

Pearson
Edexcel

Mark Scheme (Results)

Summer 2023

Pearson Edexcel GCE
In Economics A (9EC0)
Paper 03: Microeconomics &
Macroeconomics

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Summer 2023
Publications Code 9EC0_03_2306_MS
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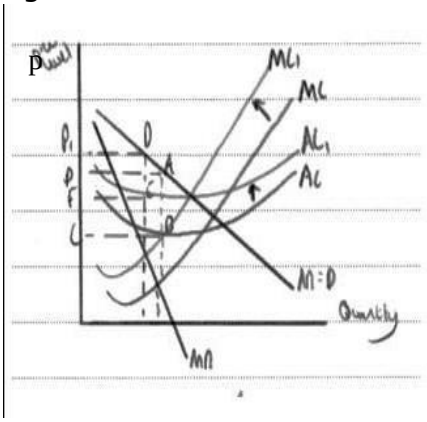
General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- 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 may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- 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** **Up to 2marks, points might include:** ● positive statement e.g. statement of fact (1) ● normative statement e.g. value judgement, moral, ethical (1) **Application:** 2 marks for data (1+1): ● **Positive example (1) e.g.** ○ 'removal of the 45% tax band' ○ '1.25 % rise in national insurance was implemented' ○ 'already raised them from 0.1% in 2021 to 2.25% by September 2022' ○ 'Britain's poorest households would have lost £7.56 a year' ● **Normative example (1) e.g.** ○ 'wrong time to do this' ○ 'an unfair decision at the time' **Analysis (1 mark)** for linked development e.g. ● can / cannot be tested (1) ● subjective / objective (1)	**(5)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge:** Identification of a cause of inflation (1+1) e.g. ● rising consumption ● rising investment ● rising government spending ● rising net exports ● rising in production/energy costs or other costs ● fall in the exchange rate (imported inflation) **Application:** (1 +1) ● 20% fall in the value of the pound ● identification of correct inflation rate from Figure 2 ● identification of correct gas price figure from Figure 1 ● removal of the 2023 planned rise in corporation tax from 19p to 25p ● tax cut proposals e.g. £30 billion tax cut, 15% corporation tax ● two-year freeze ending / average energy bill from £2500 to £3500 ● rising food prices ● half of the food we consume is imported **Analysis:** (1+1) development of each reason e.g. ● leading to higher aggregate demand (demand pull inflation) ● leading to a fall in short run aggregate supply (cost push inflation) ● may be shown through diagrammatic analysis of the shifts ● further analysis of identified reason / a transmission mechanism **Evaluation:** (2 marks for any relevant point, or two points 1 +1) ● short run long run arguments - could change in the future ● combination of factors ● made worse by external shock ● relative significance of points arguments	**(8)**

	• could change following MPC of Bank of England interest rate changes	

Question Number	Indicative content	Mark
1(c)	**Knowledge 2, Application 2, Analysis 4** **Points might include**: • use of Figure 1 to refer to the gas price increases • rising production costs (allow fixed or variable cost arguments) • lower SNP/loss/reduction in producer surplus • forced to pass on higher prices to the consumer, reducing sales • reduction in planned investment • cost cutting in other areas of the business • forced to switch to alternative energy sources • may decided to leave the market/shut down/switch to more profitable business activities • fall in profits might reduce dynamic efficiency Diagrammatic analysis: Shift in AC and MC upwards/left Shifts must correlate with explanation of either FC or VC changes New price/output shown New profit area/change in profit Diagram e.g.  • **NB an answer which does not include an accurate diagram is limited to Level 2. Diagram must show impact on firms.** • **NB One fully explained impact with a correct diagram can achieve Level 3.**	**(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** ● it depends on what % gas comprises of their total costs/revenues ● it depends if the rise in gas is sustained (short run long run arguments) ● it depends on how long it will take to develop alternative sources of fuel ● it depends on whether firms can become more energy efficient ● it might be that demand falls and/or firms go out of business (shut down) ● it depends on if they have reached their shut down point - they may continue to stay in business and make a loss in the short run ● it depends on the PED of the product they sell and if they can pass price rises on to the consumer ● it depends on the nature of competition within the market ● magnitude / volatility arguments	**(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** Policies to reduce inequality might include Microeconomic policies may include: ● grants/subsidies to attract individual firms to create jobs in deprived areas ● subsidies to reduce price of specific goods e.g. - food ● maximum prices on essential goods e.g. food/fuel ● raising national minimum wage ● maximum wages e.g. - caps on bankers' bonuses ● employment legislation/control of monopsony employers ● uprating of benefits at least or more than the rate of inflation ● benefits in kind e.g. childcare vouchers, free school meals ● greater means testing of benefits ● energy policy - targeted support at low income households Macroeconomic policies may include: ● relevant supply side policies e.g. education, infrastructure, mobility of labour ● regional policies e.g. attraction of FDI to create jobs in low-income regions ● progressive taxes - increase rates on high earners ● raise corporation tax ● raise government spending ● increase public sector wages ● cutting interest rates ● trickle down policies - policies to create growth and create more jobs/enable greater tax revenues available to redistribute **NB for a Level 4 response there must be at least one micro and macro policy and use of UK data with reference to inequality.** **Tax and benefit changes, investment changes, education, national minimum wage, migration, for example, could be seen as micro or macro policies.**	

	NB negative effects can be seen as evaluation of positive effects and vice versa 9 marks for evaluation – points might include: ● adverse effects of some policies ● short run vs. long run arguments	
	● likely effectiveness of policies ● inability to ever remove all inequality from society ● incentive effects ● government failure arguments ● conflict with other objectives ● prioritisation arguments ● policies might be different depending on whether it is income or wealth inequality	**(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** 16 marks for KAA, for effect(s) of tax cuts Microeconomic effect(s) may include: ● higher disposable incomes (income tax) ● higher retained profits for firms (if corporation tax) ● lower costs for business (if indirect tax) ● rising demand/revenue for firms ● use of cost/revenue/profit diagram ● change in level of funding/service arguments at schools/hospitals ● supply of labour increases in certain occupations (incentive to work arguments) ● relocation of MNC arguments/regeneration of a specific area Macroeconomic effect(s) may include: ● use of AD analysis e.g. - consumption rising ● use of LRAS analysis e.g. - productivity rising, incentive to work arguments ● income equality worsening – may use Gini and Lorenz ● prices rise – inflationary effects ● reduction in relative poverty ● multiplier effects ● budget deficit argument ● Laffer curve arguments ● reduced unemployment ● FDI **NB for a Level 4 response there must be micro and macro effect(s) and use of data with reference to proposed UK tax changes. Employment or welfare issues could be seen as**	

	micro or macro, for example, can be used as either micro or macroeconomics. **NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa** 9 marks for evaluation – points might include: ● depends on which rate is changed – e.g. 45% or 20% with income tax ● Laffer curve ● temporary nature of tax changes ● magnitude of change ● size of multiplier ● PED, YED arguments	
	● shape of LRAS arguments ● output gap arguments ● combination arguments e.g. conflicts between effects ● conflict between policies e.g. higher interest rates (cancelling out each other)	**(25)**

Knowledge, application and analysis		
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Question Number	Indicative content	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge** **Up to 2 marks; points might include:** ● Identification of **one** role of financial markets (1) e.g. ● to facilitate saving • to facilitate lending to businesses/individuals ● to facilitate the exchange of goods and services ● to provide forward markets in currencies and commodities ● to provide a market for equities ● commercial interest rate determination Understanding of what a financial market does (1) e.g. ● to finance business investment ● to take out a mortgage **Application (1 + 1)** Award valid data use only e.g. ● 'mortgage sector withdrawing deals' (1) ● 'fixed-rate mortgages rising from 2% to over 5.5% (1)' ● 'increase cost of borrowing of over £5200 a year by 2024' (1) ● 'mortgage interest rates between 5% and 7%' (1) ● 'Lenders in mortgage market' (1) ● Relevant example from own knowledge e.g. market rigging, current interest rates (1) **Analysis (1 mark)** for linked development ● link made to consumption/investment e.g. enabling individuals to purchase big ticket items; firms invest in capital goods ● precautionary saving ● to reduce risk of exchange rate of commodity price fluctuations	**(5)**

Question Number	Indicative content	Mark
2(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge:** Identification of two reasons why firms remain small (1 + 1) e.g. ● limited size of market e.g. niche/local ● owner objectives ● access to finance ● regulation ● behaviour of larger firms in the market ● lack of economies of scale/avoid diseconomies of scale ● tax benefits ● enables more focus/improved customer service ● more contestable / competition **Application:** (2 marks for any developed point, or two points 1 +1): e.g. ● examples of small high street retailers e.g. - independent food retailers, nail & beauty salons, charity shops or own example as application ● 'rise of online retailers such as Amazon and eBay' ● 'cannot compete on price with online retailers' ● 'forced to close due to lost business' ● 'limited access by car & expensive parking facilities' ● 'competition eroding high street activity' ● 'more diverse & family-run' ● 'they lower the barriers to entry' ● 'offering local or personalised services' ● 'They also enable risk taking and innovation' ● 'small firms to flourish' e.g.cater for specific needs, reinvent themselves ● 'fragmented ownership, lack of centralised coordination and high vacancy rates' **Analysis** (1+1) Development of points made e.g. ● higher unit costs ● large firms have power to set lower prices ● higher fixed costs ● constraints on growth e.g. unable to increase sales ● unable to raise finance to fund purchase on new assets	

	• gain loyalty from customers who live local • owner wants to retain control of business **Evaluation** (2 marks for any relevant point, or two points 1 +1): e.g.	
	• short run / long run arguments e.g technological advances / infrastructure changes • combination of factors • discussion of whether it is their choice to remain small or whether there are constraints on their growth e.g. insufficient profits for growth external factors may change their decision e.g. recession even when • 'staff shortages are pushing up wages', wealth • effects of house prices falls, damaged consumer confidence, Ext. C last paragraph	**(8)**

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** Policies might include: ● Price competition ○ predatory pricing ○ revenue max pricing ○ limit pricing ○ price wars to raise market share ○ discount pricing promotions e.g.loss leader ○ price discrimination - higher prices for instore customers ○ collusion ● Non-price competition ○ advertising ○ sales promotion e.g. BOGOF ○ loyalty cards ○ customer service e.g. opening times ○ product development ○ delivery services ○ sponsorship of local events/teams ○ development of online provision ○ relocation arguments e.g. out of town ○ collusion ○ mergers & takeovers ○ rationalisation to reduce price to be more competitive ● **NB an answer which does not include price and non-price competition is limited to Level 2.** ● **NB for Level 3 answers there must be reference to higher sales value / revenue of high street stores** ● **NB accept sales maximisation**	**(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** ● criticisms of effectiveness of strategies suggested ● combination of strategies required ● affordability arguments ● use of oligopoly theory to argue against price competition ● depends on the size of firm/level of economies of scale ● degree of regulation ● comparing price and non-price strategies e.g. why price competition more important ● threat of investigation by CMA e.g. for predatory pricing ● depends on level of competition in the market ● depends on incomes, e.g. recession times would have a larger impact ● magnitude of elasticity arguments ● short run profit maximisation might reduce long run sales maximisation	**(4)**

Evaluation		
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	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 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** Microeconomic effects of falling house prices may include: ● lower revenues / profits/ share price for new home builders ● reduced incentive to build new homes for construction companies / externality arguments ● lower (derived) demand for construction workers ● lower revenues/profits for estate agents ● use of cost/revenue/profit diagram ● changing pattern of consumer spending - cut back on luxuries and big-ticket items ● lower revenue/profit for firms selling luxury goods ● reduction in supply of houses on the market ● opportunity for first time buyers / buy-to-let to purchase at a lower price (buyers' market) ● risk of negative equity for those with large existing mortgages e.g. causes geographical immobility ● geographical mobility of labour arguments e.g. easier to buy in cities ● fall in rent cost for firms Macroeconomic effects may include: ● negative wealth effects - falling confidence & consumption ● AD/AS analysis ● effects on growth ● effects on employment ● effects on inflation ● effects on financial account of BoP ● impact on government finances via fall in stamp duty and inheritance tax revenues ● impact on inequality **NB for a Level 4 response, there must be micro and macro effect(s). Some effects can be seen as micro or macro e.g.** **geographical immobility/mobility and fall in growth.** 9 marks for evaluation – points might include: ● Short run v long run effects ● Discussion of falling v rising at a slower rate ● Regional variations ● Micro effects depend on position on property ladder	

	• Magnitude arguments e.g. 'UK house prices will never fall, but...could be between 10% and 20%.' • Information gaps • Depends on position of AD on LRAS • magnitude of PES	
	• significance of other changes within the economy e.g. tax changes • extent of impact depends on policy making e.g. interest rate decision	**(25)**

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Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: ● Higher wages – might include a supply of labour diagram ● Rising costs to firms ● Firms may close/leave markets ● Use of cost/revenue/profit diagram (accept fixed or variable cost rising e.g. wages) ● Lack of provision/availability of a service e.g. - waiting lists in hospitals, levels of social care ● Greater migration to fill vacancies ● Movement towards more capital-intensive production ● Relocation arguments to find more available labour Macroeconomic effects may include: ● Use of AD/AS analysis e.g. output gap ● Inflation – cost push ● Inflation - demand pull ● Changes in equality ● LRAS / productive potential / PPF arguments e.g. higher immigration/change in migration laws ● Impact on international competitiveness **NB for a Level 4 response, there must be micro and macro effect(s)** **NB for a Level 4 answer there must be reference to the UK or another developed country** **NB some factors such as standard of living, education/skills, migration or tax could be counted as macro or micro** 9 marks for evaluation – points might include: ● Consideration of skilled labour ● Discussion of robotic replacement for unskilled labour ● Consideration of PES of labour ● Time lag arguments ● Depends on type of labour required ● Depends on labour costs as % of TC ● Position of AD on LRAS ● Short run long run effects ● Non-wage benefits might be considered as contrast ● Depends on migration and other demographic factors ● Monopsony vs. monopoly power	**(25)**

	• Extent of impact depends on government policy making e.g. trade bloc membership, education & training policy, immigration policy	

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