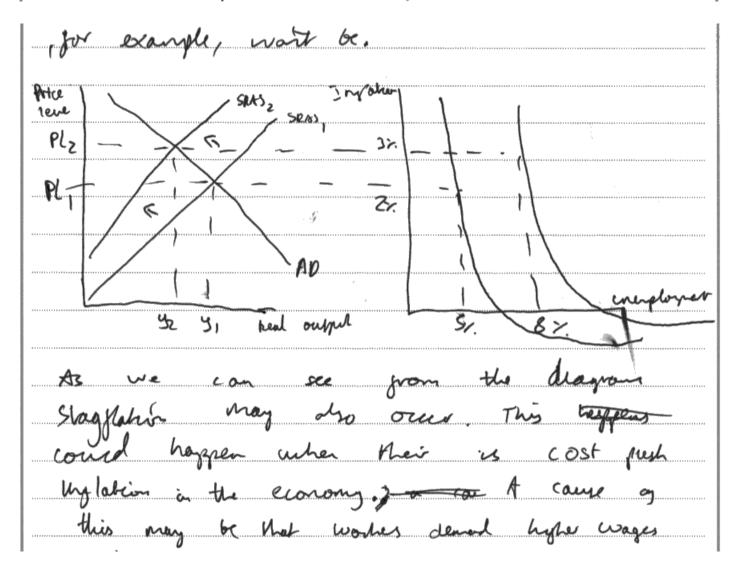
This question was significantly less popular than 6(f). Despite that the candidates who did answer it were perfectly capable of producing high quality answers. Candidates who achieved highly on this question developed their answers clearly and with high quality chains of reasoning in both their KAA and evaluation. The very best answers included a 'substantiated judgement'. Many good answers also integrated AD/AS diagrams into their arguments to further illustrate and explain the point they were making. As a broad question there are a wide variety of arguments that can be made on both sides of the question.



SRAS As we can see demand ships right leading to a lower 1 812 price, Pl, to Ple, and lover real output, y, to yz. 18 Red output. real output has deveased thu suggests that unemployment may at rise. This is because labour is delived demand, As demand at the environg her decreased juring no longer produce as much Mercyone make cuts to their woth porce leading to many people being legit redundant. As a consequence the government will have to Spend more of their fox revenue on wrong loyment benefits as more people will be out of work. Exhaul A Shotes Mad The nongaberray sector remained 6.3% below its peremision peul', This & is an example of a sector that would have made USB Cuts. However, a recession my not ke menitable. Exhact A state that GDP growth his remained Smong" and "output a 1ising of the highest rate". Consumption is a greate component of

appregat demad making sep about 60%. Therefore eventhough that is a current account depoil is consumption unverse it could carryl out the derese is not trade and ever lead to aggregate demand shyling iight. De Consumptom could in creve due to the fact that GOP has renamed (hong'. This would give consumer considere to spend as the economy in a ewnonin sheaton is unproving. The tight fact output is vising would also give forms mused Complene to emest, Investment is also a component of aggregate demand. There an werese in 40 would lead to corresed red output suggesting the apposite of a recession 5 a boom would occur. A recession may be noushable du to me this low podercharty! households becoming more indebted over the coming years". As a conseavenu the Marginal propensity to consume of household will deveou as their disposable mone 'n loue. This devene in consumption will keed to a shift in on to the right lest to had a states that "the economy did not appear to be

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of bluezih may seven more apadry The ter This theyore deress SRAS as good your costs have nevered. This chy? in SPAS leads to an crucce in my alson grown 72 \$ 3x as seen on the Shot our Pholips care At the care this unemployment hey also arrased from Sx. to 8%. This is stagglation. If this occurs recession may be mentable , is merglyner is ligh ; people do not have the disposable more to pay to cover for the inversed price level. However Mis men not be the case as SRAS may not shirt inwoods carried cost push inglation. welly another recession depends upon what policies the oble to unou kehnology and manqueling" or Hotel in shaet A



This is a more able response which achieves top levels for both KAA and evaluation (Levels 4 and 3 respectively). The candidate starts off with a very long and detailed explanation of why a further recession is inevitable, encompassing net trade, unemployment, and the government's finances. This is further enhanced by an AD/AS diagram. This argument is clearly and convincingly countered in the following evaluation point. Both of these points have good context to back them up. The next KAA point is not so good and does have a few issues, but the broad thrust of the argument is very sound. This means in terms of an overall mark we would be looking at the lower half of the Level 4 marks. It is also clearly evaluated.



Where relevant, always try to include diagrams to aid the argument you are making. Make sure you refer to these as part of your written answer.