PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



MARK SCHEME

UNIT 2: AGGREGATE SUPPLY (AS)

SCORE	PERCENTAGE
/64	%

STEMUP

These questions belong to Pearson Edexcel, not to us.

The examination questions, mark schemes and examiner comments in this pack were written and published by Pearson Edexcel. They are past assessment materials, reproduced here so that students can revise from them.

What we do not own

STEMUP is not affiliated with Pearson Edexcel and does not own, and makes no claim to own, any of the question, mark scheme or examiner report material in this pack. Pearson Edexcel has not endorsed, approved or been involved in the production of it. Pearson Edexcel and the qualification titles used here belong to their respective owners and appear for identification only.

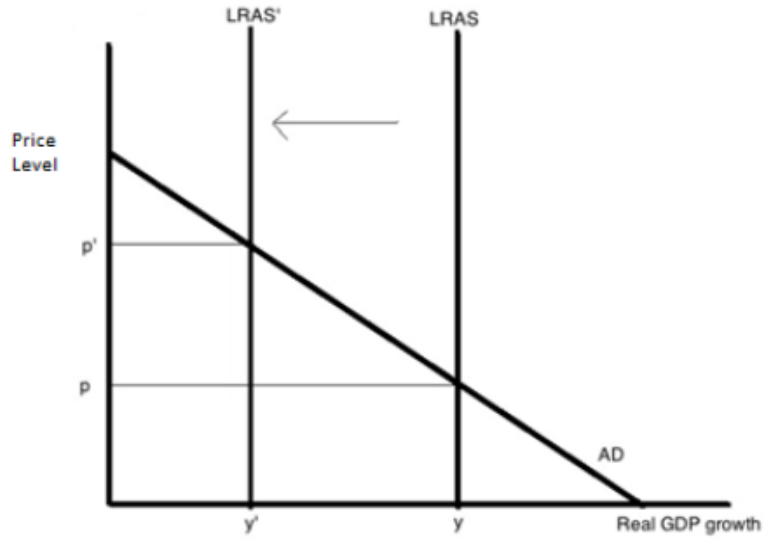
Where to find the originals

Pearson Edexcel publishes its past papers, mark schemes and examiner reports free of charge. Always check the current specification at qualifications.pearson.com before you revise, because content and wording can change between series.

If you hold the rights to any material in this pack and would like it amended or removed, contact admin@stemup.co.uk and we will act on it.

Mark Scheme

Q1.

Question	Explain **one** possible effect of this change in net migration on Lithuania's long-run aggregate supply. **Answer**	Mark
	Knowledge 1, Application 1, Analysis 2 **QS2:** Calculate, use and understand, percentages, percentage changes and percentage point changes **Knowledge** 1 mark for: • Knowledge of net migration e, g Net migration is immigration minus emigration **(1)** • Knowledge of/or drawing of a LRAS curve (Keynesian/ Classical)**(1)** **Analysis** Up to two marks for: • Reduction in productive capacity/fall in factors of production **(1)** • If skilled labour leaves, productivity may fall **(1)** • Identification of/or diagram showing leftward shift/decrease in LRAS **(1)**  **Application** One mark for applying to Lithuania e.g.: • Net migration has fallen from 1.4% to -6.1% **(1)** • Net migration was positive and now negative **(1)** • Net migration has fallen by 7.5 percentage points **(1)** • More people now emigrate from Lithuania and immigrate to the country **(1)**	**(4)**

Q2.

Question	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because the classical LRAS will be perfectly inelastic, and the economy will be operating at full capacity* ***C*** *is not correct because the economy will be operating at full capacity* ***D*** *is not correct because at full employment level of real output, the classical LRAS would be perfectly inelastic*	**(1)**

Q3.

Question	With reference to Extract A, examine the likely impact on Japan's real output of the fall in domestic consumption.	Mark
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for understanding of real output, e.g.: • Output adjusted for inflation **(1)** *AND* 1 knowledge mark for identifying the impact: • Fall in Japan's real output **(1)** **Analysis** Up to 2 marks for analysing the impact (1+1), e.g.: • Consumption is a component of AD (C+I+G+(X-M)) **(1)** so AD is likely to fall (this can also be shown on an accurately drawn AD/AS diagram) **(1)** • Higher savings **(1)** so increases withdrawals from Japan's circular flow of income **(1)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Fall in domestic consumption … remained a concern **(1)** • Makes up more than half of Japan's economy **(1)** • Fell by 0.5% **(1)** • Consumers in Japan experienced significant increases in the prices of goods and services **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of the fall in domestic consumption is relatively small **(1)** so impact on real output is insignificant **(1)** • The impact on real output may be reversed in the long-run if the exchange rate gets stronger **(1)** and Japanese imports become relatively cheaper **(1)** • Real output may not fall in long-run **(1)** if other components of AD rise, e.g. government spending **(1)** • Impact on real output depends on elasticity of LRAS **(1)**; real output will decrease if AD lies on elastic segment of LRAS **(1)**	**(8)**

Q4.

Question Number	Indicative content
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms.

	Knowledge, application and analysis (12 marks) – indicative content
	Falling oil prices are beneficial to an economy because:
	• For economies which are net importers of oil, this will lead to a decrease in the value of their imports, ceteris paribus. This will:
	  ○ Reduce a trade/current account deficit, meeting one of the government's macroeconomic objectives.
	  ○ Reduce downward pressure on/increase AD in the economy (may be shown diagrammatically), leading to an increase in real GDP and average incomes, and an increase in employment.
	  ○ Positive multiplier effects.
	  ○ An increase in average incomes and an increase in employment is likely to improve the government's budget balance.
	• Costs of production for firms will fall, leading to a rise/rightward shift in SRAS (may be shown diagrammatically). Ceteris paribus, this will:
	  ○ Decrease cost-push inflationary pressures in the economy, helping to achieve the macroeconomic objective of a low and stable rate of inflation.
	  ○ Increase real GDP and average incomes in the economy.
	  ○ **An increase in average incomes and employment is likely to improve the government's budget balance**.
	• For economies which are net exporters of oil, this may encourage them to diversify their economies and reduce their reliance on oil, which may be beneficial in the longer term.
	
	NB Candidates only need to develop one of these two lines of argument for a L4 KAA mark.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content
	
	Falling oil prices may not be beneficial to an economy because:
	• For economies which are net exporters of oil, this will lead to a decrease in the value of their exports, ceteris paribus. This will:
	  ○ Increase a trade/current account deficit, going against one of the government's macroeconomic objectives.
	  ○ Put downward pressure on AD in the economy (may be shown diagrammatically), leading to less economic growth, downward pressure on average incomes, and a reduction in employment.
	  ○ Negative multiplier effects.
	  ○ A decrease in average incomes and a decrease in employment is likely to worsen the government's budget balance.
	• If this causes an increase in the quantity of oil used, it may be negative for the environment/a fall in the price of oil may disincentivise the creation/adoption of renewable energy production.
	
	General evaluation points:
	• Effects depend on how much oil prices fall by and how long they stay low.
	• Effects of a change in AD on real GDP depend on the level of spare capacity in the economy; the size of the multiplier ratio; and whether a Classical or Keynesian LRAS curve is used.
	• There is likely to be a time lag before effects are felt.
	• A decrease in inflation may not be beneficial if an economy's inflation rate is at or below target.
	• Effects on costs of production/SRAS depend on the structure of the economy/adoption of green production methods etc.
	• Different effects on different economies.
	• Economies which are more specialised in oil production will be affected more significantly.
	
	NB This answer is reversible, i.e. candidates may argue either way for KAA and the reverse for evaluation.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q5.

Question	Examine the likely impact on the UK's real output of 'the rising cost of energy' (Extract A, line 4).	Mark
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for understanding of real output, e.g.: • GDP/income adjusted for inflation **(1)** *AND* 1 knowledge mark for identifying the impact: • Fall in UK's real output (this can be shown on an accurately drawn AD/AS diagram) **(1)** **Analysis** Up to 2 marks for analysing the impact (1+1), e.g.: • Net trade is likely to decrease **(1)** and as net trade is a component of AD (C+I+G+(X-M)), AD is likely to fall (this can be shown on an accurately drawn AD/AS diagram) **(1)** • May result in AD shifting to the left **(1)** because the value of imports will increase/ Imports are withdrawals from the circular flow of income **(1)** • May result in SRAS shifting to the left **(1)** as energy is a key input used in the production process (this can be shown on an accurately drawn AD/AS diagram) **(1)**	

	Application Up to 2 marks for reference to Extract A, e.g.: • Price of natural gas rose by more than 100% **(1)** • The UK is a net importer of natural gas **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of the increase in the cost of energy/price of natural gas is very large at 100% **(1)** so the impact on UK's real output is likely to be highly significant **(1)** • Real output may not fall/may increase if exports of UK services **(1)** are rising at a faster rate than UK imports of goods **(1)** • Impact on real output depends on elasticity of the LRAS **(1)**; real output will only decrease if AD lies on the elastic segment of the LRAS **(1)** • Real output may not fall in long-run **(1)** if other components of AD rise, e.g. consumption **(1)** • Depends on the reliance on natural gas **(1)** as to the extent of the shift in AS **(1)** • Forward markets may reduce the impact in the short-run **(1)** so SRAS may not shift **(1)**	**(8)**

Q6.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct as SRAS will shift outwards* ***C*** *is not correct as LRAS will shift outwards* ***D*** *is not correct as AD will shift inwards*	**(1)**

Q7.

Question	Quantitative skills assessed	Answer	Mark
	-	D	**(1)**

Q8.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because this is likely to have caused a decrease in investment* ***C*** *is not correct because this is likely to have caused a decrease in investment* ***D*** *is not correct because this is likely to have caused a decrease in investment*	**(1)**

Q9.

Question Number	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because at the full employment level of real output, the LRAS would be perfectly inelastic* ***C*** *is not correct because the LRAS would be perfectly elastic at high levels of spare capacity* ***D*** *is not correct because the LRAS would be perfectly elastic at high levels of spare capacity*	**(1)**

Q10.

Question	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because the classical LRAS is perfectly elastic when there is a high level of spare capacity* ***B*** *is not correct because the classical LRAS is perfectly elastic when there is a high level of spare capacity* ***C*** *is not correct because the classical LRAS curve is perfectly inelastic at the full employment level of real output*	**(1)**

Q11.

Question	Examine **two** likely macroeconomic effects of 'significant wage increases' (Extract A, line 21) on the UK economy. **Answer**	Mark
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	

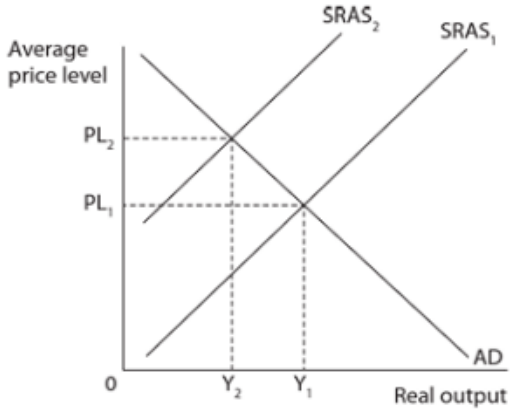
	Knowledge and analysis Up to 2 marks for identifying two likely effects of wage increases and 1 analysis mark for each linked development e.g.: • Decrease in real output **(1K)** as the SRAS is likely to shift to the left/inwards due to rising costs **(1AN)** • Increase in cost-push inflation **(1K)** as workers demand higher wages because their real income eroded by inflation/firms can pass higher costs to consumers in form of higher prices **(1AN)** • Increase in unemployment **(1K)** as there will be lower demand for labour/firms are likely to introduce more capital-intensive methods of production in their operations **(1AN)** • Deterioration in the balance of trade **(1K)** because the higher wages can cause firms costs to rise resulting in higher export prices/more imports due to greater marginal propensity to import **(1AN)** • Increase in living standards/national happiness **(1K)** as these increases in real wages would enable people to access more goods and services **(1AN)** • Greater consumption **(1K)** as higher wages will increase the workers affordability of goods and services/increase workers demand for goods and services/AD increases **(1AN)** • Higher productivity **(1K)** as workers become more motivated to work harder/if firms replace workers with capital **(1AN)** • Increased tax revenue for the government **(1K)** from greater income tax/indirect taxes **(1AN)** **NB Accept negative effects as KAA and positive effects as Evaluation (and vice versa)**	

	Application Up to 2 marks for use of the reference to context, e.g., • Have been experienced especially in the jobs where severe shortages exist **(1)** • Rising wages could incentivise businesses to invest in labour-saving machinery and staff training **(1)** • Concern that these wage increases will harm the UK economy unless it is supported by higher productivity **(1)** • An accurately drawn and labelled AD/SRAS diagram **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of the wage increase is relatively large **(1)** as the wage increases have been 'significant', so impact is likely to be considerable **(1)** • In the short-run, wage increases will have a sizable impact on inflation/real output **(1)** as any positive impact on productivity will take time to come into effect **(1)** • Impact on inflation depends on whether there has been an increase in real wages or nominal wages **(1)** as an increase in real wages is likely to raise living standards **(1)** • The increase in living standards will only occur if the nominal wages increase faster **(1)** than the rate of inflation **(1)**	**(8)**

Q12.

Question	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as this will increase aggregate demand* ***B*** *is not correct as this will cause a rightward shift in the SRAS curve* ***D*** *is not correct as this will increase aggregate demand /shift the LRAS curve to the right*	**(1)**

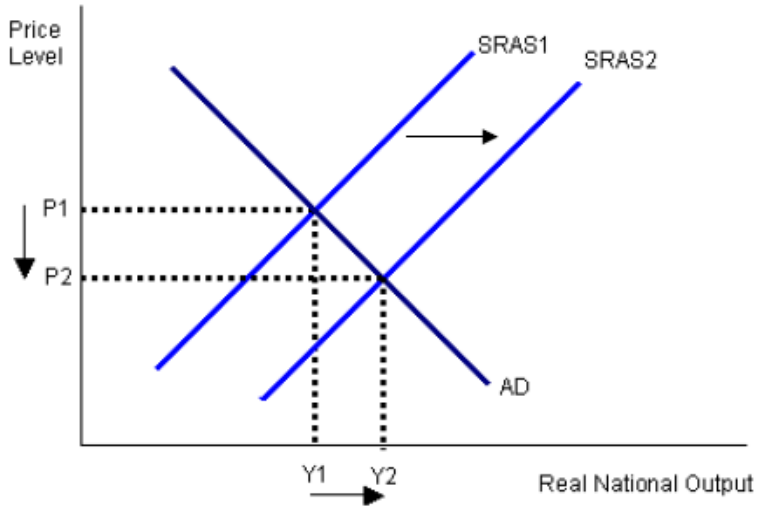
Q13.

Question	Draw a SRAS and AD diagram to show the effect of this increase in the price of coal on the price level **and** real output for Japan.	Mark
	Knowledge 1, Application 3 **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** Correctly drawn SRAS and AD curves with correctly labelled axes **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing SRAS shifted to the left **(1)** • New equilibrium showing correct higher price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct lower real output/ income/GDP **(1)** (not rewarded if 'quantity' is used on axis) **NB: also allow a SRAS/AD diagram showing both a decrease in SRAS and a decrease in AD** as follows: • Drawing both SRAS and AD shifted to the left **(1)** • New equilibrium showing correct price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct lower real output/ income/GDP **(1)** (not rewarded if 'quantity' is used on axis) **NB: also allow a SRAS/AD diagram showing a decrease in AD**	**(4)**

Q14.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as this will shift the AS curve* ***B*** *is not correct as this will shift the AS curve* ***D*** *is not correct as this will shift the AS curve*	**(1)**

Q15.

Question Number	Answer	Mark
	Knowledge 1, Application 3 **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.  **Knowledge** Correctly drawn original AD/SRAS diagram with correctly labelled AD/SRAS curves **(1)**	

	Application Up to 3 marks for the following information included on the diagram: • Drawing SRAS shifted to the right **(1)** • New equilibrium showing correct lower price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct higher real output/income/GDP/Y **(1)** (not rewarded if 'quantity' is used on axis) **NB: also allow an AD/SRAS diagram showing and/or an increase in AD (as value of oil imports falls)**, as follows: • Drawing AD shifted to the right (1) • New equilibrium showing correct price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct higher real output/income/GDP/Y **(1)** (not rewarded if 'quantity' is used on axis)	**(4)**