Examiners' Report
June 2015

GCE Economics 6EC02 01

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Introduction

This paper followed the same format as previous papers in this series, with 2 data-response questions from which candidates must choose one. Questions range from 4 to 30 marks, with evaluation marks being awarded in the 12 and 30-mark questions.

Overall, all questions on this paper were seen to be accessible by candidates. There were no particular questions that stood out as being particularly challenging or easy. Question 2 was slightly more popular than question 1, and performance on each question is seen to be fairly similar. Although with regards to the 30-mark essays, candidates were more confident in their answers to 2(c) as opposed to 1(d).

Particular weaknesses identified by many candidates, including those who achieved good grades overall, were identified in some of the shorter questions where application and precise, accurate knowledge is required. It was disappointing to read so many very confused explanations of simple economic terms like investment and the components of the current account. It is important that students ensure they are clear about fundamental economic concepts such as these and that they can clearly and concisely explain them. In terms of application, too many candidates cannot study a graph and understand what it shows them. Sometimes this included not being able to see the difference between an increase and a decrease, leading candidates to then produce irrelevant answers to questions. Also candidates need to properly use the data given - describing accurately specific values and dates from the graphs, or specific data references from written text.

An issue in the June 2014 exam paper was students' confusion about the difference between productivity and production. Unfortunately this was again evident in a number of answers to question 2(b)(iii).

Finally, I would like to remind students of the importance of making sure their answers are clear to the examiner when they are being marked. Examiners always mark positively and try their best to award marks to candidates, but this is made more difficult by poorly laid out work, unclear crossing-out of work, untidy handwriting, and excessively small diagrams drawn without a ruler. In addition, a plea to any candidates using additional sheets of paper is to make it clear on these extra sheets what question each piece of writing refers to so examiners are confident they have accurately marked a candidate's work. Finally, students should definitely not write the answer to a question in the space provided for a different question. If a candidate needs more space to answer a question, they should use additional sheets of paper.

Question 1(a) (i)

The key issue in this question, as already mentioned in the introduction to this examiner's report, is students' ability to accurately look at figure 1 and see that, since the third quarter of 2012, the savings ratio has fallen consistently. Some less able candidates failed to read the question and figure 1 carefully and thus found themselves receiving either no marks or very few marks. Generally most candidates were able to identify two relevant factors. Interest rates were a popular factor discussed as well as consumer and business confidence.

(a) (i) With reference to Figure 1, explain **two** factors that might account for the change in the household savings ratio since the third quarter of 2012.

(8)

Figure 1 Shows that ~~have~~ household Saving ratios fell from around 6.6% in the third quarter of 2012 to around 3% ~~of~~ in the first quarter of 2013.

Firstly, a ~~[illegible]~~ rise in ~~future employment~~ Confidence for future employment may be responsible for this rise. This is because the more Confident that individuals are regarding their future employment as well as rising wages, the less they would save ~~up~~ in the anticipation of ~~[illegible]~~ unemployment.

~~Secondly, a rise in interest rates may attract for A fall in the price of imports may be caused by a global recession in~~

Secondly, a rise in the value of personal assets such as house prices ~~[illegible]~~ or stock prices may have caused households to feel "better off" ~~[illegible]~~ under the wealth effect. As a result, households may have decreased Savings ~~[illegible]~~ in order to increase their Consumption.

ResultsPlus
Examiner Comments

This candidate clearly understands what the question is asking of them. They start straight away with a precise data reference to figure 1 to get the two application marks available. They then go on to explain two clear and well-developed factors, therefore scoring full marks on this question.

ResultsPlus
Examiner Tip

Remember that where a question says 'with reference to...' it is important that you actually do refer, specifically, to that figure or extract. With figures, remember to use the values and dates in your description.

(a) (i) With reference to Figure 1, explain **two** factors that might account for the change in the household savings ratio since the third quarter of 2012.

(8)

Savings made by households are a proportion of income which is deposited into a savings account. Since the ~~3~~ third quarter of 2012, figure ~~3~~ 1 illustrates a decline in the households saving ratio from being over 6.0 initially to eventually falling to 3.0 in the first quarter of 2013. As savings deplete, consumer confidence could be a contributing factor, as households possibly noticed a potential boom and therefore had decided to increase consumption on goods and services. Another factor could be lower interest rates being set, therefore less restriction on the money supply so households take advantage of this and tend to spend more on goods and services as the low interest rates act as an incentive to do so.

ResultsPlus

Examiner Comments

In this answer the candidate scores six marks. They have correctly discussed two potential issues, but these are not fully developed/explained and so they do not achieve full marks.

ResultsPlus

Examiner Tip

Remember to be totally accurate in your application. This candidate has missed the percentage sign from their data reference, so it is not totally correct.

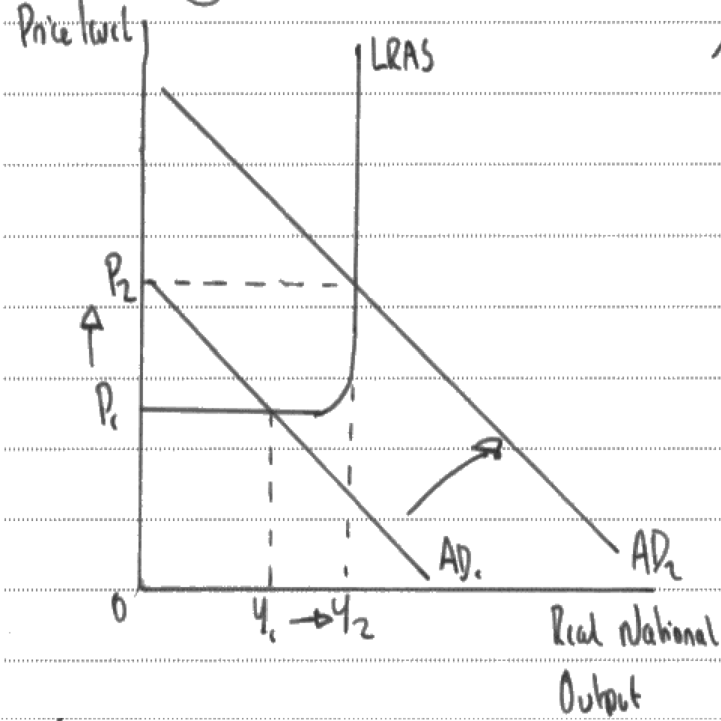
Question 1 (a) (ii)

This question was designed to encourage candidates to discuss how the wealth effect works. Those candidates who followed this process generally scored highly on this question. Other possible effects were accepted, as you can see in the mark scheme. However, too many candidates looked at this question from a microeconomic perspective and seemed to confuse the housing market with the whole UK economy. Also there was some confusion about how mortgages work, with candidates suggesting that rising house prices would make mortgages more expensive for those who already have a mortgage.

(ii) With reference to Figure 3 and Extract 1, assess the likely impact of an increase in house prices on the UK economy. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

House prices have risen sharply, with them now being 7.5% above where they were in 2012.



The first effect is known as the wealth effect. That means that those people who own a property ~~are~~ now feel in general much wealthier. A house is a person's main asset, so if it rises in price then people will be likely to spend more money on consumption.

The effect of this increase in aggregate demand, shown in the diagram, is that output will increase. This is if people are demanding more then supply must equally increase to match demand. This represents growth in the UK economy. If more output is higher, then employment will also be higher, as firms would need to recruit more staff in order to match the new demand. There is a multiplier effect as these newly employed people also demand more goods and services increasing prices yet further. However, the other effect of a rise in consumption due to higher house prices is inflation. If the economy is at full capacity, then a rise in demand for the same number of goods will equate to a steep increase in price, as goods become more scarce.

In evaluation, however, house prices aren't the only thing that affect AD. ~~The MPC is expected to announce a period~~ If income tax rises, as it did under the last parliament, then people will be taking home a smaller disposable income. This has a negative wealth effect that might match the positive wealth effect of a rise in house prices. Furthermore, the effect of a rise in AD depends on the shape of the AS curve. If the AS curve is horizontal ie inelastic then a rise in demand will have very little inflationary effect, but a large increase in output. If the AS curve is vertical, then the increase in demand will be hugely inflationary with little corresponding increase in output

ResultsPlus
Examiner Comments

This is an excellent example of a clear and accurate candidate's answer. They have a nice clear diagram illustrating AD shifting out to the right and have done a good job of analysing and evaluating the concept of the wealth effect.

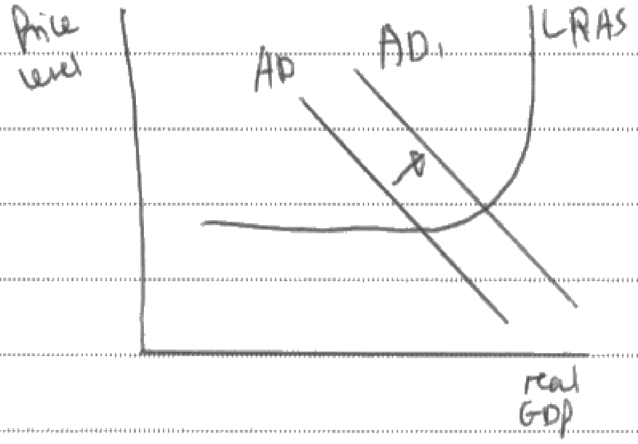
ResultsPlus
Examiner Tip

Ensure your diagrams are large and clear, with the direction of the shift obvious to the examiner, as this candidate has done.

(ii) With reference to Figure 3 and Extract 1, assess the likely impact of an increase in house prices on the UK economy. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

One likly economic impact of an increase of house prices would be An increase in investment to build in the uk, thus increasing Aggregate demand. As the increase in house prices is occuring at "7.5%" as shown in figure 3 and extract 1 states that they are "expected to grow 2.6% next 12 month." The likly hood of more Investment in the uk's economy will occur.



This graph shows how the increase of a major component of AD (Investment) has cause a right shift in the Aggregate demand. However other countries may have more appealing house prices and demand for these houses being built. Therefore this 7.5% increase in house prices in the U.K. may not recieve ~~attract~~ as much investment as hoped for.

Another likely ~~effect~~ economic impact of an increase of house pricing is a shortage of availability for first time buyers. As house prices have reached "an all time high for 11 years" the younger generation looking for housing will have to now save more ~~as~~ for loans or mortgages and now they may look to substitutes such as renting. Or yet still can't afford that, ~~out~~. However the government are placing "help to buy schemes" as said in Extract I. This could offset the increase in house prices as they can interest assistance in getting the loans or mortgages.

ResultsPlus
Examiner Comments

This candidate has taken a different approach, but still scores fairly highly. Their answer makes a good explanation of the problems faced by first-time buyers as house prices rise and they have evaluated this by discussing the Help to Buy scheme. This could do with being more macro-focused. The first point about investment is focused too much on the housing market itself.

ResultsPlus
Examiner Tip

This candidate lost a mark on their diagram because they did not include the dashed lines to illustrate the change in equilibrium point and how price level and real output have shifted.

Question 1 (b) (i)

This question was generally answered well, with lots of potential application points that candidates could make from extract 2. The only issue was with candidates who failed to refer to extract 2, thus limiting themselves to a maximum mark of 2/4.

(b) (i) With reference to Extract 2, explain the meaning of the term 'monetary policy'.

(4)

Monetary policy is implemented by the Monetary Policy Committee. They aim to achieve Government set macro-economic objectives by manipulating interest rates. These objectives include; economic growth, reduced unemployment and less inequality amongst others. The Monetary Policy Committee exists as part of the Bank of England.

ResultsPlus

Examiner Comments

This answer scores 2/4. This is the most it can achieve because the candidate has not made any reference to extract 2.

ResultsPlus

Examiner Tip

Remember to apply when asked, e.g. this question clearly says 'with reference to..'.

(b) (i) With reference to Extract 2, explain the meaning of the term 'monetary policy'.

(4)

Monetary policy is the manipulation of interest rates in order to control inflation. In Extract 2 the Governor of the Bank of England 'encouraged highly expansionary monetary policy'. This means decreasing interest rates so that inflation increases. The 'Monetary Policy Committee cut rates by 1.5 percentage points in November 2008'.

ResultsPlus

Examiner Comments

This answer achieves the full four marks. It has clearly and concisely stated what monetary policy is and includes a specific reference to extract 2.

ResultsPlus

Examiner Tip

When quoting from extracts it is good practice to use quotation marks to make it obvious when you are applying to the extract.

Question 1 (b) (ii)

This question was generally answered fairly well, and candidate' understanding of inflation does seem to have improved compared to previous papers. Many candidates discussed good points, such as avoiding the risk of deflation, avoiding hyperinflation, and preventing a wage-price spiral. For those less able candidates there were still some issues with understanding that low inflation does not mean falling prices. It was also pleasing on this question to see candidates making reference to the latest inflation data that was announced just before the exam and the risks therefore, particularly of deflation.

*(ii) Evaluate **two** benefits of low and stable inflation for the UK economy.

(12)

One benefit of having low inflation is that it increases our international competitiveness as low inflation means ~~are~~ our export prices are lower ~~and~~ in comparison to countries which may have a higher rate of inflation. If our export prices are cheaper than demand for our exports is likely to be higher which means we will sell more and can be benefical as it can improve the current account of the balance of payments deficit and can stimulate jobs in the economy if demand for our ~~go~~ goods is high. However, policies to reduce inflation can have the ~~p~~ opposite effect as if monetary policy sets high interest rates to act as an disincentive to spend than this may push the value of the pound up as it attracts foreign investors to put money in our domestic banks as they ~~to~~ get a larger return which is translated as an ~~as~~ increase in demand for our currency which will increase the value ~~therefore~~ therefore, our goods are more expensive. The extent to which the balance of payments deficit is reduced depends on the rate of interest used to reduce inflation.

Another benefit from having low inflation is that it can improve income distribution and employment. As high inflation can have the negative effects on people with low fixed incomes, because if inflation rises ~~that~~ and fixed incomes don't rise in line with inflation people are worse off as they have to spend more to buy the same amount of goods and services. Therefore, low inflation will help reduce the negative impact on lower incomed families and help the government achieve its macroeconomic objective of more equal income distribution. However, the extent to which low inflation will improve the income distribution depends on the significance of the change in inflation and the proportion of people in the UK who are on fixed incomes. As if a small percentage are on fixed incomes that the ~~sig~~ magnitude of the benefit will be much smaller ~~and if the inflation is~~

Also, it depends on if whilst the UK economy has low inflation whether there is a change in average incomes, as there is no improvement in income distribution if incomes haven't changed

ResultsPlus
Examiner Comments

This candidate has produced two good analysis points - firstly about international competitiveness and secondly about income distribution. They also have some reasonable evaluation.

ResultsPlus
Examiner Tip

This candidate should have made better use of paragraphs to break up their answer. Candidates should be looking to put each point they make into a separate paragraph.

*(ii) Evaluate **two** benefits of low and stable inflation for the UK economy.

(12)

Low and stable inflation makes exports more desirable for other countries, as the UK goods and services are cheaper. This results in more exports which increases aggregate demand and therefore promotes growth.

However it depends on the elasticity of the goods. Perhaps the ~~lowering in price~~ lower price wouldn't affect the demand, and export numbers would stay the same.

Low and stable inflation also benefits ~~business~~ firms and households as products are cheaper. Households will consume more as the goods will cost less and firms may invest more as costs of production have gone down e.g. raw materials. They ~~both~~ now have the ability to make more profit ~~and~~ so may invest more. ~~However these reduced prices may just lead to extra saving, consumption~~. Therefore increasing aggregrate demand and growth.

However these reduced prices may not ~~change~~ increase consumption or investment. They may just lead to consumers increasing their savings ratio, and firms raising their profits, and not reinvesting the ~~money~~ extra money made.

ResultsPlus
Examiner Comments

This answer achieves very low marks because they have made the mistake of thinking that 'low and stable inflation' means prices are getting cheaper. This is stated clearly in the third line of the answer and then continues in a similar vein throughout. Because of this confusion this answer was only awarded a mark of 3/12.

ResultsPlus
Examiner Tip

Be very careful about inflation. Even if inflation falls, it does not mean prices are falling. That only happens if there is deflation.

Question 1 (b) (iii)

This question produced a wide variety of interesting answers, as there is a pretty long list of potential factors that the Monetary Policy Committee could consider. Those candidates who scored highly on this question were generally those who had read the question carefully. The question does ask specifically for reasons they 'might have considered when deciding to keep interest rates unchanged since 2009'. Therefore, candidates needed to make sure the points they made were appropriate for this context. For example, suggesting that increasing economic growth is a reason to keep interest rates low does not really make sense.

, AD strength

Inflation in other countries can impact

(iii) Analyse **two** additional pieces of information, other than house price data, which the Bank of England's Monetary Policy Committee might have considered when deciding to keep interest rates unchanged since March 2009.

(8)

One piece of information the Monetary policy committee would have considered when ~~setting~~ keeping interest rates unchanged at 0.5 % from March 2009 may of been the strength of aggregate demand (AD) as the strength of AD determines ~~the likelyness of an increase or decrease in spending~~ whether spending will increase or decrease and as a result the trend of inflation. ~~If AD is too strong then~~. If AD was too strong they may of increased interest rates to reduce the pressure on prices and ~~an~~ reduce the chance of ~~likelyhood of~~ demand pull inflation but AD was ~~likely~~ shown to be weaker hence the interest rate has stayed low since 2009.

Another possible piece of information the MPC would of considered could of been the ~~rate of inflation in other countries because~~ pressure from inflation in the Labour Market, the committee may look at the power of workers to ask for wage increases, for example and determine whether there ~~could be an increase~~ could be an increase pressure ~~in~~ on the costs of production for firms, which could lead to cost push inflation, the costs of production for firms rise and they pass this on to consumers in the form of an increase in prices of goods and services.

ResultsPlus

Examiner Comments

This answer has two relevant pieces of information that the Bank of England would certainly consider when deciding on UK monetary policy. However, with the second point in particular they do not link it to why the MPC decided to 'keep interest rates unchanged since March 2009'.

(iii) Analyse **two** additional pieces of information, other than house price data, which the Bank of England's Monetary Policy Committee might have considered when deciding to keep interest rates unchanged since March 2009.

(8)

That the crisis would take ages to recover and the interest rates being kept at a low 0.5% from March '09 would at least encourge spending which needed to be injected back into economy (consumer spending).

Also budget deficit was to be reduced - keeping low rates would encourage everyone to put back into economy through spending and investing. Perhaps the multiplier effect would hence forth kick into action.

ResultsPlus
Examiner Comments

This answer is largely irrelevant to the question unfortunately. It does mention consumer spending and the budget deficit so can get two identification marks, but nothing else.

ResultsPlus
Examiner Tip

This answer illustrates the importance of ensuring you are answering the specific question you are asked - remember to always read the question very carefully.

Question 1 (c)

This question was generally answered fairly well, with lots of candidates scoring either 4/6 or 6/6. Candidates were allowed to answer the question in two different ways - firstly, that a budget deficit means greater injections than leakages. Secondly, many candidates discussed what the government may do to reduce the size of its budget deficit - which would mean leakages greater than injections. What stopped some candidates from getting full marks was where they forgot to finish off their answer by saying what happens overall, e.g. an increase in aggregate demand being the result of injections being greater than leakages.

(c) Explain the likely impact of a government budget deficit on the circular flow of income.

(6)

Budget deficit is the difference between government spending and what the government receive in taxation. The budget deficit means that government spending is more than the amount received in taxation. Government spending is an injection into the circular flow. Therefore the ~~total of~~ amount of tax the government has earned which is a leakage in the circular flow leads to the circular flow ~~to~~ growing. This is because the injection is greater than the leakage which suggests economic growth will take place. The increase in government spending leads to the multiplier increasing as taxation is much lower. Therefore the circular flow increases in the amount going through it. The multiplier is when a change in income exceeds the net injections that caused it.

KAA budget deficit def (2)
gov't spending > taxation
increase in multiplier due to injection being higher than leakage of tax
Circular flow increases?

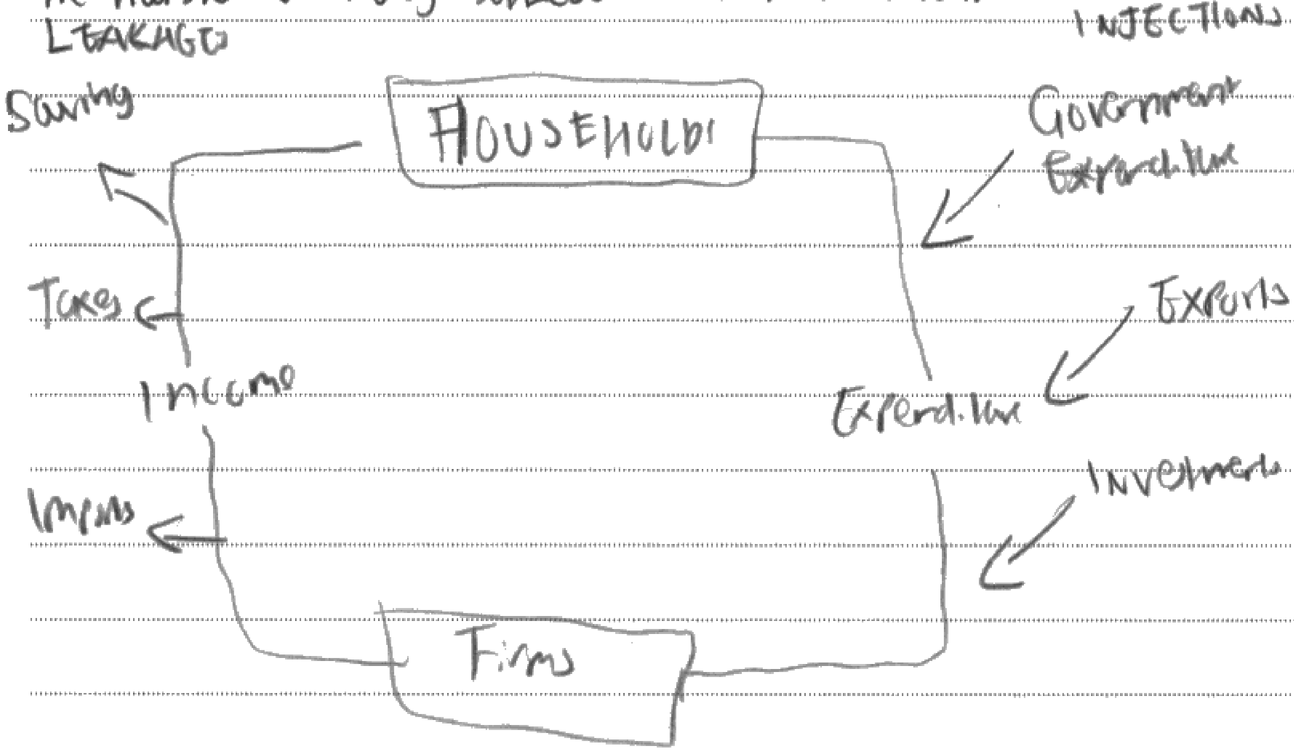
ResultsPlus
Examiner Comments

This is a good, clear answer to the question. They have clearly defined a budget deficit and explained what will happen with regards to injections and leakages in the economy.

(c) Explain the likely impact of a government budget deficit on the circular flow of income.

(6)

Government budget deficit is when government expenditure is far greater than taxation. The circular flow of income is the transfer of money between households and firms.



During a government budget deficit a government will try and reduce expenditure therefore the impact of the injection will be much less, reducing multiplier affect and increasing leakages as Taxes will increase.

ResultsPlus
Examiner Comments

This answer achieves a mark of 4. They have correctly defined a budget deficit and explained what happens with regards to injections and leakages, but have failed to finish the question off by saying how overall it affects the circular flow or aggregate demand.

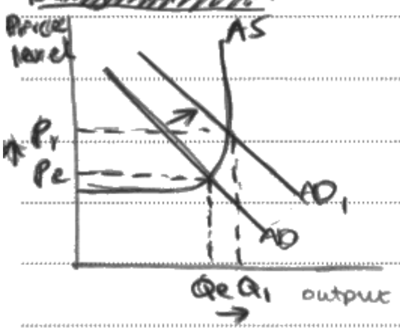
Question 1 (d)

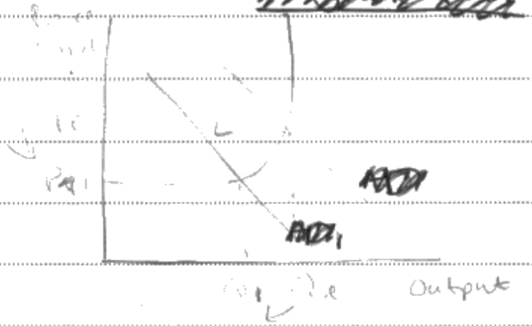
Out of the two 30-mark questions on this paper, candidates found this one more challenging. This is probably because there are two stages to the question - stage one being demand-side policies and stage two being the conflicts between macroeconomic objectives. There were some answers which focused only on one of these two things, thus limiting the mark they could achieve quite significantly. Many candidates also discussed the Phillips curve conflict between inflation and unemployment but it was noticeable that they weren't able to actually explain it, or put it in the context of this question. Too many candidates simply drew the diagram and said that inflation causes unemployment, or vice versa. Having said this, there were a lot of quality answers where candidates had read the question properly and were able to clearly analyse and evaluate relevant conflicts. These candidates scored very highly on this question.

***(d) To what extent do demand-side policies lead to conflicts between macroeconomic objectives?**

(30)

Demand side policies are actions taken by the government to escpand aggregrate demand (AD), or reduce AD.
These include tightening monetary policy, this is where you increase interest rates to slow down growth, and loosening monetary policy, where you decrease interest rates to stimulate economic growth.
The same can be done with fiscal policy. You can alter government spending and taxation to stimulate or slow economic growth.
In the extract it states in March 2009, interest rates had been cut to 0.5%. It also states there was support of rapid fiscal consolidation to reduce the budget deficit.





Macroeconomic objectives are objectives the government look to meet. These include reduced unemployment, steady inflation, environmental care, equilibrium in the

However this all depends on the magnitude of the numbers. For example if the reduction in tax was minimal, then the change in AD may not be significant enough to change the prices dramatically. As perhaps the increased consumption did not create a big enough multiplier.

Lastly if the government were too again stimulate growth through a demand side policy this would lead to conflicts between achieving this growth and keeping an equilibrium of the balance of payments. Due to the fact when growth occurs, prices rise (p_e to P_1) due to the expansion in AD. This therefore raises prices of the UK's goods and services meaning it is harder to export as demand goes down. This will result in the growth causing a deficit in the current account as exports have dropped. Also with growth demand for goods grows so when this occurs, households and firms will import to meet their demands due to the fact it may be cheaper abroad.

However the drop in demand of the exports depends on the elasticity of the good or service. If the good/service is very inelastic then exports demand wouldn't drop, so there would be no deficit in the current account and economic growth wouldn't conflict.

ResultsPlus
Examiner Comments

This answer overall achieves a mark of 24. The candidate has clearly identified fiscal and monetary policy and drawn an accurate diagram (albeit an untidy one). They have correctly analysed and evaluated three potential conflicts that could result from demand-side policies, but all their evaluation is fairly brief and superficial, thus preventing them from achieving a very top mark.

ResultsPlus
Examiner Tip

This is an excellent example of poor quality diagrams. Whilst it is still possible to just about make these out, candidates should be making diagrams that are much larger and clearer than this. They should also follow the instructions on the front of the exam paper, which state to use black ink or ball-point pen.

for themselves. If they don't pass on the gains to lower down the firm then inequality may increase rather than decrease.

However, not all ~~pos~~ macroeconomic objectives conflict with one another. Low levels of inflation may encourage consumption. Consumption accounts for approximately 65% of aggregate demand. When consumption increases so to, almost always, does aggregate demand. When aggregate demand increases there is economic growth. Seemingly, it is possible that low inflation rates, economic growth and low levels of unemployment can all coexist without conflict.

It is also true that living in an environmentally friendly way and living sustainably is a possibility.

It is possible for the Monetary Policy Committee to meet more than one economic goal. However, it seems that, at the current time, achieving all six simultaneously is not an option. Economic growth may produce an opportunity cost of being unable to live in a sustainable manner, and vice versa. However, this may only be the case for the current time. In the future, with the availability of better resources, it may be possible to live sustainably whilst there is economic growth. Whether or not it will be possible to achieve all six remains to be seen but it is likely that the money they now have. It is entirely possible that the firm owners and 'high ups' keep a disproportionately high amount for themselves. If they don't pass on the gains to lower down the firm then inequality may increase rather than decrease.

However, not all ~~po~~ macroeconomic objectives conflict with one another. Low levels of inflation may encourage consumption. Consumption accounts for approximately 65% of aggregate demand. When consumption increases so to, almost always, does aggregate demand. When aggregate demand increases there is economic growth. Seemingly, it is possible that low inflation rates, economic growth and low levels of unemployment can all coexist without conflict.

It is also true that living in an environmentally friendly way and living sustainably is a possibility.

It is possible for the Monetary Policy Committee to meet more than one economic goal. However, it seems that, at the current time, achieving all six simultaneously is not an option. Economic growth may produce an opportunity cost of being unable to live in a sustainable manner, and vice versa. However, this may only be the case for the current time. In the future, with the availability of better resources, it may be possible to live sustainably whilst there is economic growth. Whether or not it will be possible to achieve all six remains to be seen but it is likely that

ResultsPlus
Examiner Comments

This answer scored very few marks because the candidate had not read the question properly. It appears they saw that it was about conflicts between macroeconomic objectives and so decided to write about objectives, not reading it properly and realising that the question is actually about how demand-side policies can lead to conflicts between the objectives.

ResultsPlus
Examiner Tip

Read The Question. Too many candidates lose significant amounts of marks for failing to do this simple task.

Questions 2 (a) (i)

This question was very disappointing, with far too many candidates failing to understand what the phrase 'investment at 2010 prices' meant, both in terms of what investment actually is and how 2010 is used as a base year. Far too many candidates found what should have been a simple question fairly challenging.

(a) (i) With reference to Figure 1, explain what is meant by 'investment at 2010 prices'.

(6)

Investment is the purchase of capital goods, with the hope of an increase in efficiency. The investment prices in 2010 were fluctuating, ranging between £32bn at its peak, and and £29bn at the trough.

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Examiner Comments

This question achieved a score of 4/6 as they made no reference to inflation or base year - effectively ignoring the 'at 2010 prices' part of the question.

ResultsPlus
Examiner Tip

Remember to ensure you fully answer the question in order to get full marks.

(a) (i) With reference to Figure 1, explain what is meant by 'investment at 2010 prices'.

(6)

Investment is defined as the expenditure (increased) in capital stock. ~~This can be~~ ~~physical~~ Figure 1 shows the investment (in £bn) In the year 2008, investment was at its highest point ~~be~~ at almost £40bn. This was likely to have been carried out ~~to~~ in order to improve productivity of the UK economy. In 2010 business investment ~~was~~ was much lower than in comparison to 2008, at almost £32bn however this was not the lowest levels of investment made by UK businesses ~~over~~ within the 7 year period.

Investment at 2010 prices could be ~~suggested~~ suggest that 2010 is taken as the base year with the measure of prices of good and services in 2010

ResultsPlus

Examiner Comments

This answer scored the full six marks, as they had clearly explained each of the three key issues:

- definition of investment
- explanation of 'at 2010 prices'
- reference to figure 1

These shorter questions should be straightforward if candidates read the question carefully and fully answer it.

Question 2 (a) (ii)

For this question we allowed candidates to approach it from both the point of view of an increase in investment and a decrease, bearing in mind figure 1 shows that business investment fluctuated a lot over this time period. Generally candidates were able to identify relevant points, although at times they struggled to fully develop them. Some candidates discussed consumer and business confidence as two separate points, but failed to clearly distinguish between them and really just made one point about lack of demand.

(ii) With reference to Figure 1, explain **two** likely factors that caused the change in UK business investment between 2008 and 2013.

(8)

Firstly, there may have been almost a 50% reduction in the amount of ~~[illegible]~~ bussiness investment because of "deep recession and slow recovery" since the last quarters of 2008. This is because huge ~~reductions~~ ~~of~~ contractions in the economy have caused households to ~~spend~~ consume less goods and services ~~to~~ in order to cope with ~~an~~ increased ~~infl~~ prices of goods because of cost push inflation, and housing payments. Less consumption has meant ~~means~~ that ~~the~~ firms gain less profit, and cannot invest in machinery or development

Also, there has been a dramatic reduction in bussiness investment because banks are now more risk-adverse. Therefore, it is harder for firms to borrow money in order to invest in capital goods such as machinery and technology. Also,

ResultsPlus Examiner Comments

This answer has identified two relevant points but it is unclear from the application exactly what time period the candidate is referring to.

ResultsPlus Examiner Tip

The application here is not clear enough - the 50% is not related to any specific time period.

(ii) With reference to Figure 1, explain **two** likely factors that caused the change in UK business investment between 2008 and 2013.

(8)

One factor for the change in investment was the recession which hit the UK in 2009. The recession ~~[illegible]~~ meant that banks in the UK would be less willing to loan due to the cause being ~~[illegible]~~ people borrowing but unable to pay back (sub-prime lending). This means that banks would have low confidence to loan at meaning investment would decrease as figure 1 shows as it decreases from £30bn in 2008 to £27.5bn in 2009.

Another factor for the decrease in investment would be ~~the~~ higher risk ~~being higher than normal~~ for many investors. Most firms invest because they believe that the risk of investing is lower than the reward, however, due to the recession, most firms would ~~[illegible]~~ assume that lower revenue would be generated due to less ~~consumption~~ spending from consumers. This would now mean that firms are more likely to ~~[illegible]~~ save cash reserves rather than choose to invest. In addition ~~[illegible]~~ the return of investment to investors may be lower due to lower consumption which increases risk to investors.

ResultsPlus

Examiner Comments

This is a clear and detailed answer that deserves full marks. They have identified and analysed two relevant points as well as making a specific application reference to figure 1.

ResultsPlus

Examiner Tip

In a question which asks for two answers, it makes sense, like this candidate has done, to put each point clearly in a separate paragraph.

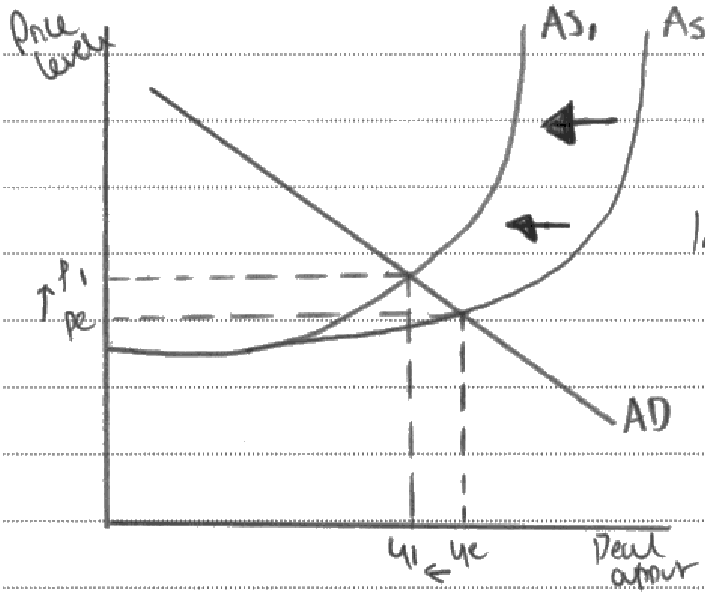
Question 2 (a) (iii)

This question was probably the most straightforward of the 12-mark questions on this paper, and many candidates were able to access a lot of the marks. Again, because of the fluctuating nature of figure 1, candidates could discuss either an increase or decrease in business investment. They could then go on to discuss either aggregate demand or aggregate supply. The majority of candidates focused on aggregate demand - here if they could clearly explain the transmission mechanism, draw the diagram, and describe the impact on price level and real output then they had achieved all of the 'kaa' marks relatively quickly.

(iii) With reference to Figure 1, assess the likely impact of the change in business investment between 2008 and 2013, on the UK's real output and price level. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

Investment is the amount of money businesses put into things like capital. As we can



see between 2008 and 2013 there has been many falls in investment. This is likely to decrease the Aggregate supply from AS - AS1 as businesses have less money to spend on capital which as we know it would never increase AS. Firstly we can see this has decreased the real output from (Ye - Y1) showing a fall in output. This means firms are producing less as they have less money to invest in things like ~~capital~~. technology.

However as we can see for example between 2010 and 2011 there was an increase of £.2 billion. This may of resulted in the AS curve shifting outwards instead which could of lead to an increase in output.

From the diagram we can also see that the ~~phase~~ decrease in investment from 2008 - 2013 has led to increased price levels. (pe-p1) This may show cost push inflation as a decrease in Aggregate supply has caused the price to increase. The fall in investment leads to a rise in the price level as firms are producing less which means people will have to pay more to get the product.

However as we know leading up to 2013 inflation levels were actually low meaning the fall in investment may not have had as bigger impact on the price levels as the diagram shows.

ResultsPlus

Examiner Comments

For this question those candidates, like this one, who could clearly explain, step-by-step, the impact of a change in investment on aggregate demand or aggregate supply generally scored highly. This answer achieves the full twelve marks. The candidate here has decided to discuss the impact on aggregate supply from a lack of investment - shifting AS to the left as shown by their diagram.

ResultsPlus

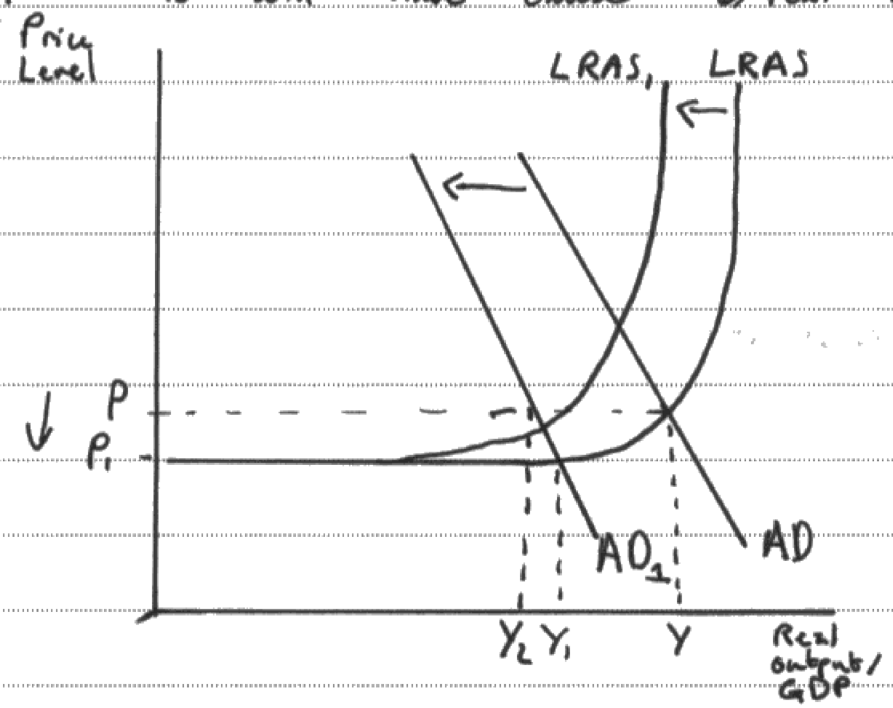
Examiner Tip

In questions such as this there are several different ways of answering the question, all of which can, if you analyse and evaluate your points clearly, achieve full marks. Whatever approach you take, ensure your diagram is consistent with your analysis.

(iii) With reference to Figure 1, assess the likely impact of the change in business investment between 2008 and 2013, on the UK's real output and price level. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

Bussiness investment is the amount of capital spending in a firm. It is a ~~__~~ component of aggregate demand, at around ≈20%. Therefore, the dramatic decrease from "£39 billion" ~~being~~ in ~~__~~ bussiness investment to around "£29 billion" investment from 2007 - 2013, will have caused ~~__~~ ~~__~~ contraction of Aggregate demand from AD to AD_1. This will have cause ~~_~~ real output to contract from Y to Y_1.



On the other hand, this contraction might not to a great extent. Despite a slow recovery, the UK government in 2013 promised to cut tax, and still promises to keep cutting tax for households. Consumption is worth 66% of Aggregate demand, therefore a small increase in consumption could level out the contraction of business investment.

Also, because of the level of business Investment falling, causing Aggregate Demand to contract, there may be a fall ~~of~~ in price level. This is because As AD moves to AD_1, the equilibrium point will move prices down from P to P_1.

However, if business's are decreasing the rate in which they invest in their capital, there may be a cost push effect, & leading to a rebalancing of price level. This is because business investment also effects the maximum capacity of an economy: if more businesses invest, ~~[illegible]~~ causing a better more efficient service, such as internet, then the capacity of the whole economy shifts outward. Therefore, a contraction in business investment moves LRAS from LRAS to $LRAS_1$, making the equilibrium price P.

ResultsPlus
Examiner Comments

This answer also scored the full 12/12 marks, but this time the candidate has approached the question from an aggregate demand side. This shows how candidates could take either approach to answering the question and still achieve full marks.

Question 2 (b) (i)

As mentioned in the introduction, it is disappointing to see the number of candidates who do not know what the components of the current account are. This is a key part of the syllabus which relates to many other aspects of the macroeconomy.

In the balance of payments, it consists of; ~~bot~~ the balance of goods, the balance of services, net inflow of transfer and the transfers of dividends, profits and overseas money transfer into the UK. The balance of payments is the (x-M) component of aggregate demand.

ResultsPlus
Examiner Comments

This candidate has scored full marks for clearly identifying the four components of the current account.

(b) (i) Outline the main components of the current account of the balance of payments.

(4)

The current account is made up of money flowing into and money flowing out of the country. If there is a current account deficit then there are more imports than exports and if there is a surplus there are more exports than imports. It is ideal that there should be a surplus on the balance of payments or it should be equal but recently the uk has been spending more on imports than it has made on exports causing a surplus

ResultsPlus
Examiner Comments

This answer is very vague and only achieves two marks for a reference to imports and exports.

ResultsPlus
Examiner Tip

Be clear and precise in your definitions to ensure you get the marks.

Question 2 (b) (ii)

Generally many candidates were able to discuss some sensible and relevant points on this question, for example higher labour costs compared to other countries. However, other arguments were sometimes less convincing - such as the impact of the UK weather on our imports and exports.

(ii) Analyse **two** reasons, apart from the UK's productivity performance, that might explain the deficit in the current account of the balance of payments.

(8)

If intrest rates are high more people from abroad will invest money here which will increase the value of the pound. This will result in goods and services in the UK being more expensive and therefore causing the demand for them to go down. ~~Goods~~ This will reduce ~~the~~ exports as we will be less competitive with other economies. It could also increase imports as people will be less able to afford goods produced in the UK and may have to look for cheaper alternatives. An increase in imports and decrease in exports will increase the gap and thus increase the deficit on the current account.

~~If wages fall this means people have~~

An increase in income tax would mean people have less money to spend. This could result in the demand for UK goods falling but the demand for cheaper goods produced abroad rising as our market is not competive which would cause an increase in imports making the deficit bigger. This would all depend on the value of other countries currencies and by how much income tax and exchange rates changed.

ResultsPlus
Examiner Comments

This answer only has one relevant point - the first one about higher interest rates potentially pushing up the value of the pound. As such the most this candidate can score is 4/8

(ii) Analyse **two** reasons, apart from the UK's productivity performance, that might explain the deficit in the current account of the balance of payments.

(8)

If the pound is strong relative to other currencys then it makes it ~~easier to~~ cheaper to import goods but also makes exports more expensive and therefore less expensive. This means that there would be an increase in imports and a decrease in exports enlarging the current account deficit.

The degree of how big the defecit is made by the exchange rate depends how strong the pound is relative to other currencies.

In foreign countries, generally less developed ones, ~~there~~ workers are usually prepared to work at lower rates than we are. This means that production costs go down so goods are cheaper. This means ~~other~~ countries are more likely to buy this cheaper good over ones we produce. We are also more likely to import it ourselves. This increases the current account deficit.

However this no the case in most of the countries that make up the G7. Which consists of a lot of the countries that the UK does business with.

ResultsPlus
Examiner Comments

This is a clear and detailed answer that achieves the full eight marks.

ResultsPlus
Examiner Tip

Remember to only evaluate where a question asks you to. This question starts with the word 'analyse' - so clearly there will not be any marks for evaluation. As such, this candidate has wasted some time evaluating on this question.

Question 2 (b) (iii)

As already mentioned in the introduction, too many candidates still do not understand the difference between productivity and production. Many answers to this question described how the UK wouldn't be producing as much and the subsequent effects of this. Some answers managed to barely refer to productivity at all, obviously therefore scoring low marks. Candidates need to ensure they read the question carefully and discuss precisely what it is asking them. Many answers also very simply said that, because production is less, we will have fewer goods to export and will have to import more. This is too simplistic and ignores the whole discussion of productivity and how this affects imports and exports.

***(iii) With reference to the information provided and your own knowledge, evaluate the likely impact of the UK's productivity performance on its economy.**

(12)

Since the 1980s, the UK developed a strong entrepreneurial culture with phrases such as 'lunch is for wimps' becoming commonplace and the average British lunch break being calculated at 27 minutes. However, the information in ~~Figure 3~~ Extract 1 shows productivity per hour worked between ~~G7 countries~~ the UK and the ~~UK~~ US to ~~have widened significantly since 2007~~ be 29% lower in the UK. ~~be very wide. A relatively small gap~~ While the 6 other G7 countries have seen productivity collectively rise relative to levels in 2007, from the starting 100 to 105, the UK has seen a drop from the base point of 100 to 98. ~~This could have occurred, however, if GDP has risen while hours worked remains the same~~

This discourages companies from producing in the UK, especially those requiring large workforces or a division of labour where low productivity is already a problem. This means less revenue in ~~corp~~ corporation tax for the UK government and less can be spent on public services such as the NHS and education unless the budget deficit is widened even *(iii) With reference to the information provided and your own knowledge, evaluate the likely impact of the UK's productivity performance on its economy.

(12)

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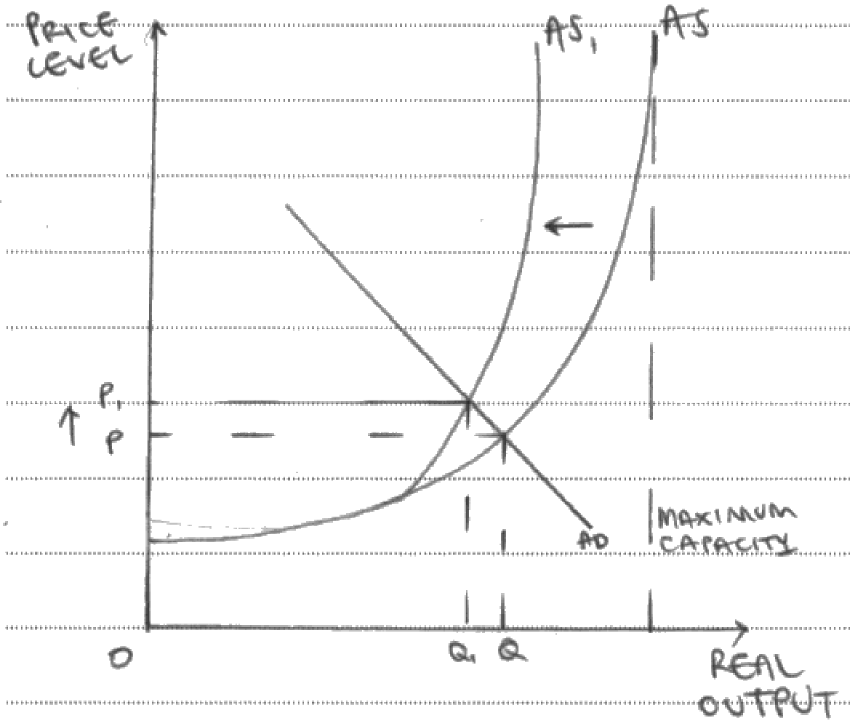
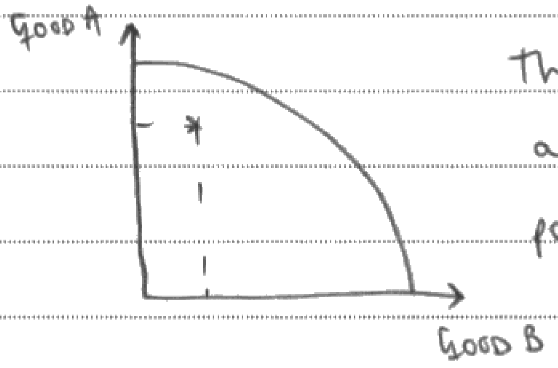
This discourages companies from producing in the UK, especially those requiring large workforces or a division of labour where low productivity is already a problem. This means less revenue in ~~corp~~ corporation tax for the UK government and less can be spent on public services such as the NHS and education unless the budget deficit is widened even

further.
Poor productivity also means excess spare capacity as the aggregate supply curve shifts inwards.



Excess spare capacity often means unemployment, and low productivity would encourage business to replace workers with more efficient machines. It could also mean an inflationary rise in price levels, as seen by the graph.



The economy would be working at a productively inefficient point of the Production Possibility Frontier.

P.T.O.

Unemployment would likely mean a lower standard of living for citizens and more money spent on welfare and training schemes, increasing the budget deficit.

ResultsPlus
Examiner Comments

This question has done a good job of application and analysis and as such achieves the full eight marks. However, there is no evaluation present, and so 8/12 is the maximum they can achieve.

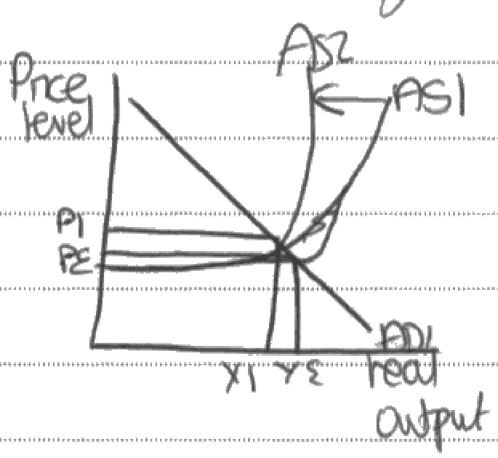
ResultsPlus
Examiner Tip

This answer has a very long introduction with an excessive amount of application. Whilst there are 2 application marks available on this question, these are for one application point.

*(iii) With reference to the information provided and your own knowledge, evaluate the likely impact of the UK's productivity performance on its economy.

(12)

The productivity of Uk workers has been much lower than other G7 countries from 2007 ~~to~~ when both the Uk and G7 countries were at 100%. However since 2007 G7 countries have been increasing in terms of productivity peaking at 105% where as the Uk's productivity has fell to as low as 97%. In 2011 the Uk's productivity hit 100% but has since fell to around 98%. If the productivity of Uk workers falls then it is likely that the economy is not likely to grow as quickly much like in 2009 when productivity fell to 97% and GDP at current market prices was at -1.4% ~~as~~ as productivity ~~prices~~ continues to fall in 2010 at 97%, GDP decrease to -2.4%. If workers productivity continues to decline it means supply will fall from AS1 to AS2 which would cause prices to increase from PE to P1 but real output to fall from YE to Y1.



Productivity is only likely to have a negative effect on the UK economy if it keeps decreasing over a long period of time because then Aggregate supply will decrease. It also depends on how much productivity falls by because if the amounts are only small percentages it may not have such a large impact on the UK economy.

ResultsPlus
Examiner Comments

In this answer the candidate has done plenty of application but little else. They have discussed how it may impact on output and they have drawn a relevant AD/AS diagram, which also gets some analysis credit. This gave them a mark of 5/12 in total

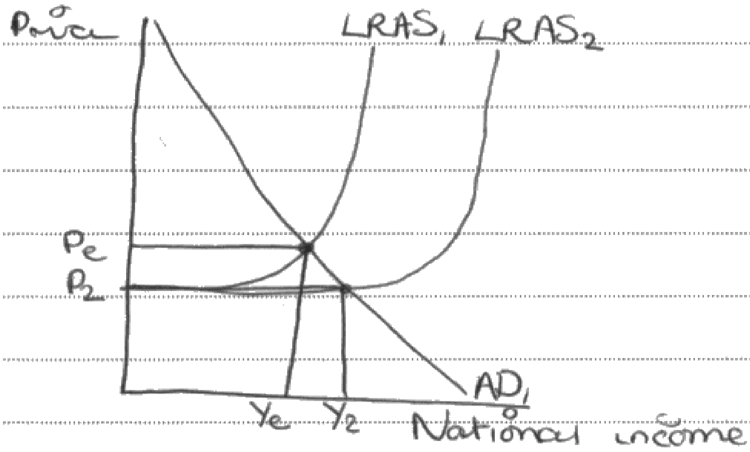
Question 2 (c)

This question was generally fairly well answered. Being more straightforward than 1(d) the vast majority of candidates quickly picked up on what the question was asking of them and were able to describe a number of supply-side policies. Where more able candidates were able to shine on this question was in their ability to clearly analyse each supply-side policy, but also to do some detailed rather than superficial evaluation. Whilst not wrong, too many candidates, for evaluation, are simply stating that 'education has a time lag' or 'it depends on the magnitude of the government spending'. To achieve the top marks candidates need to go beyond these rather bland statements. Also candidates need to remember to describe specific supply-side policies, not 'labour market reforms' or similar.

***(c) Evaluate the use of supply side policies in raising the level of real output in the UK economy.**

(30)

Supply side policies include land, labour, capital and ~~and~~ ~~entrepreneurs~~ entrepeuneurs. These policies affect long run aggregate supply. Land availability may increase which ~~can~~ could cause production to increase.



An increase in the areas could cause national income to rise from Ye to Y2 and prices to fall from Pe to P2. ~~[illegible]~~ Labour includes training of workers, ~~[illegible]~~ apprenticeships and workers with higher skills. ~~[illegible]~~ If training programmes and apprenticeships become more available then there may be a higher availability of ~~work~~ workers as they are more skilled the productivity of these workers should be higher. Another method could be to offer subsidies to help cut production costs and therefore allowing producers to increase their supply. All of this should increase aggregate supply to AS_2 and therefore increase GDP to Y_2.

However this would depend on how companies use the increase in their profits, if they pass it on to shareholders instead of investing it then aggregate supply will not increase. Furthermore if they invest it in the wrong areas then it might not increase productivity especially if workers are not trained in using the new equipment and machinery.

An increasing in training could help drastically as we currently have a shortage of skilled workers especially among the young however if workers are trained in the wrong sectors where there aren't enough jobs then it will have no effect as this is structural failure. An example is people being trained in hair dressing which has little pay and not enough jobs available.

Another way that could increase production is to reduce house prices by setting maximum prices. This will then allow people with the right skills to move into the areas where jobs are as now they would be able to afford the housing and travel where as before they couldn't so were forced to be unemployed.
This could not work tho if house prices are reduced in the wrong areas, for example it would need to be done in London where the majority of jobs are. It could also not work if house prices are not set low enough and therefore people will not be able to move to the area. It could also be counter acted by high transport costs such as train and bus fairs making it still to high for comuters to work here if they don't not wish to live in these areas.

An increase in aggerate supply could also be counter acted by a decrease in aggerate demand which could be caused by goods abroad being cheaper and therefore people buying them rather than UK goods causing a fall in consumption which would lead to real out put falling.

* Real out put of an economy shows all goods and services produced in a country using a base year to compare it to in order to take into account inflation.

ResultsPlus
Examiner Comments

This is an example of a quality answer from a candidate who has clearly grasped the demands of the question. Interestingly, their evaluation is actually slightly better than their analysis - where they have at times been a bit too brief.

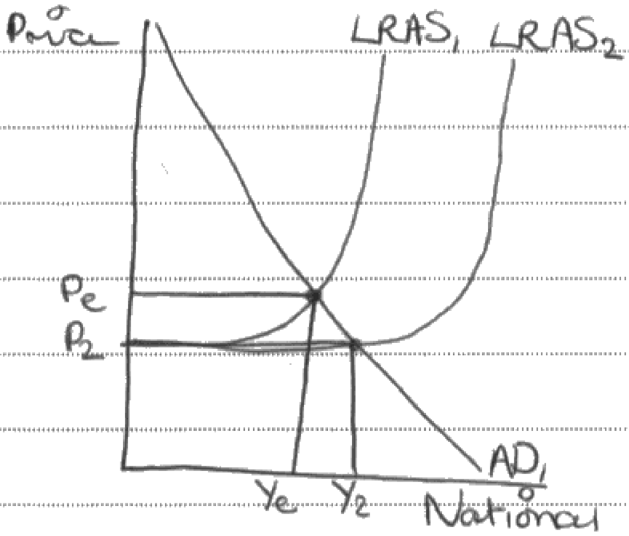
One criticism I would make of this response is that the answer is not structured particularly clearly and so an examiner does have to work through this answer carefully to ensure the marks are allocated appropriately. Ideally, candidates should have each point in a clear paragraph, with a clear evaluation paragraph separate from that analysis, to make it clear what analysis point a candidate is discussing.

ResultsPlus
Examiner Tip

Be careful with AD/AS diagrams - this candidate has lost a mark because they have put 'price' as opposed to 'price level' on the vertical axis *(c) Evaluate the use of supply side policies in raising the level of real output in the UK economy.

(30)

Supply side policies include land, labour, capital and ~~and~~ ~~entrepreneurs~~ entrepreneurs. These policies affect long run aggregate supply. Land availability may increase which ~~could~~ could cause production to increase.



An increase in the areas could cause national income to rise from Ye to Y2 and prices to fall from Pe to P2. ~~[illegible]~~ Labour includes training of workers, ~~[illegible]~~ apprenticeships and workers with higher skills. ~~[illegible]~~ If training programmes and apprenticeships become more available then there may be a higher availability of ~~work~~ workers who have been trained in more useful ~~areer~~ areas. This could therefore increase the supply or workers who could have higher production levels. An increase in the skills set of workers may also boost production as they are able to complete multiple jobs which gives them a higher chance of having the correct skills for the area of work that they can complete. ~~Hate~~ Capital policies can include corperation tax, if this decreases will ~~have~~ be able to spend less on tax and may be able to spend more ~~reso~~ on resources, therefore this could boost real output in the UK economy. If there is more available land then more businesses may be able to be built or expanded. This may therefore allow businesses to have more space for more workers which could increase production. ~~[illegible]~~ If more entrepeneurs can invest more or start more companies then businesses will be more willing and able to supply. If ~~A~~ $LRAS_1$ has moved to $LRAS_2$ then prices ~~have~~ have decreased from Pe to P_2 ~~which may act as an incentive for more businesses to supply~~

which could cause consumers to demand more which could act on an incentive for businesses to increase production. However, if the demand for workers is low anyway, more ~~appren~~ ~~apprentiches~~ apprenticeships and training have have little affect as they are not needed and therefore these workers will not be able to produce to add to the real output in the economy. If the workers are being trained in areas e.g. hair and ~~beut~~ beauty then this may have little significance in real output as the workers ~~&~~ are not skilled in the areas that are needed e.g. building. ~~Therefore~~ There may only be a slight change in coorperation tax which may have little impact on the overall output in the economy. Aggregate demand may ~~keep pushed out, which could~~ decrease which could cause prices to drop, which may put businesses out of work as they may not be able to supply at low prices and therefore extraneous variables could affect the output

Supply side policies take a long time to work and therefore real output may not decrease quickly. Therefore, supply side policies may be affective in the long run rather than in the short run. These policies therefore could increase real output in the economy in some ways, and may not be significant in others.

ResultsPlus
Examiner Comments

This answer achieves a mark of 18. They have an accurate AD/AS diagram illustrating an increase in aggregate supply, which is a good start. They have also discussed training and reducing corporation tax as potential supply-side policies. The training point was better explained than the corporation tax point. They also have three fairly limited pieces of evaluation, about lack of demand for workers, magnitude, and time lag. None of these evaluation points are really well-developed. The discussion of 'more land' as a supply side policy was not credited.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Productivity is a key macroeconomic concept that has an impact on lots of other issues. Candidates need to be clear about what this is and how it differs from production.
- Candidates need to be able to offer clear, precise, and accurate definitions of the key macroeconomic terms. These should be using appropriate terminology and not a vague attempt to explain roughly what the term relates to.
- Candidates need to spend more time studying macroeconomic data and charts from sources such as the ONS, Bank of England, Guardian, etc. Too many candidates lost marks because they could not correctly interpret a graph.
- Although it does seem to be improving, there are still candidates who confuse the UK's budget deficit with its current account deficit.
- Candidates will only receive marks for answers that specifically answer the question. This was particularly evident this year in questions 1(b)(iii) and 1(d).
- There is no need to repeat the question back to the examiner - save yourself some time and get straight on with answering the question.
- Candidates are spending too much time on long introductions when a question has only asked them to, for example, 'explain two reasons...'. Here, marks will only be awarded for your explanation of your reasons so you should start immediately with your first reason.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

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