

Pearson Edexcel A Level in Economics A



SAMPLE ASSESSMENT MATERIALS

Pearson Edexcel Level 3 Advanced GCE in Economics A (9EC0)

First certification 2017

Issue 1

Edexcel, BTEC and LCCI qualifications

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Introduction

The Pearson Edexcel Level 3 Advanced GCE in Economics A is designed for use in schools and colleges. It is part of a suite of GCE qualifications offered by Pearson.

These sample assessment materials have been developed to support this qualification and will be used as the benchmark to develop the assessment students will take.

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.

Write your name here

Surname

Other names

Pearson Edexcel
Level 3 GCE

Centre Number

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Candidate Number

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Economics A

Advanced

Paper 1: Markets and business behaviour

Sample assessment material for first teaching
September 2015
Time: 2 hours

Paper Reference

9EC0/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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SECTION A

Answer ALL questions. Write your answers in the spaces provided.

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

- 1 At the start of the 2012–13 football season the average ticket price in the top four English football leagues increased by 11%. During the 2012–13 season attendance fell 5%.

(Source: <http://www.espn.co.uk/football/sport/story/237339.html>)

- (a) With reference to the data provided, calculate the price elasticity of demand for football tickets in the English football leagues. You are advised to show your working.

(2)

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- (b) Derby County Football Club has found that the price elasticity of demand for their tickets is -0.3 . Demand for their tickets is:

(1)

- A perfectly price elastic
- B perfectly price inelastic
- C relatively price elastic
- D relatively price inelastic

Answer

(c) Given the price elasticity of demand for Derby County Football Club's tickets, explain the likely impact on their revenue of an increase in ticket prices.

(2)

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(Total for Question 1 = 5 marks)

2 The table shows the quantity of PlayStation 4 games demanded and supplied.

Price	Quantity demanded per month (000s)	Quantity supplied per month (000s)	New quantity supplied per month (000s)
£25	400	320	
£30	360	360	
£35	320	400	
£40	280	440	
£45	240	480	

As a result of an increase in packaging costs for the games, supply decreased by 80 000 at all prices.

(a) Calculate the change in equilibrium price given the increase in packaging costs. Use the last column for your workings.

(4)

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(b) PlayStation 4 games and PlayStation 4 consoles have a negative cross-elasticity of demand. This implies that these goods are:

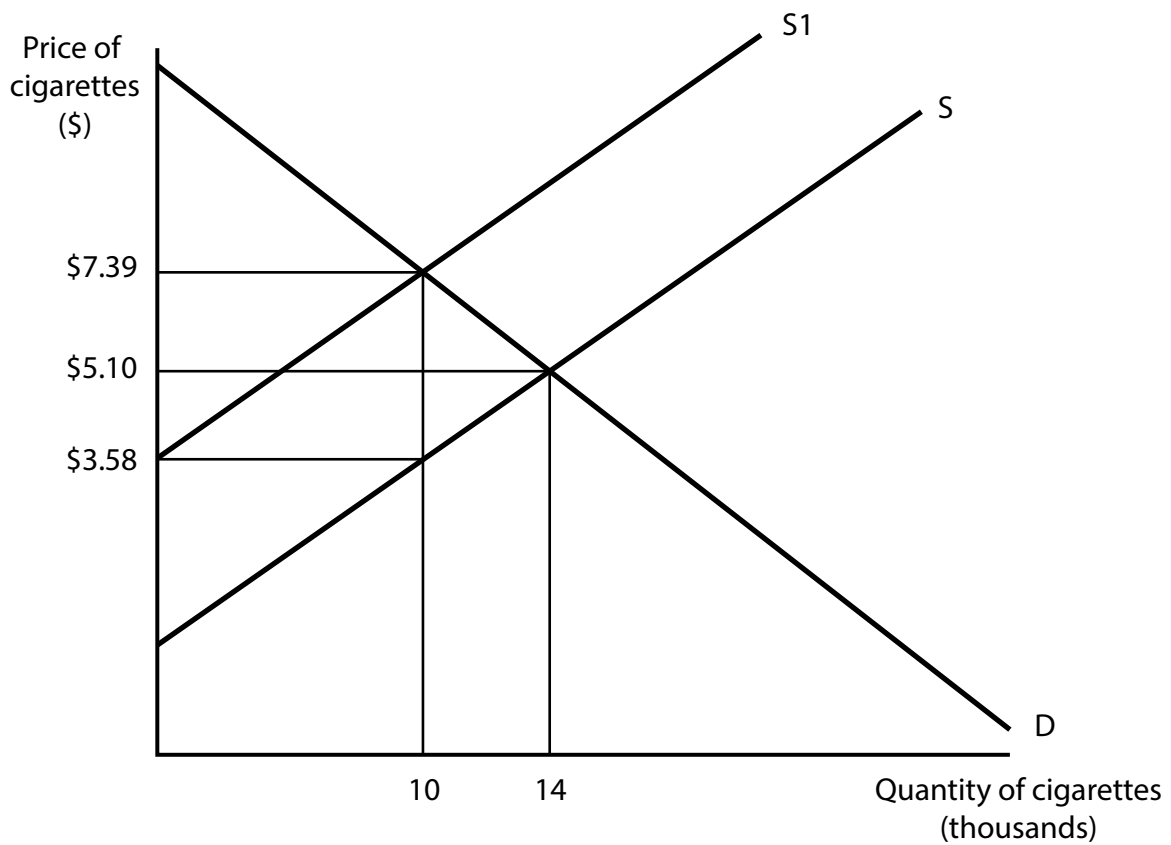
(1)

- A** complements
- B** inferior
- C** normal
- D** substitutes

Answer

(Total for Question 2 = 5 marks)

3 Hawaii has a tax on packets of cigarettes. The diagram below shows the effect of this tax.



(a) The tax imposed on a packet of cigarettes in the diagram above is an example of: (1)

- A an income tax
- B a subsidy
- C a specific tax
- D an ad valorem tax

Answer

(b) Calculate the total incidence of the tax on consumers. You are advised to show your working.

(2)

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(c) Calculate the total tax revenue. You are advised to show your working.

(2)

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(Total for Question 3 = 5 marks)

- 4 The following table shows the sales (millions) of tablet computers in quarter 3, 2012 and quarter 3, 2013:

Sales of tablets (millions)		
Manufacturer	Quarter 3, 2012	Quarter 3, 2013
Apple	14.0	14.1
Samsung	4.3	9.7
Asus	2.3	3.5
Lenovo	0.4	2.3
Acer	0.3	1.2
others	13.5	16.8
Total	34.8	47.6

(Source: <http://appleinsider.com/articles/13/10/30/ipads-marketshare-drops-11-in-q3-on-lack-of-new-models-android-posts-significant-gains>)

- (a) The 3-firm concentration ratio in quarter 3, 2012 was 59.2%.
Calculate the 3-firm concentration ratio in quarter 3, 2013 in this market.
You are advised to show your working.

(2)

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- (b) It can be deduced from this data that the tablet computer market is:

(1)

- A monopolistically competitive
- B perfectly competitive
- C oligopolistic
- D a natural monopoly

Answer

(c) Explain **one** barrier to entry that is likely to exist in the tablet computer market.

(2)

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(Total for Question 4 = 5 marks)

5 Blackberry made a loss of \$4.4 billion in quarter 3, 2013 but continued to operate.

(a) Explain **one** condition under which loss-making firms might continue to operate in the short-run.

(4)

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(b) If Blackberry is currently a profit-maximising firm but changes its objective to sales maximisation, it can be deduced that Blackberry will move from setting prices at which:

(1)

- A marginal revenue equals zero to where marginal revenue equals marginal costs
- B marginal revenue equals marginal costs to where marginal revenue equals zero
- C marginal revenue equals marginal costs to where average revenue equals average costs
- D average revenue equals average costs to where marginal revenue equals marginal costs

Answer

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

BLANK PAGE
QUESTION 6 BEGINS ON THE NEXT PAGE.

SECTION B

Read Figure 1 and the following extracts (A to C) before answering question 6.

Write your answers in the spaces provided.

Theatre and cinema markets

Extract A

West End ticket prices reach all time high

The price of West End theatre tickets in London has reached an all-time high. In the past year alone, up to January 2013, the average top-price ticket has risen by almost £10 and now stands at £81.05. In January 2013, London theatres announced record numbers of people wanting to buy tickets for shows. Costs of running the theatres have also risen because there are restoration costs to pay and energy costs have increased. This rise in costs is despite some of the theatres in the West End receiving subsidies. 5

(Source: adapted from 'West End theatre tickets more expensive than ever, says The Stage,' by Matt Trueman, *The Guardian*, 5 April 2013
<http://www.theguardian.com/stage/2013/apr/05/west-end-ticket-price-discrepancy>)

Extract B

Cineworld merger with Cinema City International (CCI)

The UK's biggest cinema chain by market share is to enter seven overseas markets through a £900m merger. Cineworld announced that it has agreed to merge with CCI which owns 100 multiplex cinemas in seven countries Bulgaria, Czech Republic, Hungary, Israel, Poland, Romania and Slovakia. The deal is expected to be promoted as a merger of equals although Cineworld is larger than its new partner. The planned merger with CCI follows a fall of 1% in the revenue earned by cinemas in the UK and Ireland in 2013 to £1.17bn. 5

In 2013, Cineworld was ordered by competition regulators to sell three cinemas following its takeover of the Picturehouse chain. This underlined the difficulty of finding new growth opportunities in the company's home market, which was one factor prompting a search for international expansion opportunities. 10

Cineworld's UK-based rivals have also grown overseas, with Odeon UCI having a presence in seven countries, while Canadian-owned Vue Entertainment has cinemas in Portugal, Taiwan, Germany and Denmark.

The combined group is to be run by CCI's chief executive, although other senior management will be drawn from the ranks of both companies and the board will have more Cineworld board members. 15

(Source: adapted from 'Cineworld Targets Europe With £900m Merger,' By Mark Kleinman, Sky News, 9th January 2014
<http://news.sky.com/story/1192823/cineworld-targets-europe-with-900m-merger>)

Extract C

Cineworld investigation by Competition Commission (competition regulator)

Cineworld had to sell cinemas in three towns after the Competition Commission (CC) concluded that its acquisition of the Picturehouse chain would lead to higher prices for customers in Aberdeen, Bury St Edmunds and Cambridge. While Cineworld operates mainly in large out-of-town-centre cinemas, Picturehouse's cinemas tend to be smaller and located in city centres.

5

The CC has concluded that the acquisition could lead to a substantial lessening of competition in the cinema market in Aberdeen, Bury St Edmunds and Cambridge – where Cineworld and Picturehouse face limited competition.

(Source: <http://www.competition-commission.org.uk/media-centre/latest-news/2013/aug/cineworld-could-have-to-sell-cinemas>)

Adult (19–59 yrs)	£9.60
Child (2–14 yrs)	£6.80
Student (15–18 yrs)	£7.30
Senior (60+ yrs)	£7.30
Family of 4	£29.80

Figure 1

Cineworld (London) cinema ticket prices after 5pm

6 (a) Explain why the price of 'the average top-price ticket has risen by almost £10'
(Extract A, line 2). Use a supply and demand diagram in your answer.

(5)

A large rectangular area containing 25 horizontal dotted lines for writing the answer.

(b) Examine **two** reasons Cineworld plans to merge with CCI.

(8)

A series of 20 horizontal dotted lines for writing the answer.

(c) With reference to Figure 1, discuss the likely impact of price discrimination on Cineworld's profit. Include an appropriate diagram in your answer.

(12)

A large rectangular area with rounded corners, containing 25 horizontal dotted lines for writing the answer.

(e) Discuss the likely impact of 'a substantial lessening of competition in the cinema market in Aberdeen, Bury St Edmunds and Cambridge' (Extract C, line 6–7).

(15)

A series of horizontal dotted lines for writing the answer.

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

7 'Tradable permits are less effective than taxation in reducing carbon emissions.'

To what extent do you agree with this statement?

(Total for Question 7 = 25 marks)

OR

8 Evaluate the likely microeconomic impact of an increase in the UK national minimum wage.

(Total for Question 8 = 25 marks)

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

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TOTAL FOR SECTION C = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

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Question Number	Answer	Mark
1(a)	<p style="text-align: center;">Application 2</p> <p>Application: 1 mark for applying the formula and 1 mark for correct answer</p> <ul style="list-style-type: none"> Calculate the PED $5/11 (1) = 0.4545 (1)$ <p>NB if the answer given is 0.4545 award 2 marks.</p>	(2)

Question Number	Answer	Mark
1(b)	D	(1)

Question Number	Answer	Mark
1(c)	<p style="text-align: center;">Knowledge 1, Analysis 1</p> <p>Knowledge/understanding: 1 mark for identifying the impact of the change in price and quantity</p> <p>Analysis: 1 mark for linking this to overall impact on total revenue, e.g.</p> <ul style="list-style-type: none"> relatively inelastic demand so additional revenue earned from additional price will be greater than lost revenue due to lost quantity (1) so as price rises total revenue rises (1) may be illustrated diagrammatically – showing total revenue rising as price rises (1) with inelastic demand. (1) 	(2)

Question Number	Answer	Mark																								
2(a)	<p style="text-align: center;">Application 2, Knowledge 2</p> <p>Application: up to 2 marks for completing the table accurately. 1 mark for any correct answer in the column and 2 for all accurately complete/completed to the appropriate point.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Price</th> <th>Quantity demanded per month (000s)</th> <th>Quantity supplied per month (000s)</th> <th>New quantity supplied per month (000s)</th> </tr> </thead> <tbody> <tr> <td>£25</td> <td>400</td> <td>320</td> <td>240</td> </tr> <tr> <td>£30</td> <td>360</td> <td>360</td> <td>280</td> </tr> <tr> <td>£35</td> <td>320</td> <td>400</td> <td>320</td> </tr> <tr> <td>£40</td> <td>280</td> <td>440</td> <td>360</td> </tr> <tr> <td>£45</td> <td>240</td> <td>480</td> <td>400</td> </tr> </tbody> </table> <p>Knowledge/understanding: 1 mark for identifying the original and new equilibrium (1) Current equilibrium price = £30 New equilibrium identified = £35 (where QD = 320 and QS = 320) (1)</p> <p>1 mark for calculating the change in the equilibrium price (1) £35-£30 = £5 increase</p>	Price	Quantity demanded per month (000s)	Quantity supplied per month (000s)	New quantity supplied per month (000s)	£25	400	320	240	£30	360	360	280	£35	320	400	320	£40	280	440	360	£45	240	480	400	(4)
Price	Quantity demanded per month (000s)	Quantity supplied per month (000s)	New quantity supplied per month (000s)																							
£25	400	320	240																							
£30	360	360	280																							
£35	320	400	320																							
£40	280	440	360																							
£45	240	480	400																							

Question Number	Answer	Mark
2(b)	A	(1)

Question Number	Answer	Mark
3(a)	C	(1)

Question Number	Answer	Mark
3(b)	<p style="text-align: center;">Application 2</p> <p>Application: 1 mark for calculating the unit incidence of the tax on consumers and 1 mark for calculating the total e.g.</p> <p>7.39-5.10 = 2.29 (1) x 10 000 = \$22 900 (1)</p> <p>NB if the answer given is \$22 900 award 2 marks.</p>	(2)

Question Number	Answer	Mark
3(c)	<p style="text-align: center;">Application 2</p> <p>Application: 1 mark for tax per packet of cigarettes and 1 mark for calculating the total tax revenue.</p> <p>7.39-3.58 = \$3.81 (1) x 10 000 = \$38 100 (1)</p> <p>NB if the answer given is \$38 100 award 2 marks.</p>	(2)

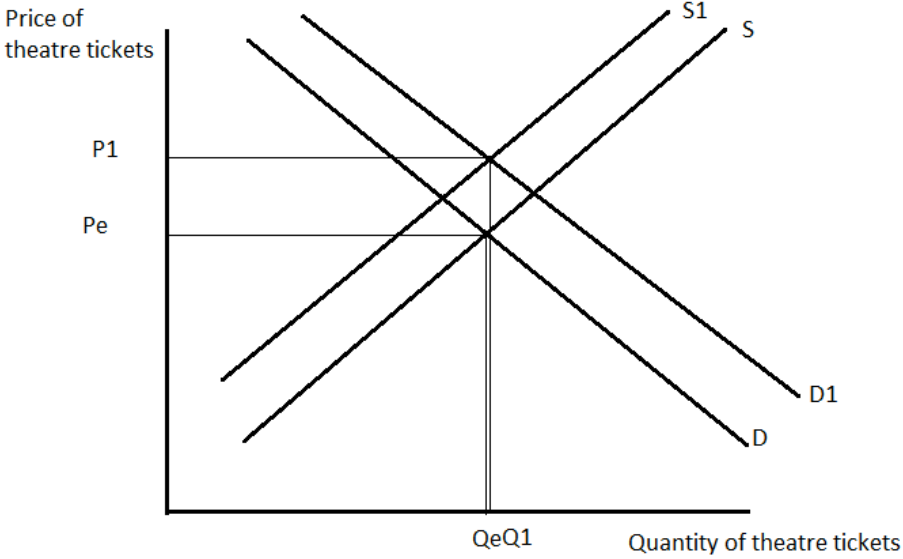
Question Number	Answer	Mark
4(a)	<p style="text-align: center;">Application 2</p> <p>Application: 1 mark for applying the 3-firm concentration formula and 1 mark for accurate answer, e.g. $14.1+9.7+3.5 = 27.3 (1)/47.6 \times 100 = 57.4\% (q3 13) (1)$</p> <p>NB if the answer given is 57.4% award 2 marks.</p>	(2)

Question Number	Answer	Mark
4(b)	C	(1)

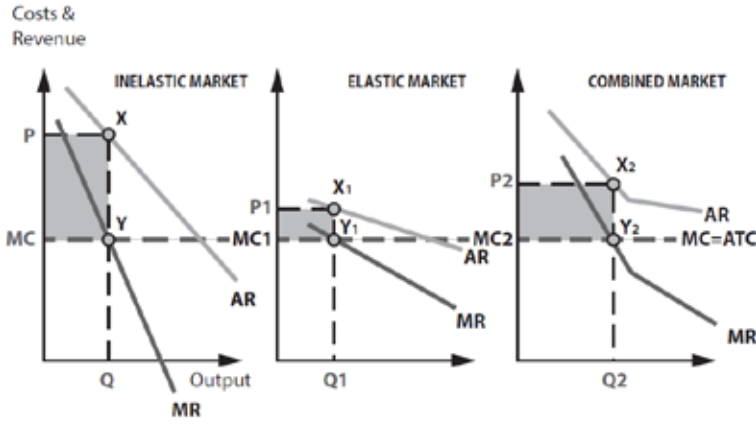
Question Number	Answer	Mark
4(c)	<p style="text-align: center;">Knowledge 1, Analysis 1</p> <p>Knowledge/understanding: 1 mark for identifying barrier to entry</p> <p>Analysis: 1 mark for a linked development, e.g.</p> <ul style="list-style-type: none"> • economies of scale (1) large quantity for Apple, Samsung mean they are likely to reap marketing, purchasing economies (1) • limit pricing (1) where tablet producers lower price below profit maximisation to restrict entrance of competitors (1) • branding (1) significant marketing budgets spent by tablet manufacturers which it would be expensive for new entrants to afford (1) • patents (1) the technology including batteries will be protected meaning competitors cannot replicate (1) • sunk cost (1) costs a lot to invest in manufacturing units which small firms will not have the resources to do. (1) 	(2)

Question Number	Answer	Mark
5(a)	<p style="text-align: center;">Knowledge 2, Application 1, Analysis 1</p> <p>Knowledge/understanding: 1 mark for knowledge of short-run shut down point and 1 mark for identifying that this condition does not hold (this knowledge may be shown by identifying points on a diagram). OR 1 mark for identifying alternative plausible economic reason and 1 mark for development.</p> <p>Application: 1 mark for application to Blackberry.</p> <p>Analysis: 1 mark for linked development. e.g. Short-run shut down point where $AR=AVC$ (1). $AR>AVC$ in short run so continues to operate (1). At Blackberry \$4.4bn loss (1) but each additional unit sold contributes to reducing the size of losses. (1)</p> <p>Diagram showing $AR<AC$ (1) and $AR>AVC$ (1), e.g.</p> <p>Alternative response, e.g.:</p> <ul style="list-style-type: none"> if the firm has significant reserves (1) from previous years that it can cover any losses (1) which at Blackberry were £4.4 billion (1) this means the business continues to operate if it believes it can make future profits. (1) 	(4)

Question Number	Answer	Mark
5(b)	C	(1)

Question Number	Answer	Mark
6(a)	<p style="text-align: center;">Knowledge 1, Application 1, Analysis 3</p> <p>Knowledge/understanding: 1 mark for:</p> <ul style="list-style-type: none"> accurate supply and demand with original equilibrium. (1) <p>Application: 1 mark for identifying either:</p> <ul style="list-style-type: none"> record numbers of people wanting to buy tickets for shows (1) costs of running the theatres has risen to pay for restoration and absorb the cost of booking fees. (1) <p>Analysis: 1 mark for each of the following:</p> <ul style="list-style-type: none"> supply shifted leftwards (1) demand shifted rightwards (1) accurate new equilibrium showing higher price. (1) <p>For example:</p> 	(5)

Question Number	Answer	Mark
6(b)	<p style="text-align: center;">Knowledge 2, Analysis 2, Application 2, Evaluation 2</p> <p>Knowledge/understanding: 2 marks for identification of two reasons (1+1).</p> <p>Analysis: 2 marks for linked explanation of these reasons (1+1).</p> <p>Application: 2 marks for reference to the data (1+1), e.g.</p> <ul style="list-style-type: none"> • to enter seven overseas markets (1) – including Bulgaria, Czech Republic, Romania, Hungary, Israel, Poland, Romania and Slovakia/ operates almost 100 multiplexes (1) which increases the quantity of potential consumers (1) • to establish a European multiplex powerhouse (1) – CCI operates almost 100 multiplexes (1) which increases the quantity of potential consumers at each location (1) • Cineworld was ordered by competition regulators to offload three cinemas following its takeover of the Picturehouse chain (1). Difficulty of finding new growth opportunities in the company's home market (1) so moving abroad enables expansion (1) • industry data by Rentrak showing that UK and Ireland box office takings in 2013 fell by 1% to £1.17bn (1) falling demand in UK (1) and markets in Europe may be growing (1) • rivals have also grown overseas, with Odeon UCI and Vue Entertainment (1) and this suggests is a rational decision for the business to make (1) as their competitors are likely to have moved to maximise profits. (1) <p>Evaluation: 2 marks for two evaluative comments, e.g.</p> <ul style="list-style-type: none"> • however, some of the countries they are moving to are poorer than the UK (1) • even in these countries they will be scrutinised by EU regulation (1) <p>OR 2 marks for identification and linked development e.g.</p> <ul style="list-style-type: none"> • magnitude of fall in cinema sales – fall 1% (1) could just be a bad year for films (1) • unlikely to want to copy them (1) it is more the impact on their competitors' profitability they are concerned about. (1) 	(8)

Question Number	Indicative content	Mark
<p>6(c)</p>	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4</p> <ul style="list-style-type: none"> Define price discrimination. Application- same screening but different prices – examples from data. Third degree price discrimination diagram. <div style="text-align: center;">  <p style="text-align: center;">(Source: www.economicsonline.co.uk)</p> </div> <ul style="list-style-type: none"> If they do not discriminate and $MR=MC$ profit is $P_2MC_2Y_2X_2$. Adults – demand more inelastic so willing to pay more and respond less as price rises. Children – demand more responsive to change in price – elastic. If firms splits up the market and charges different prices to each group the area of profit $PMCYX$ and $P_1MC_1Y_1X_1$ will be greater than if do not discriminate. Profits will rise if they price discriminate depending on different groups elasticities. 	<p>(8)</p>

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
6(c) continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Cost to administer and to ensure people buy only appropriate tickets is expensive. • Assumes they know shapes of demand curves for each group – which they may not. • Even within sub groups very different markets with different sensitivities to price – so could increase profits further with other discrimination. • Ethics/fairness of price discrimination. • Magnitude of price variations – £6.80-9.60. • Depends on proportion of earnings from tickets – other earning (popcorn etc) may be more significant. • Cutting costs may have more of an impact on increasing profits than changing price and revenue. 	(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 context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(d)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <ul style="list-style-type: none"> • Define price and non-price competition. • Identify relevant price and non-price strategies suitable for Cineworld. • Application – competitors such as Odeon and Vue cinema. <p>Benefits and limitations of each can be taken as Knowledge, Application and Analysis, or Evaluation</p> <ul style="list-style-type: none"> • Price wars – lowering the price to attract customers from competition – increasing sales. • Predatory pricing – where a firm prices below AVC/AC of competitors – enables competitors to be driven out of the market and increases sales enabling the firm to drive up prices later. • Price leadership – where Cineworld sets its price first in order for competitors to follow – leading price may enable the firm to under-cut competitors for a time or push up the price as competitors follow. • Limit pricing – keep price low – to avoid firms contesting/entering market – lower price means higher output and sales, lack of competition means less fierce advertising and price reduction needed. <p>Types of non-price competition</p> <ul style="list-style-type: none"> • Advertising – this will raise awareness, interest, desire and action to increase sales of cinema tickets. • Branding – investing in the image, logo, slogan of the business – to build trust amongst customers. 	(6)

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 link between causes and consequences.
Level 2	3–4	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 or the answer may lack balance.
Level 3	5–6	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 applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
<p>6(d) continued</p>	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Price wars – competitors may lower the price also meaning customers are the only ones to benefit, profit margins fall. • Predatory pricing – could get into legal trouble for trying to shut down competitor, if they have reserves they could last a long time driving down your own profits/ reserves. • Price leadership – Cineworld may increase price but competitors may not. • Limit pricing – low price means higher output but lower revenue and profit as not profit maximising. <p>Types of non-price competition</p> <ul style="list-style-type: none"> • Advertising – this will cost money, and may just encourage competitors to do the same making it more costly to remain in market. • Branding – may be a waste of funds as it may not encourage trust or brand loyalty. <p>Other evaluation</p> <p>Game theory</p> <ul style="list-style-type: none"> • Competitors likely to react and adjust price or advertising budgets/so could end up with both with lower price or higher costs in terms of advertising budget. • Pay off matrix may be used to show worst outcome for all. • Magnitude – depends on amount of price adjustment and advertising budget. • Prioritisation of the significance of each factor – whether pricing and non-price will be most important • Short run little change – people do not adjust to price changes straight away/long run may take time for benefits to emerge, e.g. branding. 	<p>(4)</p>

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 context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(e)	<p style="text-align: center;">Knowledge 3, Application 3, Analysis 3</p> <ul style="list-style-type: none"> • Competition Commission (CC) concluded merger would lead to higher prices for customers in Aberdeen, Bury St Edmunds and Cambridge. • Diagram, e.g. monopoly or comparing monopoly and perfect competition. • Increased producer surplus/decreased consumer surplus – fairness. • Deadweight loss from monopolist. • Lack of productive efficiency/allocative efficiency ($P > MC$). • X-inefficiency/organisational slack. 	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	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	4–6	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	7–9	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
6(e) continued	<p style="text-align: center;">Evaluation 6</p> <ul style="list-style-type: none"> • Cineworld operates mainly large out-of-town-centre cinemas, Picturehouse’s cinemas tend to be smaller cinemas located in city centres – not direct competitors. • Other indirect competitors – bowling etc. • Dynamic efficiency, increased profits may be used to innovate. • National pricing operated where it is the same for all locations. • Management monitored by head office so unlikely to develop X-inefficiency. • May revenue maximise or sales maximise due to divorce of ownership. 	(6)

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	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
7	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <ul style="list-style-type: none"> • Definition of external costs. • Identification of external costs likely in the energy market. • Explain the reason for government intervention, e.g. overconsumption and the need to reduce it. • Diagram identifying external costs and the need to reduce it – linking to overproduction/deadweight loss: <ul style="list-style-type: none"> – Indirect taxation – ad valorem and specific – costs rise for firm – reducing supply and quantity/may use funds to compensate third party/increases incentive to move to production of energy with lower external costs. But if demand inelastic just passed on to consumer/little impact on consumer/measurement problem to decide size of tax/may not be reinvested/used to compensate third parties/avoidance/evasion – Tradable pollution permits – how it works/incentive to reduce pollution to be able to sell them/those that do rewarded/ those that don't have added costs/ But only works if right quantity sold/some may not bother if surplus permits/costs to administer/monitor – Extension of property rights – third party can seek compensation. But only those that can afford to pursue will/no guarantee that you can prove they are the guilty party/energy companies large have expensive and powerful lawyers – Regulation – banning or setting limits on energy production. But expensive to police/measurement problem – what limits to set. • Diagrams may be rewarded where appropriate. <p>NB For a Level 4 response, candidates must consider two methods in their answer.</p>	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	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	5–8	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 or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relates them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to 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
8	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Define minimum wage.</p> <p>Positive impacts:</p> <ul style="list-style-type: none"> • above-inflation increase to the rate of £6.31 per hour/ real term rises – could help people cover the rising cost of living • a rise of more than 50p an hour – helps reduce poverty • lowers inequality • higher rewards may improve productivity. <p>Negative impacts:</p> <ul style="list-style-type: none"> • big rise could cost people their jobs • diagram- showing minimum wage above equilibrium – labelling unemployment • above-inflation increase to the rate of £6.31 per hour – could be inflationary • not supporting business – adds to costs/growth • may make informal/ grey economy more attractive for employers to pursue – less protection/less tax revenue <p>Evaluation</p> <ul style="list-style-type: none"> • May not be a problem in many markets where wages are well above minimum wage. • Depends on the proportion of costs that are allocated to wages. • Depends on how labour intensive production is – big impact if labour intensive. • Short term – firms may be slow to adjust to new cost conditions. 	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	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	5–8	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 or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to 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.

Write your name here

Surname

Other names

Pearson Edexcel
Level 3 GCE

Centre Number

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Candidate Number

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Economics A

Advanced

Paper 2: The national and global economy

Sample assessment material for first teaching

September 2015

Time: 2 hours

Paper Reference

9EC0/02

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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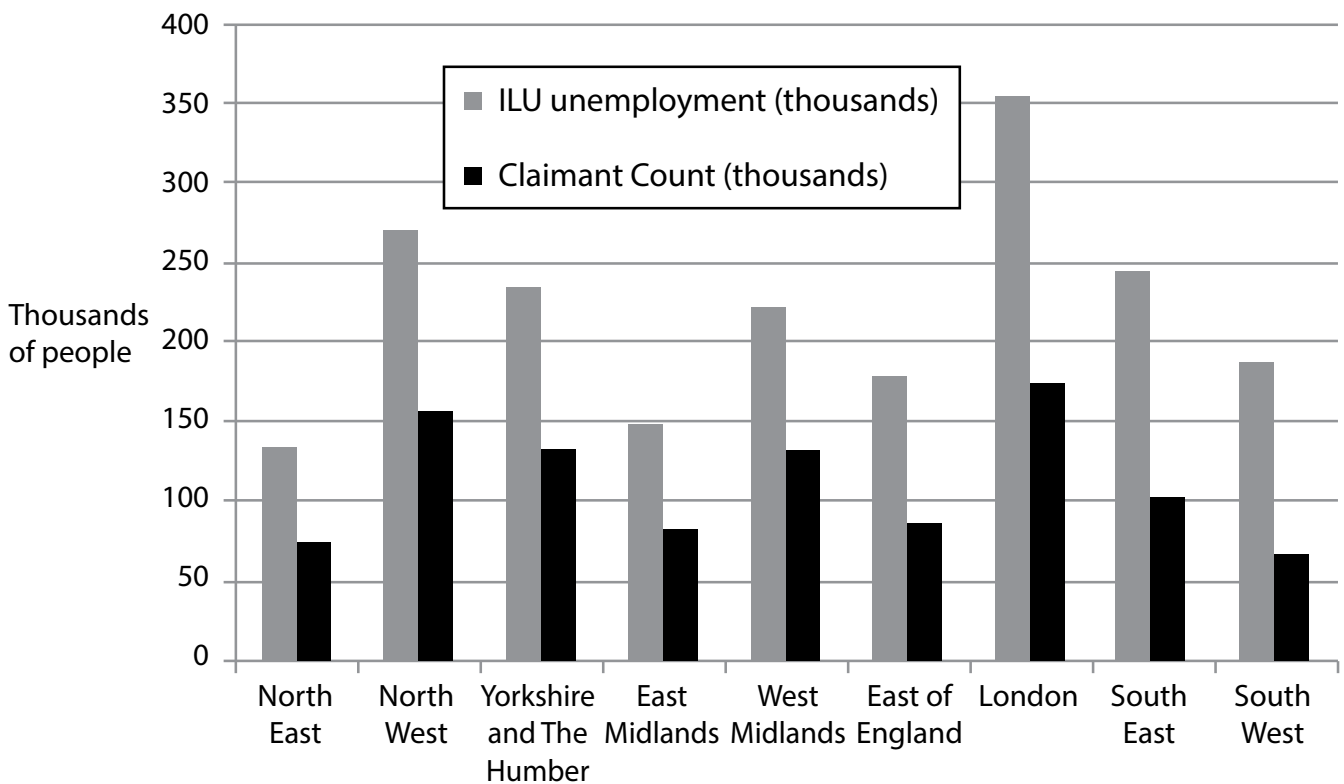
SECTION A

Answer ALL questions. Write your answers in the spaces provided.

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

- 1 The chart below shows UK regional unemployment in December 2013, as measured by both the International Labour Organisation (ILO) measure of unemployment and the Claimant Count.

UK regional unemployment, December 2013 (thousands)



(Source: ONS, Regional Labour Market Statistics, February 2014, <http://www.ons.gov.uk/ons/rel/subnational-labour/regional-labour-market-statistics/february-2014/stb-regional-labour-market-february-2014.html>)

(a) Which **one** of the following can be inferred from the chart?

(1)

- A** The North East had the lowest number of unemployed people according to both measures of unemployment
- B** According to the Claimant Count measure, there were more than twice as many people unemployed in London as in the South East
- C** London had the highest number of unemployed people according to both measures of unemployment
- D** According to the ILO measure of unemployment, there were more than twice as many people unemployed in the North West as in the East Midlands

Answer

(b) With reference to the chart, explain why the ILO measure of unemployment is different to the Claimant Count for all regions.

(4)

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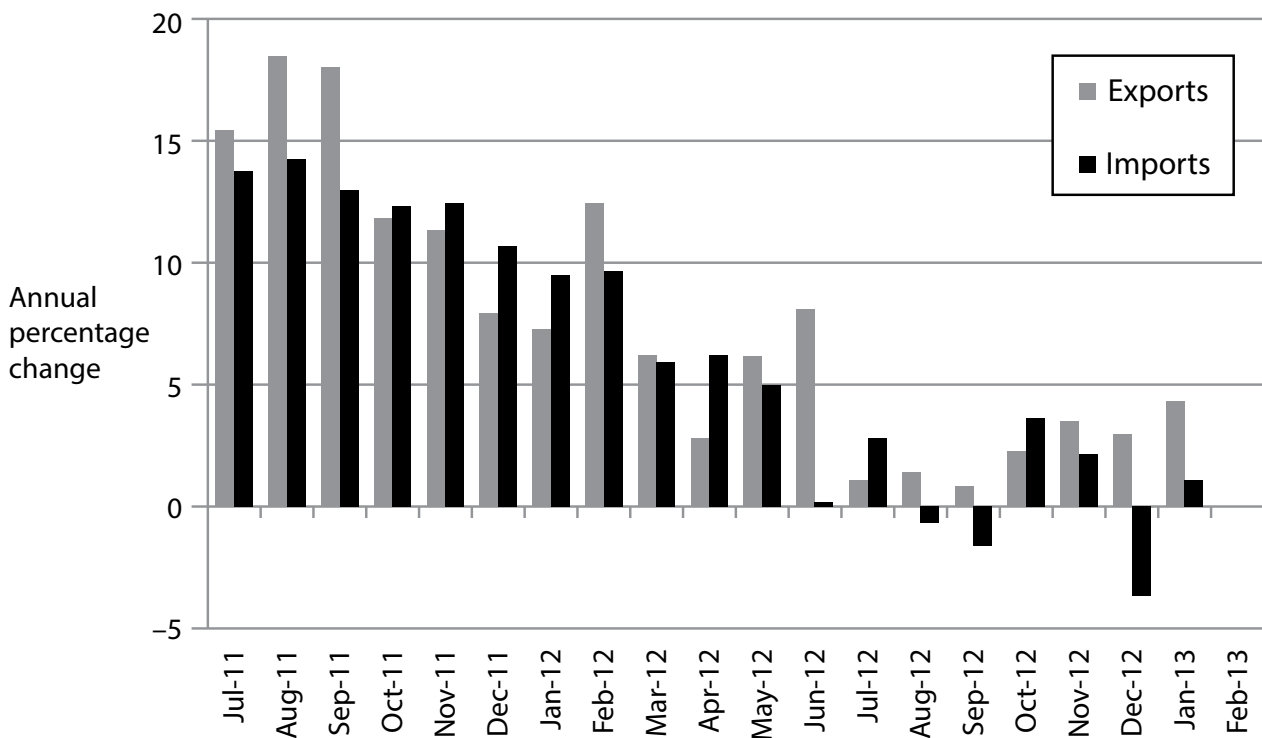
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(Total for Question 1 = 5 marks)

- 2 The chart below shows the annual percentage change in the value of US exports and imports. Throughout this period, the USA has run a trade deficit.

**Annual percentage change in the value of US exports and imports
(nominal values), July 2011–January 2013**



(Source: WTO Press Release, 10 April 2013, Press/688, http://www.wto.org/english/news_e/pres13_e/pr688_e.htm)

- (a) With reference to the chart above, which **one** of the following statements is correct?

(1)

- A In the year to December 2012, the US trade balance improved
- B In the year to September 2012, the US trade balance worsened
- C In the year to November 2011, the US trade balance improved
- D In the year to August 2012, the US trade balance worsened

Answer

(b) Explain the likely effect of an increase in US income tax rates on the US trade balance.

(4)

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(Total for Question 2 = 5 marks)

3 (a) Explain **one** role of financial markets.

(2)

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(b) Explain **one** reason why the UK central bank used quantitative easing following the Global Financial Crisis of 2008.

(2)

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(c) Which **one** of the following would be the most likely cause of market failure in the financial sector?

(1)

- A Banks charge higher interest rates on higher risk loans
- B Banks do not create any external costs or benefits in their operations
- C Banks know that the government will bear the risk of customers defaulting on loans
- D Banks and their customers have symmetric information

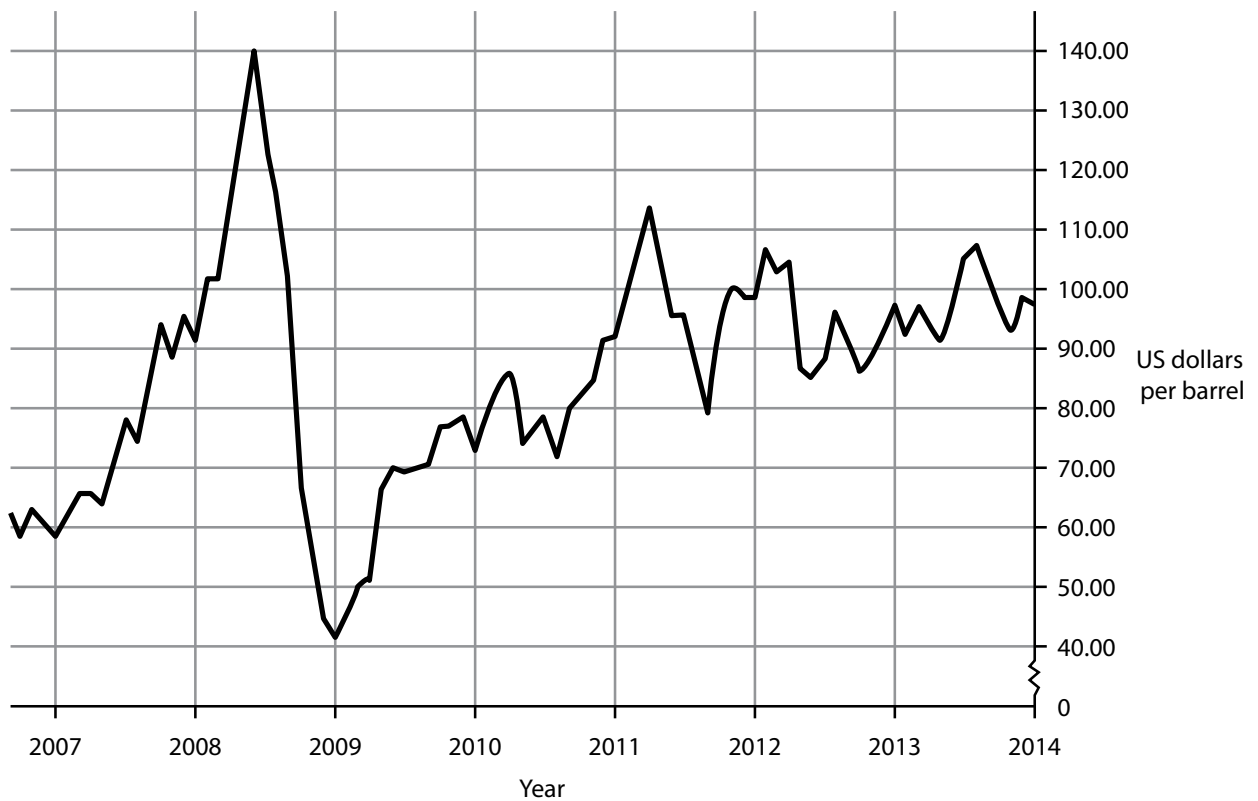
Answer

(Total for Question 3 = 5 marks)

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QUESTION 4 BEGINS ON THE NEXT PAGE.

4 The chart below shows the price of crude oil from 1 January 2007 to 1 January 2014.

Crude oil price, 1 January 2007 to 1 January 2014, US\$ per barrel



(Source: [http://oilprice.com/commodity-price-charts?1=&page=chart&sym=CL*1&name=Crude Oil WTI&domain=advancedmedia&sg=true&display_ice=1&studies=Volume;&cancelstudy=&type=LINE&a=M](http://oilprice.com/commodity-price-charts?1=&page=chart&sym=CL*1&name=Crude%20Oil%20WTI&domain=advancedmedia&sg=true&display_ice=1&studies=Volume;&cancelstudy=&type=LINE&a=M))

(a) The best approximation of the percentage increase in crude oil price per barrel from 1 January 2009 to 1 January 2014 is:

(1)

- A 40%
- B 60%
- C 110%
- D 130%

Answer

(b) An economy is a net exporter of crude oil. Draw an AD/AS diagram to show the effect of an increase in global crude oil price on the equilibrium level of real national output of this economy.

(4)

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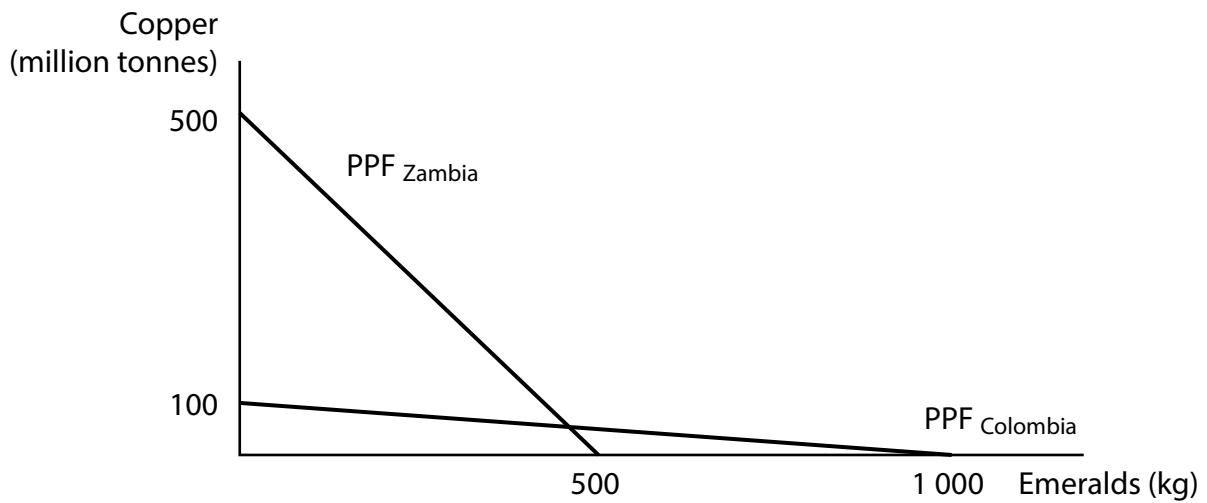
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(Total for Question 4 = 5 marks)

- 5 Colombia and Zambia each produce copper and emeralds. The production possibility frontiers below show the two countries' productive capacities for these goods.



- (a) With reference to the diagram above, which **one** of the following statements is correct? (1)

- A Colombia has an absolute advantage in the production of copper
- B Zambia has an absolute advantage in the production of copper
- C Zambia has an absolute advantage in the production of emeralds
- D Neither Colombia nor Zambia has an absolute advantage in the production of emeralds

Answer

(b) Using appropriate calculations, explain which country has a comparative advantage in the production of emeralds.

(4)

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(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering question 6.

Write your answers in the spaces provided.

The East African Community (EAC)

	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP (US\$ bn)	2.47	37.23	7.10	28.25	19.80
Population (mn)	16.14	62.78	18.21	58.43	48.89
GDP per capita (US\$)	390	483.48	405
GDP per capita PPP (US\$)	483	1 517	1 167	1 380	1 165
HDI	0.355	0.519	0.434	0.476	0.456
IHDI	no data	0.344	0.287	0.346	0.303

(Sources: www.tradingeconomics.com, United Nations)

Figure 1

Economic indicators for the five EAC member countries, 2012

Extract A

Burundi's economic growth

Burundi has maintained a stable macroeconomic environment and over recent years improved its performance in health, education and gender equality. However, in spite of this recent progress, Burundi's economic growth has been modest compared to neighbouring countries in the EAC.

Burundi is a small, land-locked country and is one of the most aid-dependent countries in the world. The country is vulnerable to external shocks, such as volatile food and energy prices, declining aid flows, and the adverse impact of climate change.

5

These factors are made worse by the high proportion of current expenditure in the government budget, and a high level of tax exemptions – counting for as much as 3% of GDP.

10

Coffee and tea make up almost 70% of Burundi's total export earnings. This lack of export diversity makes it difficult to widen the tax revenue base and finance public investments.

(Source: adapted from 'Burundi: more fiscal resilience will improve government effectiveness', All Africa, 19 December 2013, <http://allafrica.com/stories/201312190925.html>)

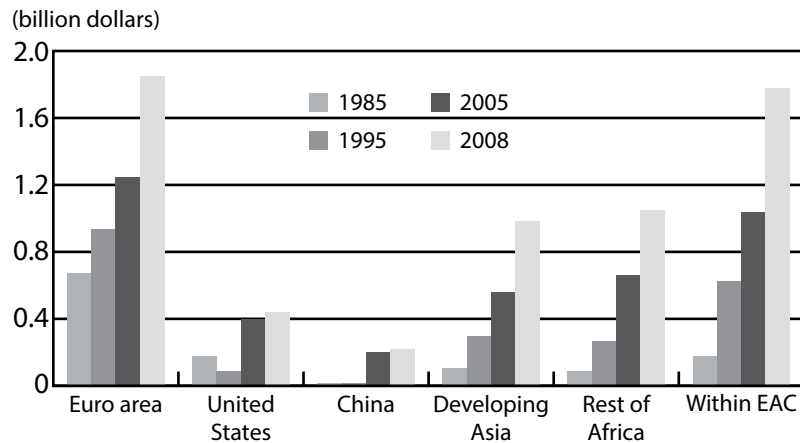


Figure 2

Value of EAC exports 1985–2008 (US\$ billions)

Extract B

Trade in East Africa

The EAC was established as a free trade area in 2000 by Kenya, Tanzania and Uganda, with Burundi and Rwanda joining in 2007. Its objectives are the promotion of free trade and the free movement of capital and labour among its members. In 2013, an agreement was signed outlining plans for launching a monetary union by 2024.

Between 2000 and 2011, lower tariffs within the EAC boosted regional trade, offering the five member countries a route to faster growth. During 2000–10, intra-regional exports increased from US\$700 million to US\$2 billion. Rwanda’s exports have grown the most during this period, from US\$1.6 million to US\$156 million, but are still a fraction of those of Kenya, the region’s largest economy. Kenya’s exports to the other EAC members were about US\$1.2 billion in 2010. In contrast, export growth in Burundi – the poorest member – has remained constant and imports have declined, mainly because of civil war and inferior infrastructure, such as airports, roads, and docks.

5

10

(Source: adapted from 'Trade in East Africa', Finance & Development, IMF, December 2011, Vol. 48, No. 4, <http://www.imf.org/external/pubs/ft/fandd/2011/12/data.htm>)

Extract C

The costs and benefits of monetary union

There are major costs and benefits of a monetary union between EAC members. One of the issues is the different degrees of economic openness of their economies. The level of economic openness is measured by trade as a percentage of GDP. Kenya is the most open economy in the region (60.6%), followed by Tanzania (49.5%), Uganda (41.3%), Rwanda (35.4%) and Burundi (28.8%). However, economic openness has been increasing in all countries except Burundi where the situation deteriorated between 2006 and 2010. These differences in the degree of trade openness indicate that EAC countries may face asymmetric shocks, a situation which does not support the EAC monetary union in the current situation. However, if the observed trends continue, the increase in economic openness will contribute to building a solid foundation for the success of the EAC common currency, which would help to reduce the transaction costs for trade and investment between EAC members.

However, according to the EAC Trade Report, gross intra-EAC trade was only 3.1% of their GDP in 2010. In the EU, by contrast, the value of intra trade was 26% of GDP in 1998 in the area that would adopt the euro; by 2007 this had increased to 33%. Thus trade integration in the EU was much deeper than in the EAC. The benefits, in the form of reduced transaction costs, derived from a common currency were small in the European Monetary Union, and will thus be even smaller in the EAC monetary union.

(Source: adapted from 'Towards a common currency in the East African Community (EAC): issues, challenges and prospects', UNECA, 2012, http://www.uneca.org/sites/default/files/publications/towards_a_common_currency_in_the_eac-2012.pdf)

6 (a) With reference to Figure 1, calculate the ratio of Burundi's GDP per capita to Kenya's GDP per capita in 2012.

(5)

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(b) With reference to Extract A and Extract B, examine **two** factors that constrain economic growth in Burundi.

(8)

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(c) With reference to Figure 1, discuss the use of GDP data as a means of comparing living standards among the five EAC member countries.

(12)

A series of horizontal dotted lines for writing the answer.

(d) Assess the benefits Kenya has gained from its membership of the EAC since 2000.

(10)

A series of horizontal dotted lines for writing the answer.

(e) Discuss the likely costs and benefits of monetary union to the five members of the EAC.

(15)

A series of horizontal dotted lines for writing the answer.

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION C

Answer ONE question from this section.

Write your answers in the spaces provided.

EITHER

- 7 In 2012, it was estimated that Japan's national debt was equal to 214.3% of its GDP, and Greece's national debt was equal to 161.3% of its GDP.

Evaluate the likely impact of measures which a government could take to reduce the economy's national debt. Refer to a developed economy of your choice in your answer.

(Total for Question 7 = 25 marks)

OR

- 8 Over the past 25 years, income inequality has been increasing in many developed countries. For example, from 2007 to 2011 Spain's Gini coefficient rose by 6.0 percentage points, and Ireland's by 6.6 percentage points.

Evaluate the factors which may have caused this **increase** in income inequality. Refer to a developed economy of your choice in your answer.

(Total for Question 8 = 25 marks)

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TOTAL FOR SECTION C = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

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Question Number	Answer	Mark
1(a)	C	(1)

Question Number	Answer	Mark
1(b)	<p style="text-align: center;">Knowledge 3, Application 1</p> <p>Knowledge/understanding: 1 mark each for how ILO and Claimant Count are measured:</p> <ul style="list-style-type: none"> • the ILO measure of unemployment uses the Labour Force Survey/defines someone as unemployed if they are without a job, want a job, and have actively sought work in the last four weeks (1) • the Claimant Count is the total number of people claiming Jobseekers' Allowance/unemployment benefit (1). <p>Possible answers might include:</p> <ul style="list-style-type: none"> • these are measured in different ways • some unemployed people are not eligible to claim JSA • some unemployed people do not wish to claim JSA, or are unaware of their right to claim • LFS may be subject to sampling bias. <p>Application: 1 mark for reference to the chart, e.g.</p> <ul style="list-style-type: none"> • ILO measure is higher than the Claimant Count in all regions. 	(4)

Question Number	Answer	Mark
2(a)	A	(1)

Question Number	Answer	Mark
2(b)	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Knowledge/understanding: 1 mark for identifying:</p> <ul style="list-style-type: none"> • trade balance is the value of exports minus the value of imports (1). <p>Application: 3 marks for a linked explanation:</p> <ul style="list-style-type: none"> • with a rise in income tax, disposable incomes in the US would fall (1) • demand for imports is income elastic/imports are normal goods/demand for imports would fall (1) • the trade balance would improve/trade deficit would decrease (1). 	(4)

Question Number	Answer	Mark
3(a)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding: 1 mark for identifying a role; 1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> • to mobilise savings (1) for lending to businesses and individuals to invest or consume (1) • to facilitate the exchange of goods and services (1) by providing a flat currency (1) • to provide forward markets in currencies and commodities (1) to reduce risk (1) • to provide a market for equities (1) to facilitate raising of finances by businesses (1). 	(2)

Question Number	Answer	Mark
3(b)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding: 1 mark for identifying one reason; 1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> • to stimulate growth (1) by increasing money supply (1) • to increase bank liquidity (1) so they would be more willing to lend (1) • interest rates were already very low (1) so limited scope for further reductions (1) • prevent deflation (1) by increase in money supply (1) 	(2)

Question Number	Answer	Mark
3(c)	C	(1)

Question Number	Answer	Mark
4(a)	D	(1)

Question Number	Answer	Mark
4(b)	<p style="text-align: center;">Knowledge 2, Application 2</p> <p>AD/AS diagram showing:</p> <ul style="list-style-type: none"> • initial AD/AS curves and axes correctly labelled (1) • initial equilibrium correctly labelled (1) • increase (rightwards/outwards shift) in AD (1) • new equilibrium correctly labelled showing an increase in the equilibrium level of real national output and the equilibrium average price level (1). 	(4)

Question Number	Answer	Mark
5(a)	B	(1)

Question Number	Answer	Mark
5(b)	<p style="text-align: center;">Application 3, Analysis 1</p> <p>Application: 2 marks for:</p> <ul style="list-style-type: none"> • the calculation for opportunity cost for Columbia (1) • the calculation for opportunity cost for Zambia (1) <p>and 1 mark for:</p> <ul style="list-style-type: none"> • in Colombia the opportunity cost of producing 1kg of emeralds is 0.1 million tonnes of copper (1) • in Zambia the opportunity cost of producing 1kg of emeralds is 1 million tonnes of copper (1) • Colombia has a comparative advantage in the production of emeralds (1). <p>Analysis</p> <p>1 mark for inferences from calculations carried out, e.g.</p> <ul style="list-style-type: none"> • Columbia can produce emeralds relatively more efficiently/at a lower opportunity cost than Zambia (1). 	(4)

Question Number	Answer	Mark
6(a)	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 2</p> <p>Knowledge/understanding: 1 mark for:</p> <ul style="list-style-type: none"> • GDP per capita = $\text{GDP} \div \text{population}$/GDP per person (1). <p>Application: 2 marks for:</p> <ul style="list-style-type: none"> • GDP per capita for Burundi = $2.47 \text{ bn} / 16.14 \text{ mn} = \\153 (1) • GDP per capita for Kenya = $37.23 \text{ bn} / 62.78 \text{ mn} = \\593 (1) <p>Analysis: 2 marks for:</p> <ul style="list-style-type: none"> • Ratio of Burundi's GDP per capita: Kenya's GDP per capita = $153:593$ (1) <p style="padding-left: 40px;">= $1:3.9$ (1)</p> <p>[Accept 1:3.8 to 1:4]</p>	(5)

Question Number	Answer	Mark
6(b)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p>Knowledge/understanding: 2 marks for identification of two factors (1+1)</p> <p>Analysis: 2 marks for linked explanation of how these factors constrain growth (1+1), e.g.</p> <ul style="list-style-type: none"> • land-locked (1) therefore high transport costs so limited opportunities for international trade (1) • low tax revenue (1) meaning government has insufficient funds for investment in education (1) • primary product dependency (1) price volatility leading to uncertain levels of income/investment (1) • civil war (1) destruction of infrastructure which discourages investment (1). <p>Application: 2 marks for reference to the data (1+1), e.g.</p> <ul style="list-style-type: none"> • coffee and tea make up almost 70% of Burundi's export earnings • high level of tax exemptions – 3% of GDP. <p>Evaluation: 2 marks for two evaluative comments, e.g.</p> <ul style="list-style-type: none"> • civil war as a temporary factor (1) • government might get money through aid (1) <p>OR</p> <p>2 marks for identification and linked development, e.g.</p> <ul style="list-style-type: none"> • growth of emerging economies (1) has led to increase in primary product prices (1) • FDI by China (1) has led to improved infrastructure (1). 	(8)

Question Number	Indicative content	Mark
6(c)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4</p> <p>GDP is the best way to compare living standards:</p> <ul style="list-style-type: none"> • it is an internationally comparable measure • it is a fairly simple measure, meaning a low opportunity cost to the governments of these developing countries • it requires less data than some more sophisticated measures, reducing the chance of data inaccuracy • there is GDP data for all five countries, whereas there is no IHDI data for Burundi • can be refined into per capita / PPP measures to make more representative • the rank orders of the five countries are the same using GDP as using GDP per capita and HDI 	(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
6(c) continued	Evaluation 4	
	<ul style="list-style-type: none"> • it does not include much of what is important in determining standard of living, e.g. education, healthcare • it does not show how income is distributed among the population • it does not take account of any unpaid/illegal/'cash in hand' work, particularly a problem in developing countries like these, with a large subsistence agriculture sector • GDP doesn't take into account different costs of living (without a PPP adjustment) – compare Rwanda and Uganda 	(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 context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(d)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Possible benefits include:</p> <ul style="list-style-type: none"> • increased regional trade has led to faster economic growth • firms can take advantage of increased economies of scale • trade creation • free movement of labour may fill labour shortages in individual countries • increased investment, either domestic or foreign • negotiating together may give the countries more power at, e.g., WTO talks. 	(6)

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 links between causes and consequences.
Level 2	3–4	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 or the answer may lack balance.
Level 3	5–6	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 applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(d) continued	<p style="text-align: center;">Evaluation 4</p> <p>Possible costs include:</p> <ul style="list-style-type: none"> • trade diversion • loss of revenue from import tariffs from fellow members. <p>General evaluative points:</p> <ul style="list-style-type: none"> • Kenya is the largest economy in the EAC, so has the smallest additional economies of scale to gain • 'Kenya's exports to the other EAC members were about US\$1.2 billion in 2010' (Extract 2), so benefits appear to be significant • Kenya probably gains less benefit from the smaller countries being co-members of the EAC, e.g. Burundi. 	(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 context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(e)	<p style="text-align: center;">Knowledge 3, Application 3, Analysis 3</p> <p>Candidates may analyse the costs in their answer, and the benefits as evaluation (or vice versa), or may analyse the costs and benefits in their answer, and consider the significance of their arguments as evaluation.</p> <p>Possible costs include:</p> <ul style="list-style-type: none"> • loss of control over monetary policy (given current differences in economic development, perhaps unlikely that one common policy would be optimal for all) • loss of control over exchange rate policy • resulting inability to respond differently to asymmetric shocks • changeover costs/menu costs • consumer confusion • may be inflationary if all producers round up their new prices/loss of consumer surplus. <p>Possible benefits include:</p> <ul style="list-style-type: none"> • reduction in transaction costs • elimination of exchange rate risk (leading to more trade and investment) • reduction in region-wide price differentials / may reduce inflation/increase consumer surplus • a larger and more diverse economic area may be less vulnerable to exogenous shocks and speculative currency attacks. 	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	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	4–6	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	7–9	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
6(e) continued	<p style="text-align: center;">Evaluation 6</p> <p>(Costs and benefits are outlined under Knowledge, Application and Analysis.)</p> <p>General evaluative points:</p> <ul style="list-style-type: none"> • the countries have benefited to different extents: Kenya and Rwanda seem to have done well, while Burundi has not seen as much of a benefit • the euro area is a significant trade partner more so than the other EAC countries (in 2008) • increasing economic openness should reduce the potential for asymmetric shocks as time progresses • low levels of intra-EAC trade mean that the benefits from reduced transaction costs will be very small. 	(6)

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	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
7	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Understanding of public sector debt.</p> <p>Possible policies may include:</p> <ul style="list-style-type: none"> • running budget surpluses (austerity measures), through either/both: <ul style="list-style-type: none"> ○ reducing government spending ○ increasing taxation • policies to generate economic growth, leading to a reduction in government spending, and an increase in tax revenue: <ul style="list-style-type: none"> ○ fiscal stimulus ○ exchange rate devaluation • policies to cut down on tax avoidance/evasion • policies to increase efficiency/reduce waste in the public sector • privatisation/outsourcing/public-private partnerships to reduce government spending • changing the legal structure of the debt (e.g. the suggested minting of a \$1 trillion coin by the US Treasury) <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> • austerity measures may reduce economic growth, leading to lower tax revenues and higher government spending, worsening the debt in the future • effectiveness of austerity policies depends on the balance between spending cuts/tax rises/which taxes are raised/where government spending is cut • policies to generate economic growth/cut tax avoidance/evasion are likely to be costly and raise debt in the short run. <p>NB For a Level 4 response, candidates must refer to a developed country in their answer.</p>	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	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	5–8	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 or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to 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
8	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Understanding of income inequality.</p> <p>Likely causes include:</p> <ul style="list-style-type: none"> • increased globalisation/trade liberalisation/off-shoring • automation of manufacturing/changing technology • development of the emerging economies, e.g. China/India • financial crisis of 2008/2009 • increased incomes of those already at the top of the income distribution (ownership of assets/wealth distribution/ economic growth) • de-regulation • increased returns to education/entrepreneurial risk taking. <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> • different reasons have been the most important in different countries, or at different times • it depends on what the economy specialises in, e.g. those that specialised in manufacturing have been more affected by the development of emerging economies, those that specialise in tourism have been more affected by the financial crisis • financial crisis is only a relevant factor for a limited period of time • prioritisation of factors. <p>NB For a Level 4 response, candidates must refer to a developed country in their answer, and explain why income equality has increased, not simply why there is income inequality.</p>	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	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	5–8	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 or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to 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.

Write your name here

Surname

Other names

Pearson Edexcel

Centre Number

Candidate Number

Level 3 GCE

Economics A

Advanced

Paper 3: Microeconomics and macroeconomics

Sample assessment material for first teaching
September 2015

Time: 2 hours

Paper Reference

9EC0/03

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are two sections in this question paper.
- In Section A, answer **all** of questions 1(a) to 1(c) and one question from 1(d) or 1(e).
- In Section B, answer **all** of questions 2(a) to 2(c) and one question from 2(d) or 2(e).
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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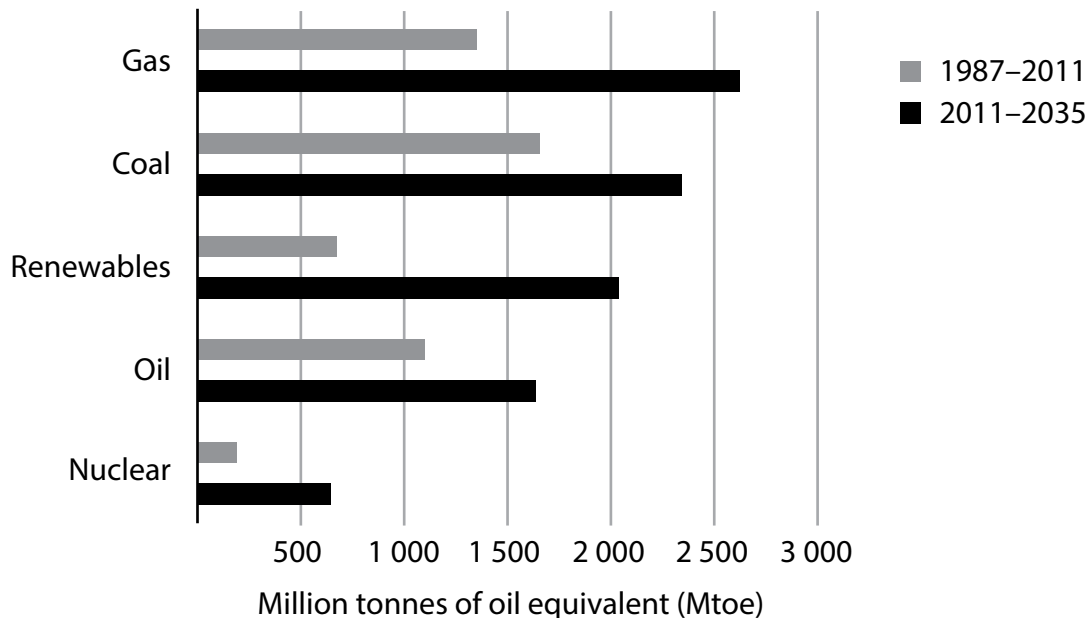
SECTION A

Read Figures 1 to 4 and the following extracts (A and B) before answering Question 1.

Answer ALL questions 1(a) to 1(c), and EITHER Question 1(d) or 1(e).

Write your answers in the spaces provided.

Energy



(Source: http://www.worldenergyoutlook.org/media/weowebsite/factsheets/WEO2013_Factsheets.pdf)

Figure 1

Global energy usage 1987–2011; forecast global energy demand 2011–2035



(Source: May 17, 2013. US energy revolution gathers pace by Ed Crooks in New York, Jonathan Soble in Tokyo and Guy Chazan in London. <http://www.ft.com/cms/s/0/22516820-beca-11e2-a9d400144feab7de.html#axzz2p4eufhXS>)

Figure 2

USA natural gas production cubic feet (trillion)

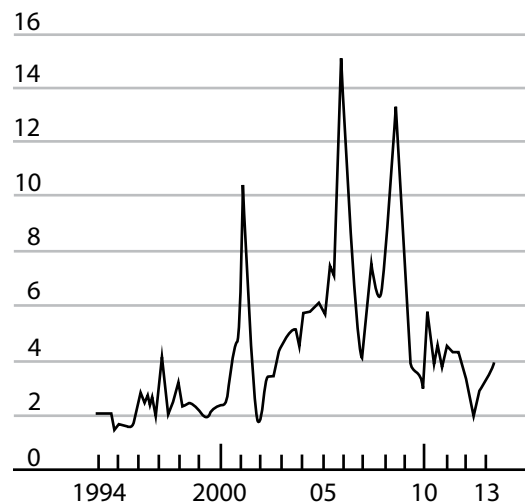
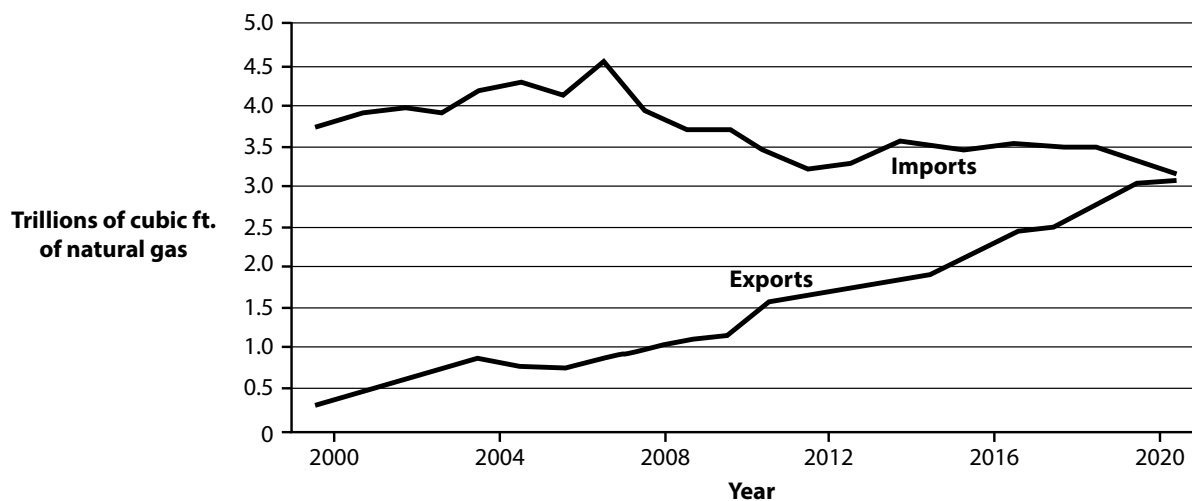


Figure 3

USA natural gas price (\$ per million thermal units)



(Source: http://www.wired.com/business/2012/08/mf_naturalgas/all/)

Figure 4

Natural gas is becoming a major export of the USA

Extract A

Britain needs to embrace the global shale gas revolution

Britain is sitting on a massive amount of untapped energy in the form of shale gas trapped deep underground and yet is failing to make use of this resource. To make matters worse, politicians have imposed ever higher energy costs on the public thanks to a combination of higher taxes and environmental rules. These have hit the poor, contributing to declining real incomes, crippling manufacturing companies and exporting jobs to other countries. It is time to change our current energy policy and begin to exploit the UK's onshore shale gas reserves, which could deliver a vast amount of cheaper, cleaner energy. Two years ago, experts put these at 5.3 trillion cubic feet (tcf) but it now seems that the British Geological Survey will significantly increase this estimate, possibly to as much as 200 tcf. Exploration companies claim to have identified resources of nearly 300 tcf so far. Offshore reserves, which are much harder to extract profitably, could be as much as 5–10 times larger.

5

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A report from the Institute of Directors states that the benefits of embracing shale gas would be greater than the costs. The USA is leading the way: shale gas now accounts for an astonishingly high 23% of domestic gas production and 22% of gas consumption. Energy prices have gone down for US consumers and companies, at a time when they have gone up in Britain, delivering a major competitive advantage to US firms and further damaging UK industry. One side-effect of the shale revolution is that US natural gas prices no longer move in line with oil prices.

15

The impact of the USA's shale revolution is a success story that has gone largely unnoticed in the UK. The USA's economic problems would be far worse without it. By 2020, the shale gas boom is expected to create 3.6 million US jobs, both directly and indirectly thanks to lower energy costs. Carbon emissions are falling, as gas is substantially cleaner than coal. The Institute of Directors' report quantifies the potential boost to the British economy from shale gas. It calculates that 35 000 extra jobs would be created directly, helping to offset the decline in North Sea oil and gas. In addition, there would be enough onshore supply to meet 10% of our gas demand for the next 100 years, preventing the expected rise in costly gas imports. UK carbon emissions would also be cut by 8%.

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What of the controversy surrounding fracking, the technique used to extract shale? 30
The great worry is that it would cause earthquakes. That possibility certainly exists, and needs to be taken extremely seriously, yet in 2012, the UK experienced three earthquakes as large or larger than the bigger of the two earthquakes caused by fracking in 2011. Fortunately, none of these earthquakes caused any damage; few people even noticed them. A further concern is that fracking requires a considerable amount of water and 35
may cause water contamination. All energy sources can be extremely dangerous, as we have learnt from oil spills and nuclear accidents. The trick with fracking is to use the safest methods, to engage in continuous monitoring of its effects and ensure that safety is paramount.

(Source: <http://www.cityam.com/article/britain-needs-embrace-global-shale-gas-revolution#sthash.9kSGrPUH.dpuf> Allister Heath Cityam 21 September 2012)

Extract B

The impact of cheap shale gas

Cheap domestic gas will ultimately have three effects. First, it will delay or kill most new competing sources of electricity production – be they coal, nuclear, solar, or anything else. Gas is now incredibly cheap and easy to acquire, while other energy sources remain expensive or hard to get (or both). Not surprisingly, gas is already winning: coal is being pushed out, nuclear has stalled, and wind and solar projects are being cancelled. 5

Second, natural gas has become so cheap that it will win over some transportation markets. Trucks, buses, delivery vans, and a variety of commercial and fleet vehicles can all be converted to natural gas.

The third effect will be on greenhouse gas emissions. Most new power plants will run on natural gas. While this is cleaner than coal, it is obviously dirtier than nuclear, wind, and solar. Although some ageing coal plants will be replaced, decreasing overall CO₂ output, far more nuclear, solar, and wind plants will be deferred or cancelled in favour of gas operations. Moving to a gas-based power grid will almost certainly result in more greenhouse gas emissions over time. This is especially true when you factor in the inevitable gas that leaks in the production, shipping, and distribution process. As an agent of global warming, natural gas is 25 times more potent than CO₂, so even a small leakage can have a large impact. 10
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(Source: http://www.wired.com/business/2012/08/mf_naturalgas/all/)

1 (a) With reference to Figure 1, explain **one** possible cause of the forecast change in total energy use.

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(b) With reference to Figure 4, examine the likely impact on the USA's circular flow of income of the trends in exports and imports of natural gas between 2000 and 2020.

(8)

Dotted lines for student response.

(c) With reference to the information provided, discuss the likely impact of a change in the price of gas on the markets for solar energy and nuclear energy.

(12)

Dotted lines for writing.

EITHER

- (d) With reference to the information provided and your own knowledge, evaluate the possible microeconomic and macroeconomic effects on the UK economy of a decision by the government to encourage fracking. (25)

OR

- (e) With reference to the information provided and your own knowledge, evaluate the possible microeconomic and macroeconomic effects on the global economy of lower energy prices. (25)

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

Chosen question number: **Question 1(d)**

Question 1(e)

Write your answer here:

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(Total for Question 1 = 50 marks)

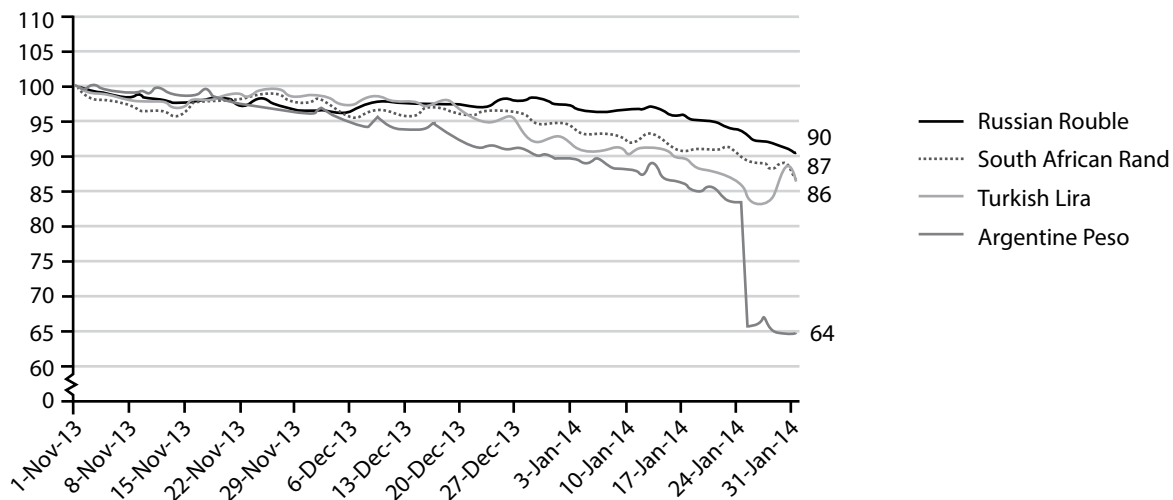
TOTAL FOR SECTION A = 50 MARKS

SECTION B

Read Figures 5 to 7 and the following extracts (C to E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) or 2(e).

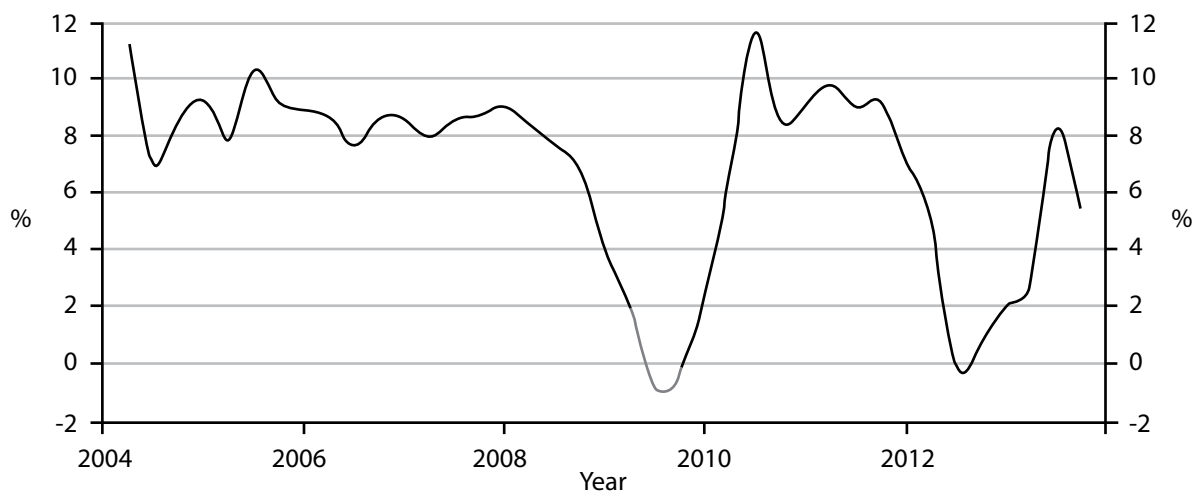
Write your answers in the spaces provided.



(Source: <http://www.tradingeconomics.com/argentina/gdp-growth-annual>)

Figure 5

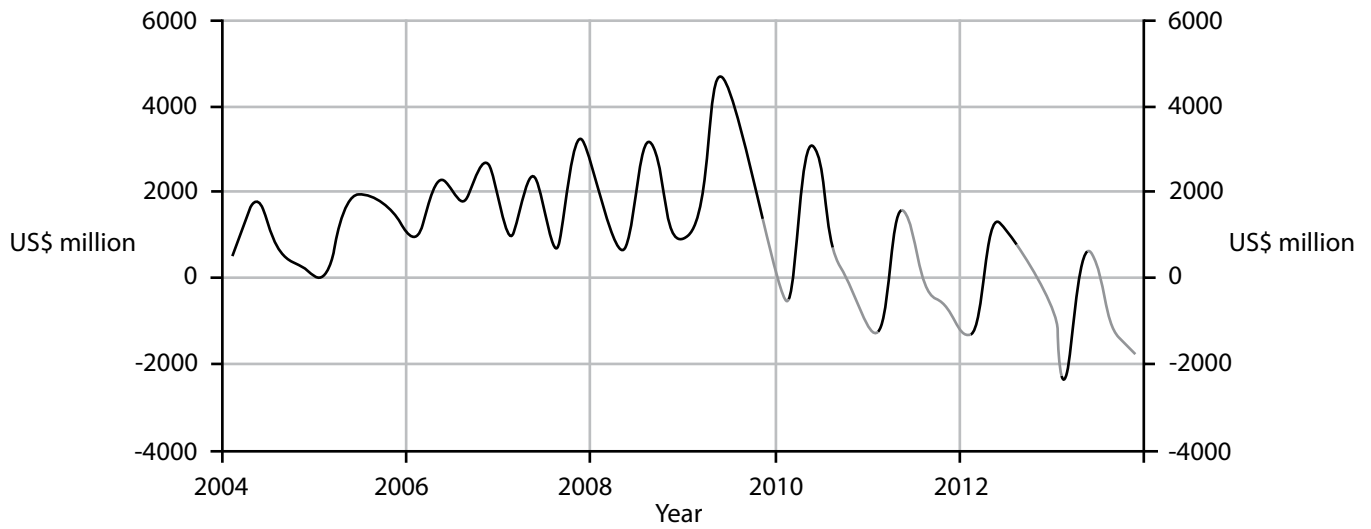
**Emerging economies' exchange rates against the U.S. dollar
(1st November 2013 = 100)**



(Source: <http://www.tradingeconomics.com/argentina/gdp-growth-annual>)

Figure 6

**Argentina's annual growth rate
(% change in real GDP)**



(Source: <http://www.tradingeconomics.com/argentina/gdp-growth-annual>)

Figure 7

**Argentina's balance of payments on current account
(US\$ million)**

Extract C

Fall in the exchange rates of emerging economies

In 2009, gross domestic product (GDP) in emerging economies grew by 3.1% on average, whereas it fell by 3.43% on average in advanced economies. Capital poured into emerging economies from investors looking to earn a reasonable rate of interest, to transnational corporations undertaking foreign direct investment.

However a slow-down in economic growth caused concerns which, in turn, led to panic. This resulted in the single biggest sell-off of emerging market currencies since 2009. In January 2014, the Argentine peso fell 23% after its central bank stopped intervening in the market to maintain its value. The Turkish lira fell 6% and only recovered slightly despite a rise in the central bank interest rate from 4.5% to 10%. Meanwhile, the Russian rouble fell by 7%. 5 10

There are two main causes of these currency depreciations: an announcement by the US Federal Reserve (the US central bank) that it would start reducing the amount of quantitative easing and the slow-down in the economies of emerging markets. In particular, there were reports of a fall in China's rate of economic growth. China is not only the world's largest emerging market economy but it is also the chief buyer of exports from other emerging markets. 15

(Source: <http://www.forbes.com/sites/steveschaefer/2014/02/03/why-panic-prone-emerging-markets-are-breaking-down-in-2014/>, 2 March 2014 by Steve Schaefer)

Extract D

Argentine government intervenes to prevent further fall of the peso

The Argentine government said in January 2014 that it would not let the peso fall any further after the authorities de-valued the currency by 23%. The devaluation is the latest and boldest attempt by President Cristina Fernández to stop capital flight, prevent a rapid decline in foreign reserves and avoid a balance of payments crisis. The exchange rate was just over 8 pesos to the dollar on 23 January 2014. Foreign reserves have fallen significantly over the past year. 5

Economists have welcomed the government's desire to remove currency controls aimed at managing the exchange rate. They also said that it did not get to the heart of the problem: the need to tighten monetary policy to slow soaring inflation, estimated by some economists to be over 25%. The government has recently sought to reduce the rate of inflation through price controls. 10

Argentina has a history of sudden devaluations. Many economists fear that the recent devaluation could fuel inflation further, as could a fresh round of wage bargaining. In 2013, police strikes over low wages that had not kept up with inflation led to widespread looting and social unrest. 15

Further problems include relatively low commodity prices which are reducing the balance of trade surplus. Further, the government's policy of printing money to fund social spending is increasingly unsustainable at a time when the fiscal deficit is growing.

(Source: FT.com January 24, 2014 Jonathan Gilbert, John Paul Rathbone and FT.com February 13, 2014, Benedict Mander)

Extract E

Argentine beef

One hundred years ago, beef made Argentina rich. Today it is making Argentines poor. On average, Argentines eat 64 kilos of beef a year, more than twice the amount eaten by consumers in the USA or Australia. The Argentine beef industry is suffering from the effects of government intervention in the industry and an unfavourable macroeconomic environment.

5

A 30% jump in beef prices between November 2013 and March 2014, led to a drop in consumption. "We are going to have to approve measures that once and for all defend consumers from abuse by powerful sectors, oligopolies and monopolies," stated President Fernández. She is attempting to impose price controls on almost 200 supermarket items, with threats of fines or closure for offending stores.

10

A cabinet minister threatened last month to step up intervention in the beef sector. This sector has already suffered almost a decade of export restrictions and price controls that have forced many cattle farmers out of business. By March 2014, restrictions introduced on beef exports since the devaluation have caused these beef exports to drop to 50% of January 2014 levels, despite the fact that rising global beef prices could have been advantageous for Argentine farmers. Over the past decade, government intervention has caused Argentina's stock of cattle to shrink to 48 million in 2011, a drop of 10 million. The country has fallen from its position as the world's third-biggest beef exporter to twelfth place, now lagging behind smaller neighbours Uruguay and Paraguay. Exports accounted for 20% of beef production in 2007, but have fallen to just 7% in 2013.

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Under such conditions, many farmers have switched from raising cattle to growing soya, benefiting in particular from rising demand in China that has caused prices to soar. Soya exports have become fundamental to the Argentine economy as a major source of foreign exchange. Total agricultural production, including beef and soya, accounted for almost half of Argentina's \$83 billion of exports in 2013, making it the country's single most important source of foreign exchange.

25

(Source: <http://www.ft.com/cms/s/0/fc92f6d8-a462-11e3-9cb0-00144feab7de.html#ixzz2ybYPbZID> 13 March 2014 by Benedict Mander)

2 (a) With reference to Figure 5 and Extract C, explain **one** likely reason for the fall in the exchange rate of the Turkish lira.

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(b) Discuss the costs to the Argentine economy of an inflation rate “estimated by some economists to be over 25%”. (Extract D, line 9)

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(c) With reference to Extract E, examine the impact of restrictions on beef exports on how Argentine farmers decide to use their land.

(8)

A series of horizontal dotted lines for writing the answer.

EITHER

- (d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the imposition of 'price controls' (Extract E, line 8) in Argentina.

(25)

OR

- (e) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the 23% devaluation of the Argentine peso.

(25)

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

Chosen question number: **Question 2(d)** ☒ **Question 2(e)** ☒

Write your answer here:

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(Total for Question 2 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

TOTAL FOR PAPER = 100 MARKS

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Question Number		Mark
1(a)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 1</p> <p>Knowledge 1 mark for identification of a possible cause and 1 mark for its relevance to energy use Possible causes:</p> <ul style="list-style-type: none"> • Increase in world population (1) • Increase in devices requiring electricity (1) • Increase in world GDP and living standards (1) <p>Application: 2 marks for data references from Figure 1 (identifying the forecast change):</p> <ul style="list-style-type: none"> • Demand for nuclear and renewable more than double • Demand for gas doubles • Demand for coal and oil increase by between 30% and 50% • Comment on increase in overall demand <p>Analysis:</p> <ul style="list-style-type: none"> • 1 mark for explanation of the link between the identified case and energy use 	(5)

Question Number		Mark
1(b)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p>Knowledge and analysis</p> <ul style="list-style-type: none"> • Increasing injections (exports) (K) may lead to a boost to the circular flow and an increase in AD if not offset by greater leakages (A) • Decreasing leakages (imports) (K) may lead to a reduction in the circular flow and reduce AD (A) <p>Application:</p> <ul style="list-style-type: none"> • Exports increasing, imports decreasing, but until 2020, leakages still greater than injections so overall leakage from circular flow (2) • Or 2 specific data references from figure 4 <p>Evaluation (2 marks for any relevant point):</p> <ul style="list-style-type: none"> • These are forecasts so the impact on the circular flow may be different from that described above • Other injections and leakages influence the circular flow which may offset the changes described above 	(8)

Question Number	Indicative content	Mark
1(c)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4</p> <ul style="list-style-type: none"> • recognition that gas and solar energy/nuclear energy are substitutes • application of cross elasticity of demand: definition or formula value will be positive • use of information provided to draw conclusion (reference to first paragraph, Extract 2): a fall in the price of gas will lead to a fall in the demand for solar energy and nuclear energy. 	(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	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • much will depend on relative price of gas in relation to solar and nuclear energy • recognition that there will be a time lag before any impact on market for other forms of energy because supply very price inelastic • investors will want to be certain that change in relative prices is long term • impact may be limited due to the rising demand for global energy 	(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 context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
1(d)	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> • on price of gas to consumers – impact on consumers’ surplus • on price of gas to producers – impact on producers’ surplus • implications for producers of other forms of energy • external costs – on environment and water supply <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> • on investment – multiplier effect on GDP so promoting economic growth • on employment – an estimate that 35 000 jobs will be created • balance of payments on current account e.g. competitiveness may increase if fracking results in lower energy prices leading to an improvement in exports. Also, less need to import energy from abroad • rate of inflation may fall – lower energy prices <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> • Impact on price of energy may be less significant than in the USA • Impact on other forms of energy – much will depend on how much gas is obtained from fracking • Difficult to forecast the magnitude of external costs or to place a monetary value on them • Impact on macroeconomic variables (growth, employment, balance of payments) dependent on amount of gas found, the price at which it sells, changes in prices of other forms of energy 	(25)

Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a 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	Marks	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. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Question Number	Indicative content	Mark
1(e)	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8</p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> • impact on revenues and profits of energy companies • impact on investment decisions by firms in the energy market • impact on wages of workers in energy industries • impact on consumer real incomes and on demand for other goods and services. <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> • lower costs of production • lower global rates of inflation (AD/AS analysis) • impact on global growth rates • impact on balance of payments on current account of different countries • increase in CO₂ emissions: consideration of impact on climate change on different countries, reference to external costs • impact on consumers and producers of the main countries supplying energy. <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> • impact on different industries will depend on their energy costs as a proportion of total costs • impact on households will depend on cost of energy in household budgets • impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt • impact on inflation rates and growth rates depends on elasticities of AD and AS curves • impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of energy • impact on external costs depends on how different energy sources are affected 	(25)

Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models
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Level 1	1–3	Identification of evaluative comments without explanation.
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Level 3	7–9	Evaluative comments supported by relevant reasoning. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Question Number		Mark
2(a)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 1</p> <p>Knowledge and Analysis</p> <ul style="list-style-type: none"> • Definition of exchange rate: price of one currency in terms of another (1) • Possible reasons: <ul style="list-style-type: none"> – Reduction in QE by USA (K): likely to cause a rise in interest rates in developed economies and less demand for the currencies of emerging economies (A) – Slow-down in the Turkish economy (K): likely to cause a fall in confidence and a decrease in foreign direct investment and less demand for the currencies of emerging economies (A) <p>Application: Reference from Figure 1: (2) 14% fall in value of the Turkish lira over the whole period</p>	(5)

Question Number	Indicative content	Mark
2(b)	<p>Knowledge 2, Application 2, Analysis 4</p> <ul style="list-style-type: none"> • understanding of <i>inflation</i>: general increase in the average price level <p>Costs of inflation include:</p> <ul style="list-style-type: none"> • arbitrary redistribution of income from lenders to borrowers • loss of international competitiveness of Argentine goods • uncertainty causing a fall in investment • industrial unrest: reference to impact of strike by the police • menu costs and shoe leather costs • danger of hyperinflation if the current inflation is not brought under control. 	(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
2(b) continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • current inflation rate may be a short-term phenomenon only • impact of competitiveness depends on inflation rates of countries that Argentina trades with • Argentine government is taking measures e.g. price controls to reduce the rate of inflation • impact on living standards depends on what is happening to wages 	(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 context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number		Mark
2(c)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p>Knowledge and Analysis</p> <ul style="list-style-type: none"> • Restrictions on beef exports caused a fall in demand and in the price of beef (K). In turn, this made it less profitable to produce beef. (A) (2) • Soya production becoming more profitable because of growing demand from China (K). Therefore, farmers reallocating resources from beef production to soya production. (A) (2) <p>Application</p> <ul style="list-style-type: none"> • 10 million fall in the stock of cattle (over 10 years) to 48 million in 2011. • Exports accounted for 20% of beef production in 2007, but have fallen to just 7% in 2013 (2) <p>Evaluation</p> <p>2 marks for any valid point:</p> <ul style="list-style-type: none"> • Some farmers may find it difficult to switch production from beef to soya because of the costs involved and/or unsuitability of the land • Farmers might think that government restrictions on beef exports may be short-term so they will not switch from beef to soya. 	(8)

Question Number	Indicative content	Mark
2(d)	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8 Evaluation 9</p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> • supply and demand diagram illustrating the impact of maximum prices: contraction in supply and extension of domestic demand • shortages of products subject to price controls • need for rationing • greater price stability for producers • implications for resource allocation: producers will switch resources to the production of products not covered by price controls. <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> • falling export revenues from beef sales • negative impact on Argentina’s balance of trade • could cause fall in the rate of economic growth • negative implications for Argentina’s economic development • fall in the rate of inflation • price controls might act as an incentive for producers to diversify and/or develop manufacturing and tertiary industries. <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> • impact of price controls depends on how rigorously they are enforced • producers may not reallocate resources to products not subject to price controls if they believe that they will only exist for a short time • impact on the balance of trade may be minimal, e.g. because of the increase in exports of soya • impact on the rate of inflation may be limited to the short-term: once price controls are removed the rate of inflation might increase significantly 	(25)

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Question Number	Indicative content	Mark
2(e)	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> • primary producers: export revenues may fall since demand for many primary products is price inelastic • increase in costs for firms reliant on imported raw materials • increase in competitiveness for Argentine exporters of manufactured goods. <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> • increase in the competitiveness of Argentine's goods and services may lead to an improvement in the current account of the balance of payments • increase in the rate of economic growth • leading to an increase in employment • cost push inflation resulting from increased costs of imported goods • increase in the real burden of foreign debt. <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> • impact on individual Argentine producers depends on their reliance on imports and/or exports • demand for some products, e.g. soya may not be adversely affected because demand is increasing rapidly in China • inflation is very high so any competitive advantage may be lost quickly. Impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • short-run and long-run effect on the current account may be analysed using the J curve effect • the current account will only improve if the Marshall-Lerner condition is fulfilled, i.e. if the sum of the price elasticity of demands for imports and exports is greater than 1 	(25)

Knowledge, application and analysis		
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