Pearson Edexcel

Mark Scheme (Results)

October 2020

Pearson Edexcel GCE A Level
In Economics A (9EC0)
Paper 3: Microeconomics and Macroeconomics

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Autumn 2020
Publications Code 9EC0_03_2010_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:** 2 marks for identification of how intervention might work e.g. • Raising/lowering interest rates (1) which affects exchange rates/hot money flows (1) • Buying/selling foreign currencies (1) which affects their exchange rate (1) • Buying/selling domestic currencies (1) which affects their exchange rate (1) • Quantitative easing/changing the money supply might be used (1) • Sets a ceiling and floor (1) **Application:** 2 marks for data references e.g. • Use of Figure 1 to show interest rate changes: e.g. central bank rose rates to 6.25 percentage points in 2018 (1) which caused the lira to appreciate 11% (1) lira has lost a third of its value against the dollar in 2018 (1) • Use of text to give example of Turkish government buying and selling: e.g. the country is highly indebted on foreign currency (1) • This might be shown by an exchange rate diagram (1) **Analysis:** 1 mark for explanation e.g. • Process by which the intervention affects exchange rate/interest rate e.g. the government buys US dollars to decrease the price of Turkish lira (1) by increasing the supply of lira on the forex market (1) or raises interest rate in increase the price of Turkish lira (1) **NB a diagram can be seen as application or analysis, if used in a valid context.**	**(5)**

Question Number	Answer	Mark
1 (b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/ implicit understanding:** 2 marks (1+1) for each reason and explanation e.g. a lower exchange rate can: • Reduces financial risks • To bring stability/security in the economy • Harms borrowers who have borrowed in foreign currency • Causes inflation as import costs rise • Worsens the terms of trade • Worsens living standards • Short term J-curve effects on current account of the Balance of Payments **Application:** (2 marks: 1+1 or 2) • Turkish inflation 25% • Lira has lost a third of its value of US dollar 2018 (1) • Turkey is highly indebted in foreign currency (1) • Government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks (1) • The financial market faces difficulties in trying to restore *foreign investors'* confidence (1) **Analysis:** 2 marks (1+1) for linked development of each point e.g. • A weaker currency can lead to cost push inflation as import prices rise • A weaker currency worsens the terms of trade as export prices fall relative to import prices • There will be less investment if there is a loss of foreign investors' confidence/AD shift	

	Evaluation (2 marks: two points 1+1 or 2). Points might include: • Inflation is very high (25%) so this should be main reason not to allow a fall in the exchange rate • Inflation is showing signs of reversing so a fall in the exchange rate may be less problematic • Problems caused by inflation might be outweighed by the other benefits such as export-led growth/improved competitiveness • Benefits of weak exchange rate, e.g. exports cheap, • Other benefits of weak currency e.g. stimulus of economy, increased competitiveness, higher employment and FDI	**(8)**

Question Number	Indicative content	Mark
1 (c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge/implicit understanding:** Policies identified might include: • Indirect tax/charges • Ban or other regulation • Free bags/nets or other state provision • Fines • Behavioural economics policy **Application:** • Tax or charge on each item. Might be illustrated through a specific tax diagram or similar. • Ban in some parts of Turkey for specific types (carcinogenic black bags). Might be supported by a limit on supply diagram. • Fines for consumers and retailers in some parts of Turkey • Free bags/nets or other state provision in e.g. 20 000 in Corlu near Istanbul • 950 tonnes of plastic waste **Analysis:** • Explanation of process linking the intervention to the reduction in use of bags. • This might be shown through a diagram(s).	**(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** • Charges work in other countries, e.g. UK • Emerging economies/countries might have more problems facing the cost of interventions e.g. inequality issue, poverty • The problem is much wider than plastic/single use bags, and the interventions will only affect a few on-street purchases • Likely to succeed because it taps into the social conscience of consumers and even a small charge may have a dramatic impact as in the UK • The tax/charge makes up a small proportion of income so many have minimal impact. PED is very inelastic/close to zero • Unintended consequences: e.g. multiple-use/ bags for life often contain more plastic and unless used many times can be more environmentally damaging • First paragraph suggests they are everywhere so given habitual behaviour people may continue to use them despite charges/ tax • opportunity cost of giving away 20 000 bags in a month – is this socially efficient?	**(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 increased interest rates. Microeconomic effects may include: • Fixed costs to firms will rise. May cause shut down/loss of competitiveness • Fall in consumer demand as consumption expenditure falls - likely reduction in AR for normal goods • Other costs to consumers/firms/a government e.g. increased burden of debt and loan repayments/servicing costs • Fall in investment by firms - reducing dynamic efficiency in the economy as less funds for R&D • Impact on Turkish housing market Macroeconomic effects may include: • Link between higher interest rates and lower investment and lower consumption- reducing AD: inward shift of AD (or slowing outward shift) with multiplier effects with macroeconomic impacts e.g. unemployment • Rise in the value of the lira – worsening of current account of the Balance of Payments – possibly with effects on other countries • Redistribution of income e.g. from borrowers to savers/lenders, from asset holders to renters • Cost of financing public deficit/debt (may refer to opportunity cost) may mean less government spending elsewhere, e.g. limited ability to spend on education **NB for a Level 4 response there must be micro and macro effect (s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** 9 marks for evaluation – points might include: • Interest rate might not be the most significant cost for firms • Contractionary monetary policies already very tight. Depends on the interest rates in other markets • Inflation has peaked and there are signs that it will fall so the rise in interest rates is not necessary • Trade-off between objectives or prioritisation e.g. lower inflation at the cost of higher unemployment might be shown with critical use of a Phillips Curve	

	• Depends on interest rates in other markets- do we mean lending rates in other countries. • Turkey's private sector is resilient - they may refer to this explaining that shut down is less likely • Impact on housing market will depend on whether people own homes and are mortgaged or whether they rent, or whether mortgage is fixed or variable rate • Magnitude the interest rate change - Figure 1 suggests large increases and therefore significant impact/large changes are unable to have much further effect	**(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 effects of increased infrastructure spending Microeconomic effects may include: • Wages higher • Improved infrastructure affects firms e.g. businesses' fixed or variable costs fall as transport costs fall • Investment seen to boost business confidence, lead to further investment and spending within firms • External benefits/external costs associated with the project - especially given the size, number of runways and amount of traffic outlined in Extract C. • External economies of scale • Accept answers based on impact on costs and/or revenues if the building occurs in the private sector, with appropriate diagram Macroeconomic effects may include: • Redistribution of incomes • Outward shift of AD/injection (I or G) into circular flow (or further outward shift in AD) with multiplier effects, with macroeconomic impacts e.g. employment and incomes rising • AS shift right with a movement in capacity of the productive economy shown (Keynesian or Classical AS) • Fiscal loosening – effects of increased budget deficit if funded without increase in tax • Effects of a rise in tax, if linked to government decision to raise tax to fund the projects **NB for a Level 4 response there must be micro and macro effect (s). Some factors could be seen as micro or macroeconomics, such as a rise in tax, increased FDI, redistribution and confidence.** Up to 9 marks for evaluation. Points might include: • Opportunity cost of spending on infrastructure e.g. schools, or higher taxes, • Crowding out – financial or resource • Might be a white elephant project	

	• Depends on relations with EU/other countries as to whether the airport will reach full capacity • Depends on the size of the multiplier effect • Depends on the state of the financial sector • True costs not accounted for - externalities ignored • Large projects require a lot of coordination and getting behind schedule putting lives at risk. • Difficulty in placing value on external benefits and costs associated with the project	**(25)**

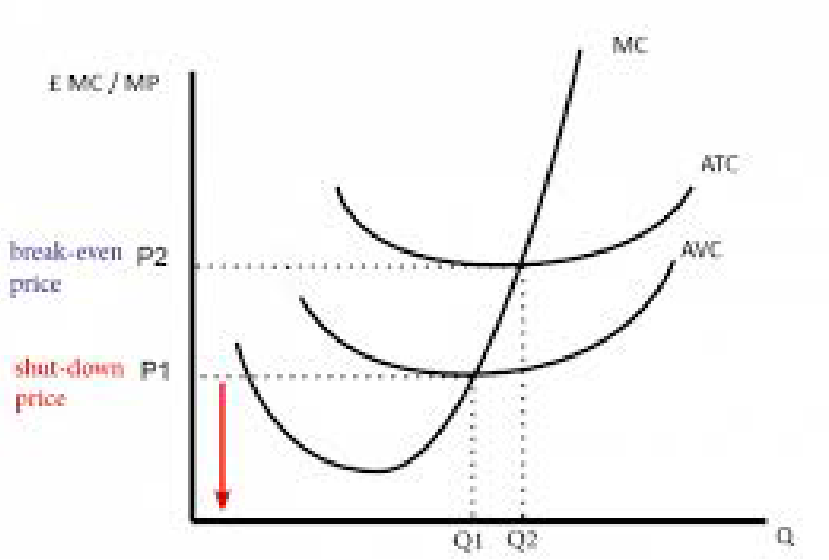
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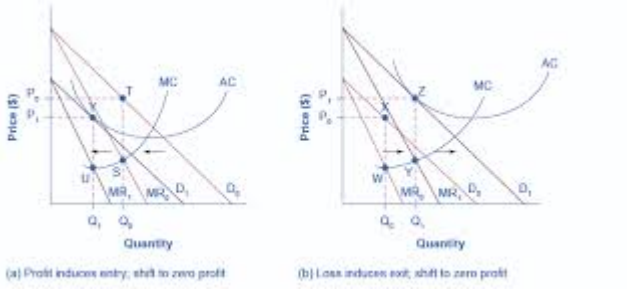
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Question Number	Indicative content	Mark
2 (a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis (3 marks): e.g.** • Productivity must be GDP / input (or per hour worked) to have sense of output relative to input (1) sense of relative efficiency (1) • Nominal values meaning e.g. inflation is included in the figures (1) so useful firms when calculating how much revenue they have earned (1) • PPPs means e.g. that the relative cost of living is taken into account, or the figures are adjusted according to the relative purchasing power (1) • Makes comparison easier across countries (1) and time (1) and meaningful in the same currency (1) **Application (2 marks for 1 point, or 1 + 1)** Award valid data use only e.g. • US produces 28% more per hour (1) than the UK (1)	**(5)**

Question Number	Indicative content	Mark
2 (b)	**Knowledge 2, Application 2, Analysis 2** **Evaluation 2** **Knowledge/implicit understanding of one reason** • Higher employment/employment has not fallen in line with falls in GDP (productivity puzzle) • Inefficient businesses e.g. zombies • Costs of laying off workers is high e.g. labour hoarding – both in terms of severance and loss of human capital • Workers do not want to leave, because of pensions/higher living costs/lack of confidence about finding another job after the biggest crash since the 1930s • Low interest rates have meant workers can be kept on despite falling sales and output, as profits are kept positive • Later retirement age • Lack of investment/FDI in UK (1) e.g. in advanced technology (1) • Numbers in higher education **NB do not award longer working hours unless clearly linked to hourly impact (Figure 4 is hourly productivity)** e.g. diminishing marginal productivity. Award only the **one** best reason given. **Analysis** • Development of **one** point, up to two marks for one valid factor e.g. the firm firms cannot reach their potential (1) at their predicted level (1) **Application:** (2 or 1+1) • Use of Figure 4 to show difference between actual and potential figures • This might be shown using a PPF or AD/AS diagram (1) • Use of UK recent events e.g. financial crisis (1) • **NB At least one application mark is reserved for use of Figure 4.**	

	Evaluation (2 marks for any relevant point, or two points 1 +1): • Problems in data – productivity is being measured the wrong way • Trend likely to reverse after recovery from downturn 2020/2021 • As employment falls from events in 2020 the trend might reverse (output per worker will rise if there are fewer workers) • Magnitude of productivity gap is cause for alarm • Reasons why productivity is growing in other countries – or other comment e.g. that the relative productivity (Fig 3) is more significant	**(8)**

Question Number	Indicative content	Mark
2 (c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • Changing consumer trends • Higher business rates and other costs • Use of diagram to show shut down point • Explanation of diagram to explain why firms leave, e.g. P<AVC • X-inefficiency in shops • Low value added shops have to compete with online **Application** • Competition from online • Use of Extract to give examples, e.g. Maplin could not compete with online similar products • Inflation has reduced the amount you can buy with £1 – Poundworld was not viable • These are saturated market with many new entrants • Large rental bills and higher business rates cannot be met and banks are unwilling to lend/ provide extensions to overdrafts • Falling consumer confidence Example of costs diagram (can use AC or ATC)  Example of revenue diagram:	

	 **NB for a level 3 response there must be at least one valid diagram. The diagram can show either a fall in AR/MR or a rise in costs, or both. The diagram also earns credit as a static diagram, but explanation of changes is still required.**	**(8)**

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Question Number	Indicative content	Mark
2 (c) continued	**Evaluation 4** • Some high street stores are doing well, e.g. coffee shops and cafes • Other regeneration of the high street is possible • Many companies are responding to threats from online by extending their online presence • Diagram might be used as part of evaluation, e.g. it depends on whether costs also fall as demand falls. Homebase is seeking lower rents (fixed costs fall). • Firms will stay in business in the short run if they are making a contribution towards fixed costs, i.e. P>AVC. This might be illustrated with a diagram e.g.	**(4)**

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Question Number	Indicative content	Mark
2 (d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic policies to improve competitiveness may include: • Labour force policies e.g. changing NMW will affect ULCs • Increased level capital by making investment more profitable/subsidy • Infrastructure spending e.g. Crossrail • Investment in education/skills or cutting/capping university fees • Joint ventures with global companies e.g. Dyson Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness. Also award policies that are protectionist. • Tax and benefit changes e.g. corporation tax • Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation • Actions of other institutions e.g. banks, schools • Control of price level e.g. stop QE **NB for a Level 4 response there must be micro and macro policy (s). Some factors could be seen as micro or macroeconomics, such as labour market changes, supply side policies** Possible evaluation points include: • Degree to which the policies might be a success • Depends on other countries (relative competitiveness issue) • Depends on the value of the currency which cannot be directly controlled in the UK. • Depends on relationship with the EU after Brexit • opportunity costs of funds • government failure- lack of information to know where to focus funds	**(25)**

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2 (e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: • Loss of human capital and therefore lost incomes, consumer welfare • Firms may have unfilled vacancies. Effects on costs • Falling incomes in the UK mean reduced sales • Skills shortages may create a need for employment of migrant workers • Extra costs associated with training staff to up skill them Macroeconomic effects may include: • Shift in SRAS or LRAS might be drawn as costs of production rise, productivity worsens, capacity reduces • Effects of immigration to fill gaps in labour market • Effect on current account as UK economy becomes uncompetitive • Falling tax revenues and increased G – fiscal implications **NB for a Level 4 answer there must be reference to the context of young workers in the specific country's context (UK or any other)** **NB for a Level 4 response there must be micro and macro effects.** Possible evaluation points include that the effect depends on: • Effects of Brexit may mean it is harder to fill vacancies for firms using skilled EU labour • Data may be misleading – difficult to measure human capital • Comment on the priority literacy/numeracy is vital to long term viability of workforce. Should funding increase for education? • There will always be a demand for low skilled workers • Some evidence that most UK young people are better educated 2016 data- improvements likely with reforms to KS2, GCSE and A Levels focusing more on literacy and numeracy/quantitative skills. • Some with poor literacy and numeracy have been highly successful entrepreneurs - there are famous (but statistically rare) examples!	**(25)**

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