

Mark Scheme (Results)

Summer 2017

Pearson Edexcel GCE A Level
in Economics A (9EC0)

Paper 03 Microeconomics and Macroeconomics



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General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.
- Crossed-out work should be marked unless the candidate has replaced it with an alternative response.

Question Number	Answer	Mark

1(a)	**Knowledge 2, Application 2, Analysis 1**
	
	Knowledge:
	1 mark for identification of a possible reason and 1 mark for its relevance to a fall in the value of the currency.
	
	Possible reasons:
	• Fall in demand for peso (1) with reason (1)
	• Increase in supply of peso (1) with reason (1)
	• Current account balance:
	  ○ Fall in the value of X (1) because export prices have fallen (1)
	  ○ Rise in the value of M (1) because of economic growth (1)
	• Decrease in interest rates (1) in Chile relative to other countries (1)
	• Fall in FDI (1) with reason e.g. reduced foreign investment in Chilean mining (1)
	• Change in hot money flows (1) with reason e.g. speculative selling of peso (1)
	• Rise in value of other countries' exchange rates (1) with a change in relative rates (1)
	• Relatively high inflation in Chile (1) compared to other countries with which it trades (1)
	
	Application:
	2 marks for data references e.g.
	• Copper prices have fallen, Fig. 1 (1) e.g. to $5000 (1)
	• The Chilean peso has decreased in value (1)
	• Calculation based on data (award a range of answers because the data is given for the whole year) e.g. 0.2 to 0.14 = 30% fall (or similar) (1 + 1)
	• Inflation 5% in Chile (1)/above 2-4% target (1)/ e.g. because of higher unit labour costs (implied by high truck drivers' wages, Extract B) (1)
	• Fall in FDI as mining dries up, therefore reduced demand for peso
	• Application of an exchange rate diagram e.g. with peso on vertical axis with shift (1)
	
	Analysis:
	• 1 mark for explanation of the process linking to the cause to the identified change e.g. fall in copper prices means that the value of exports fall because demand is price inelastic (1) or imports rise in value because of economic growth sucking in imports (1) diagram showing shifts in demand or supply of pesos linked to correct explanation (1)
	
	NB only award 1 mark in total for use of a diagram
		(5)

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **NB an answer might provide positive externalities as KAA and negative externalities as evaluation** **NB do not award effects on copper mining firms, unless an indirect effect.** **NB an answer which does not relate both to firms and communities is limited to 5/6 KAA marks.** **NB do not award externalities themselves, e.g. pollution, the environment. Award the *impact.*** **Knowledge and Analysis** Knowledge/ implicit understanding of externalities **(1)** e.g. knowledge that externalities are an effect on third parties, or outside (or not accounted for by) the market mechanism, or the difference between private and social costs or benefits Firms (in businesses other than mining) Points showing the impact on **firms** might include: • farms lacking water because mining companies are using it **(1+1)** • high demand for energy means that other firms will face high energy costs **(1+1)** • high exchange rate can cause problems for other exporting firms **(1+1)** Communities Points showing the impact on **communities** might include: • problems of water access for households **(1+1)**, • large-scale transport causes noise, air pollution **(1+1)**, • people have to move away to find work (social dislocation) **(1+1)** • impact on employment and incomes as mining declines **(1+1)** • impact on firms that supply the mining sector **(1+1)** Some impacts could be seen as firms and communities, e.g. impact on wider economy of higher wages as firms have to compete with unionised highly paid copper miners for employment. **Application:**	

	• **Externality diagram** illustrating negative or positive impact using marginal analysis (up to 2 marks: 1 mark for correct MSC and MPC drawn, 1 mark for correct equilibrium shown/deadweight loss) • Water has to be pumped 200km (Extract B paragraph 4) which uses fossil fuels/is noisy/ugly/affects tourist areas • Mines are deeper and use more fuel (carbon emissions have impact on climate and therefore on welfare of many) • Desalination plants might affect other firms or consumers (this might be negative or positive) **Evaluation** (2 marks for any relevant point, two points 1 +1): • Positive externalities, e.g. ○ impact of local multiplier on economy, improved infrastructure affects other industries ○ Improved wages and working conditions for workers (in businesses other than mining) ○ The copper mining has already helped to fund improvements in welfare, such as the financial system and pensions ○ Benefits of higher value of currency, e.g. terms of trade improvement • Difficult to know how large the externalities are or who is bearing the cost • The benefits might outweigh the costs, e.g. reduction in poverty, improved fiscal powers, strength of financial markets, improved local infrastructure • Other standard evaluation points, e.g. Extract B a drought has made the problem more severe, time to acquire environmental impact assessments (Extract B paragraph 5) might not be a reliable indicator	**(8)**

Question Number	Indicative content	Mark
1(c)	**Knowledge 2, Application 2, Analysis 4** • Link between falling copper prices and falling incomes and government revenue e.g. dramatic loss of government revenue from peak of $11.5 billion • Exposure to risk e.g. high proportion of GDP and exports dependent on copper so this could cause risk of falling incomes • Price volatility e.g. might cause reduced FDI/investment • Impact of declining terms of trade might be used • Successful exports of copper might force up the exchange rate, other 'Dutch disease' issues e.g. impact on non-copper sector • Falling demand for copper might cause peso to fall in value, causing declining terms of trade/cost push inflation • May use diagram to illustrate effects of low PES, PED • Award use of concepts or theories such as Prebisch-Singer, with link to terms of trade and changing world incomes. • Firms may close down e.g. Extract A lines 8-9: award a microeconomics diagram showing shutdown point **NB Do not award any parts of answers which are related to externalities** **A KAA point referring to changes in tax revenues can only be awarded Level 3 if a specific link is made to the source of the tax revenue e.g. – corporation tax or profits of a state-owned enterprise** **For a Level 3 answer there must be reference to dependency rather than just falls in copper prices, and the wider economy rather than just copper mining firms**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark

1(c) continued	**Evaluation 4**
	
	• Advantages of copper dependency for Chile's economy:
	  ○ Copper dependency is an advantage when copper prices are high e.g. they have been high for a prolonged period, with many advantages
	  ○ Use of data to support this, e.g. $11.5 bn a year tax revenue, or percentage changes in prices Figure 1
	  ○ Low national debt, falling levels of poverty, inward direct investment
	• Other industries thriving e.g. salmon industry
	• Chile's economy 'best run in the region' and has financial strength to overcome copper price changes, relative to other countries who are dependent on primary products e.g. Venezuela
	• The fall in the exchange rate corrects the problem of over dependency
	• Copper prices are far less volatile than 2007-2011
		(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
1 (d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effects of policies: Microeconomic effects may include: • fiscal, e.g. 'mildly expansionary policies' such as cutting income tax will increase real wages • monetary e.g. cutting interest rates can reduce the costs of borrowing for individuals and firms. • supply side policies, e.g. privatisation, free trade can make markets more competitive • growth and development strategies e.g. education, debt relief etc. can further alleviate poverty • price controls Macroeconomic effects may include: • Cutting interest rate might cause the peso to further decrease in value, which would cause inflation / increase the value of exports leading to current account improving • Privatisation or other supply side policies can increase international competitiveness **NB for a Level 4 response there must be reference to both economic growth (e.g. rising incomes) and economic development (e.g. longer life expectancy through improved living standards) and a focus on effects for Level 3 and above.** 9 marks for evaluation – might include: • Expansionary fiscal policies might involve an improvement in the redistribution of income • Objectives might conflict, e.g. cutting interest rates can cause inflation or widen inequality, or increased government spending to produce growth might cause inflation (e.g. Phillips Curve) • Policies might conflict, e.g. increasing length of time to gain a permit to reduce externalities can cause a negative supply side impact e.g. by raising production costs for firms.	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
1 (e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **This mark scheme is based on an increase in I, but answer can be given from the point of view of a decrease** Up to 16 marks for effects: Microeconomic effects may include: • Effects on workers – higher incomes, more jobs • Effect on firms, e.g. increase in productivity, or for firms that produce capital goods, a change in demand • Increase in demand as consumer and business confidence improves • Improved quality of life as a result of research into and development of products Macroeconomic effects may include: • Shift (increase) in AD, with multiplier effects, increasing real GDP • Shift (increase) in AS increasing capacity e.g. through investment in education (Extract A paragraph 5) (LRAS shift only, may be implicit) • Inflation, if linked to expansionary macroeconomics policies • Balance of payments – e.g. effects of inward FDI: short term improvement on financial account, long term impact on current account Award Keynesian and Classical approaches with equal weight. The opposing viewpoints may be used as evaluation. **NB a Level 4 answer refer to *changes in* investment rather than levels. This may be implicit e.g. through a fall in AD** **NB do not award for impact other than on Chile. Do not award for causes rather than effects.**	

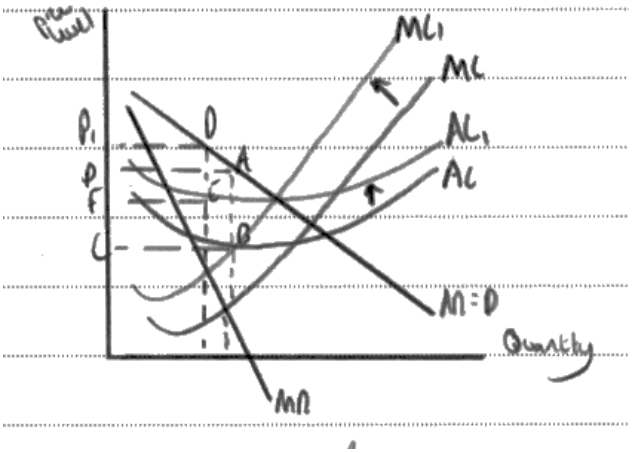
	Up to 9 marks for evaluation points include: • Investment in capital might decrease employment • Investment in human capital e.g. education in Extract A, is hard to measure in terms of effectiveness • Data points to both increases and decreases in investment. Other forms of injection into the circular flow might be more sustainable, e.g. G • Depends if the investment is internal or FDI as to the effects on the balance of payments • Depends on whether there is a demand deficiency (Keynesian viewpoint) or failings in the supply side	**(25)**

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Evaluation		
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Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Question Number	Indicative content	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** • Definition of an output gap: e.g. the difference between actual output (or growth) and potential/trend output (or growth), an economy which is operating at less than full potential • Use of AD/AS diagram to show either demand deficiency (static diagram where AD crosses AS below full potential) or a short term movement along SRAS (AD shift left). • Shift of AS leftwards on a diagram that shows full employment (note that this can cause a fall in output gap) • Other diagrammatic analysis can be used to support explanation e.g. PPF / trade cycle but 2 marks are reserved for AD/AS **Application** • Use of Extract D and/or Figure 6, e.g. o evidence of immobility of labour and under-employment, o there is a negative output gap in the UK Fig 6 o 'weak demand conditions' o fall in labour productivity • The gap is negative e.g. the sense there is less being produced that could be produced, and is therefore inefficient. • Use of diagram to show the gap on horizontal axis between equilibrium output and potential output. E.g. 1 mark for equilibrium output compared to full employment output **NB award a maximum of 4/5 if there is no use of Extract D or other data provided.** **NB Reserve 2 marks for the AD/AS diagram. Award either as 1 K/AN and 1 AP or as 2 AP.** **NB either a vertical LRAS (Classical) or Keynesian LRAS is acceptable, and the equilibrium may be shown with AD and either LRAS or SRAS.**	**(5)**

Question Number	Indicative content	Mark
2(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/implicit understanding of** • fiscal deficit is when government revenue is less than government spending difference between government revenue and taxation **or G>T (1)** • national debt as % of GDP **(1)** e.g. the sum of deficits over time divided by GDP **Analysis** • a fiscal deficit feeds into a national debt **(2)** • these can move in different directions because GDP is rising more quickly than debt **(2)** • debt can increase deficit *through higher interest payments* **(2)** **Application:** Reading the data from Figures 4 and 5 1 mark for correct application of figures, and 1 mark for relationship e.g. to show national debt as a percentage of GDP is projected to fall after 2015 (1) while the fiscal deficit set to persist until 2019 (1) **NB do not award statement 'debt is falling'** **Evaluation** (2 marks for any relevant point, two points 1 +1): • The fall in national debt as a percentage of GDP is dependent not on austerity measures but on expectation of rising GDP • Growth might be quicker without the austerity measures indicated by Figure 6 • Other things are not equal, e.g. interest rates might rise, depends on whether the returns for QE or privatisations are in the figures, effects of Brexit • The relationship is usually direct but after 2015 it is inverse • Other factors might explain the trends (i.e. non causal relationship) e.g. change in GDP or time lag.	**(8)**

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 4** • Increase in wages implies increased variable costs for firms (average cost or total cost) so profit falls • Diagram showing upwards movement of AC and MC (allow AC-only shift if clearly related to fixed costs of labour) • Allow TC/TR diagram OR • For normal goods there is likely to be an increase in demand (average revenue or total revenue) • Diagram showing rightward/outward shift in AR and MR as demand increases Diagrams  **NB an answer which does not include an accurate diagram is limited to Level 2. Diagram must show impact on firms.** **NB for a Level 3 answer diagram must show change in profit and can involve a change in FC or VC, and should explicitly link type of cost to type of wage change**	**(8)**

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Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2(c) continued	**Evaluation 4** • Depends on the proportion of costs made up by (low skilled) labour • Depends on the elasticity of demand for labour, e.g. the substitutability of capital for labour • Effect on profitability will depend on the ability of firms to pass on increased costs • Answers might consider the counterbalancing effects of changes in both revenues and costs • Increased wages have in the past led to increased value of output • In the long run firms might employ younger (under 25) workers, and other possible changes implied in Extract C • Demand might fall if the firm is selling inferior goods when incomes rise. • Real vs. nominal changes in wages • Depends on whether other costs remain the same, or if demand rises as result of increased incomes • Contrast between fixed and variable cost diagrams • Discussion of the supply of labour/opportunity cost of labour as wages rise	**(4)**

Evaluation		
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Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **This mark scheme is based on a decrease in competitiveness, but answer can be given from the point of view of an *increase*** Microeconomic influences may include: • Productivity – physical and human e.g. use of Figure 6 to show worsening of UK international competitiveness • Unit labour costs – in terms of relative wages • Market structure, e.g. low level of competition between firms • Effectiveness of competition policy • Non-price factors e.g. quality • Labour market factors e.g. strength of trade unions, national minimum wage, labour market regulation, • Taxes and subsidies on firms can be seen as micro or macro • Regulation e.g. green taxes and other environmental policies Macroeconomic influences may include: • Physical and human capital • Level of inflation • Level of indirect taxation, including tax on labour, corporation tax • Real exchange rates • Infrastructure • Supply side policies, including protectionism if explicitly linked to competitiveness • Comparative advantage • Membership of trading blocs • Levels of protectionism/tariff barriers Possible evaluation points include: • Degree to which the factor influences competitiveness e.g. ULCs more significant in countries where production has a strong manufacturing base • There may be a discussion of the degree to which wages influence competitiveness • Use of other countries in data e.g. to observe conflicting evidence • Difficulties in measuring productivity or competitiveness, productivity puzzle • Diagram might be used to show different labour market supply and demand and elasticities • Data might be used to make observations, e.g. that Germany is very competitive but has higher wages. • Relative significance of price vs non-price factors • Problems of being competitive in non-tradables, e.g. many services are hard to trade **NB do not award effects unless linked to further changes in competitiveness**	**(25)**

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Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: • on people facing reduced benefits (non-working recipients) • on people facing reduced work-related benefits (e.g. working tax credits) • on firms with increased supply of labour, but higher costs of labour • on firms' incentives, e.g. changes in corporation tax • effects on sectors of economy such as schools, policing from reduced public sector spending • micro effects on supply of labour and on output of firms from changes in marginal tax rates Macroeconomic effects may include: • lower inflation (might involve a discussion of marginal propensity to consume / multiplier) • lower nominal GDP • change in employment / incentives to work • increased income inequality • reduced quality of public services in general • falls in productivity and increased cost push effects as a result of cuts in education or failing infrastructure • reduced crowding out effects as government spending falls in the short term (raising taxes takes longer to reduce the size of the deficit?) • Laffer curve e.g. tax evasion and avoidance Possible evaluation points include: • impact will depend on which areas of government spending are cut, or which type of taxes are raised • depends on multiplier effects within different sub-groups, and depends on the type of tax raised • does the deficit need to be cut at all? Figure 6 shows falling national debt relative to GDP even with a fiscal deficit • questioning the timing of the cut in a deficit – should fiscal austerity be delayed, or is it important to avoid the credit risk of ongoing deficit? • Increase in tax has a smaller effect on crowding out then cutting G. More time delays, might not work, no first round impact on the circular flow of income. • Government failure • Consideration of the size of the public sector **NB for a level 4 there must be reference to:** • **G and T** • **macro and micro effects**	**(25)**

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