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Examiners' Report
June 2010

GCE Economics 6EC02

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June 2010

Publications Code US023769

Introduction

Overall the paper was considered to be of a similar standard to the previous year. In general student performance was at a high level, with answers showing a firm grasp of the requirements of the specification. The majority of candidates knew how to recognise the evaluation command words, and made good attempts at demonstrating this higher-order skill.

Question 1(a) (i)

This question was generally well understood, but few students used data or diagrams to support their answer so did not attain full marks.

Question 1(a) (ii)

Candidates were familiar with the definitions of fiscal and monetary policies, and many candidates quoted the text to support these definitions.

However, many candidates did not go on to compare differences between the policies.

Question 1(a) (iii)

The majority of candidates understood what was meant by expansionary policies.

Detailed explanations were typically given and candidates often supported their explanations with an appropriate AD/AS diagram.

Some candidates did not provide evaluation but those candidates who did evaluate typically developed their points well to be awarded the full four marks for evaluation.

*(iii) discuss the likely effectiveness of 'expansionary... fiscal and monetary policies' (*Extract 1, lines 2 to 3*) as means of closing the output gap.

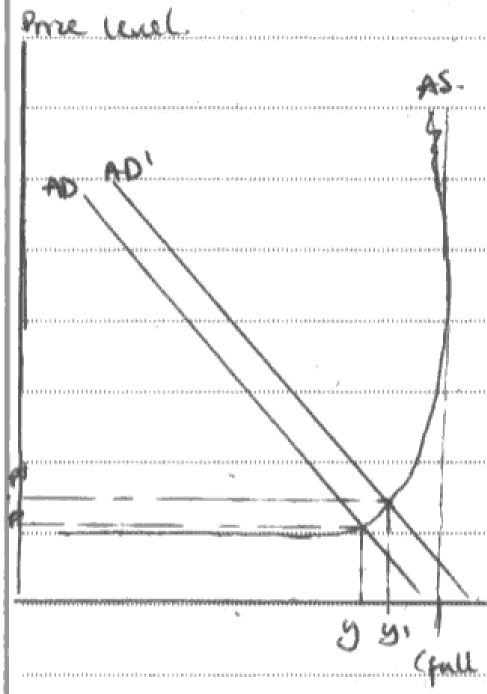
(16)

Expansionary (or lose) fiscal policy is ~~the~~ ~~decreasing~~ increasing the government spending (G) and ~~increasing~~ Decreasing the taxes. With the monetary policy they will cut the interest rates, this is ~~so~~ to shift the AD curve to the right.

Increasing government spending will provide better education and health services, it will also help out with subsidies. Therefore firms are more likely to employ more or increase wages. Cutting taxes will allow consumers to have more discretionary income, therefore they are more likely to spend this on services and goods. This will shift the AD to the right as the (C) and (I) increase, therefore ~~gloss~~ closing the output gap as the output gets bigger.

Decreasing the interest rates will make people borrow more and save less as they get less for thier money when saving. This ~~will~~ might ~~also~~ mean that more homes will be bought along with morgage repayments being low. Yet again this will allow more discreationary income for the consumers, this then is spent on the economy. Firms will invest more as they see people are spending more, they might employ more workers therefore

decreasing unemployment and causing economic growth, this then helps to close ~~to~~ the 'output gap' and 'eventually become positive again'.



$AD = C + I + G + (x - m)$.

As C and I along with G increas so does the AD, therefore AD -> AD'

There is economic growth and a decrease in unemployment. y -> y'. It also shows the ~~economic~~ output gap decreasing as before it was y -> full capacity and now y' -> full capacity.

However as consumer spending increases they tend to spend ~~on~~ more on imports such as foreign holidays,

this causes the balance of payments defecit to worsen.
Along with the multiplier effect this might increase the AD to far and cause high demand pull inflation. Although it depends on where the AD curve is situated on the AS curve. If it close to full capacity it might cause high inflation but low economic growth therefore the policies won't be as successful.

There is also a time lag of 18 months to 2 years, this will then not make any sudden changes.

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Examiner Comments

The candidate starts the question well by giving examples of expansionary fiscal and monetary policies and so earns four marks in the first paragraph.
The remaining eight marks for Knowledge, Application and Analysis are quickly achieved in the following two paragraphs as the candidate explains of how the policies shift AD right/up.
Note that although the diagram and the explanation that went with it would have achieved four marks, they were not awarded as maximum marks had already been obtained.
The bottom two paragraphs on the second page each got two marks for evaluation. Firstly that some expenditure would go on imports (implicitly reducing the effectiveness of the policy to close the gap, but not actually stating it).
In the second paragraph the knowledge that the position on the AS curve was important was credited with two marks only, because the candidate went on to discuss the effect on inflation rather than output.

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Examiner Tip

It is important to link your answers back to the issue raised in the question.

Question 1(b) (i)

The vast majority of students were able to give details of both unemployment measures, with only a few confused by the requirements of ILO measurement.

Question 1(b) (ii)

Candidates found this question difficult. Very few answers described unemployment as a lagging indicator, but the sense of a time delay was often understood.

The majority of candidates could explain why unemployment remained high, but rarely why it would continue to rise. Many candidates provided just one brief reason indicating a lack of knowledge in this area.

Some credit was awarded for explaining why unemployment persisted.

Question 1(c)

Good use was made of the data to develop points, but there was some confusion in the interpretation of the data with weak candidates. Many described the impact on government spending and economic growth rather than addressing the significance of immigration for employment and unemployment. Some candidates identified a valid point but did not go on to develop this point.

Evaluation for this question proved difficult. Those candidates who provided appropriate evaluation typically provided developed explanations.

(c) With reference to Figure 3 and Figure 4, assess the significance of immigration for employment and unemployment.

depends on net migration.

(14)

trade

Immigration is the movement of ~~a group~~ of people from one country to another looking for employment and a new place to live. According to figure 4 only 42% of immigrants come to the UK with employment prospects or seeking employment. The 30% who arrive with a definite job are likely to benefit the UK by paying taxes to the government which will be used to improve the nations services and infrastructure. They are also possibly doing jobs that no one else is willing to do which can be seen as advantageous. On the other hand by taking these jobs they could be contributing to unemployment as job potentical from British workers are taken ~~A~~ workers may also be sending a large proportion of their income home, causing a withdrawal from the circular flow of income and leaving less money to spent within the UK economy. On the other hand, this could be seen as a benefit to trade, as sending home ~~£~~ pounds means that they will have to spent on our economy at some point.

The 12% who immigrate to the UK seeking a job but do not have one, means that they increase the level of unemployment within the UK and ~~past~~ are also likely to claim benefits which costs the government more money.

An extra inflow of people may put strain on services which may infact cause for an expansion and actually create jobs for the UK

The other 58% of people who come to

the UK for other reasons than employment are unlikely to hav an effect on employment / unemployment.

It also depends of the level of net migration as although people may come to the UK seeking employment, If there is a ~~bar~~ similar level of migration from the country ~~equall~~ so they can take their place and barely effect levels of employment / unemployment.

Also levels of immigration are low compared to people in country so less significant on employment

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Examiner Comments

The candidate refers to the data.
A brief reference to the effect of taking these jobs on unemployment levels earns two marks.
Two more marks for unemployment were earned referring to those immigrating seeking a job.
On the first page an evaluation mark is limited to two because the candidate doesn't fully explain the effect on employment levels of those immigrants who are "possibly doing jobs that no one else is willing to do".
Although the candidate was eligible for four marks for the discussion of net migration, two marks were awarded as the answer has exceeded the maximum of four evaluation marks for this question.

Two further evaluation marks could also have been awarded for the final sentence referring to the relative size of immigration compared to the unemployment level.

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Examiner Tip

Although this response earns full marks, it is well worth using paragraphs throughout in order to guide the examiner and give impact to your answer.

Question 1(d)

Candidates understood the impact of a recession on national output and were able to illustrate the impact on AD and/or AS. However, some errors were made when analysing the impacts particularly with regard to the direction of the impact on inflation, the exchange rate and the current account.

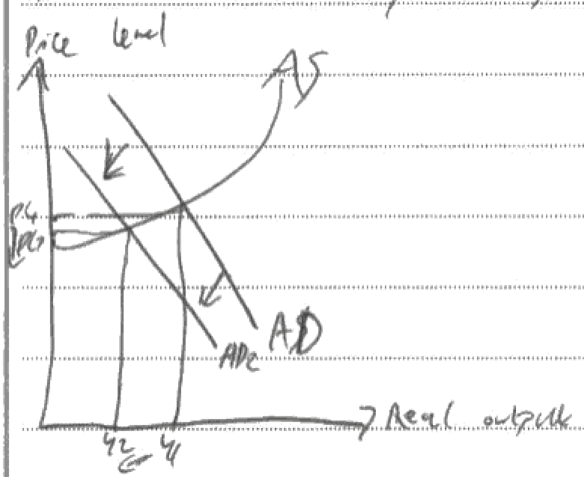
A wide range of effects were considered and candidates often applied their knowledge of recent events including experiences in the UK and countries such as Greece.

Most candidates provided suitable evaluation but points were not always developed upon. Candidates found it more difficult to score highly on this question compared to question 2c.

*(d) Evaluate the likely effects of a recession (negative economic growth) on the UK economy.

(30)

A recession would decrease consumer confidence very deeply. This is because AD would shift inwards to AD_2, showing economic decline.

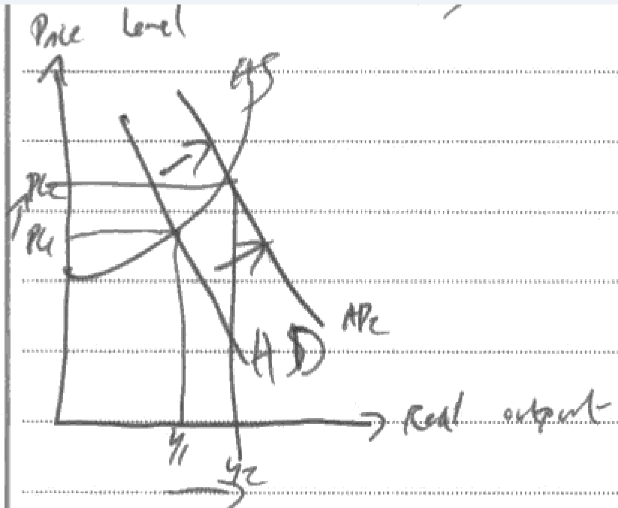


Inflation may fall but unemployment would rise. AD will shift to AD to because people would have no consumer confidence.

Therefore consumption, the biggest component of AD, will fall dramatically. This is very significant as AD is the biggest and most powerful component of AD = C + I + G + (X-M). However, it depends of how significant is this recession in terms of damaging the economy. Investment would

also decrease as part of AD, as you need confidence, availability of credit ~~and~~ ~~incef~~ to be in the right ~~stage~~ stage ~~state~~ in the ~~economy's~~ economy's state.
In a recession government spending should increase. To kick start the economony once more. But however, this an opportunity cost for the government on deciding on when to spend the money. It could ~~spend~~ spend on health care or

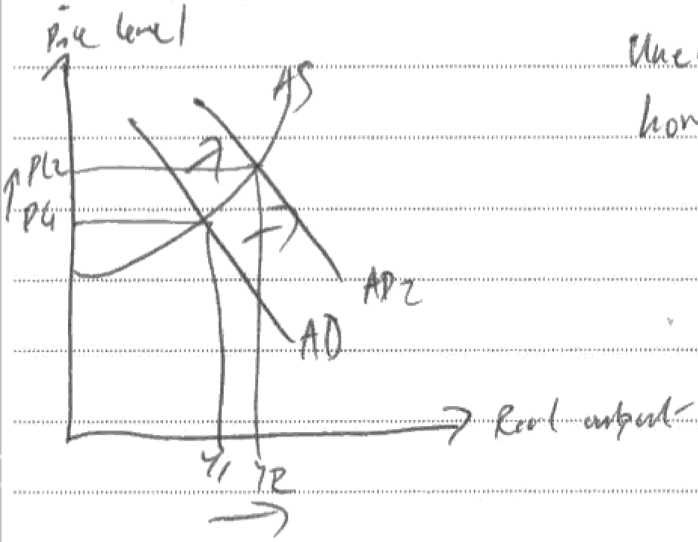
subsidising businesses, to help them get out of the economic downturn. However, it depends on how much government spending is done. If little, hardly no impact, if larger sums, ~~the~~ better for the economy. However, there will be time lags for these process to be effective. This is because firms ~~will~~ should employ more, they should go out and spend it ~~on~~ other businesses. This shows the multiplier effect which is a knock on effect which is very good for the economy.



This will increase consumption, due to the increase in government spending so AD will shift outwards to AD2 showing economic growth. Therefore will move people back to work, this should decrease unemployment, consequently we have higher inflation.

In a recession, the wealth effect in reverse will be present. This is because of the negative equity, people will feel less wealthy as their assets are worth less, therefore not go out and spend, this low consumer confidence will decrease AD

~~[illegible]~~ inwards to AD2. In addition, the Monetary policy committee should decrease interest rates, so people would borrow more and spend it, increasing consumption and investment therefore 2 components ~~of~~ AD increasing would mean economic growth, AD would shift to the Right to AD2



Unemployment will fall, however inflation would rise.

In a reccession, the government should use quantative easing, implementing more money in the circular flow, (printing more money), this should help the economy kick start again.
Also in a recession shares will be worth less therefore shareholders wealth effect in reverse will play an significant part for ~~their~~ low consumption.

~~[illegible]~~ Nevertheless, it depends on how serious the state of the economy is in.

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Examiner Comments

The candidate is awarded four marks for the diagram and then goes on to earn two evaluation marks for recognising that consumption is the largest component of AD. Four marks are awarded for each of the first three effects stated, which were lower investment, government spending and the negative wealth effect.
Credit would have been awarded for explanation of Monetary Policy except candidate had already reached full marks (3 x 4 marks) for effects.

Two evaluation marks were awarded for identifying that there are time lags before the full effect of government policy is seen.

In addition two marks were awarded for an implicit understanding of falling GDP.

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Examiner Tip

Where a question asks you to evaluate, remember that you should develop the points you make in your answer.

Question 2(a) (i)

This was answered well with most students gaining full marks, although the explanation of weighting was the mark missed most.

Question 2(a) (ii)

Many candidates seem to have difficulties in explaining why the target level of inflation is low. The standard explanation of a weaker response was "to keep things cheap and to encourage people to spend". Many candidates could explain one reason very well, but sometimes struggled to score highly on a second point.

The impact on competitiveness was a popular explanation, and a few candidates described shoe leather costs/menu costs.

Question 2(a) (iii)

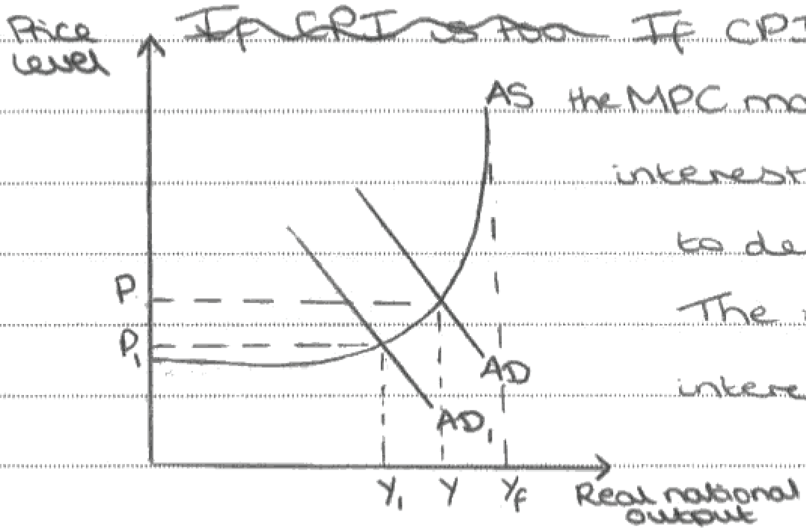
Most candidates demonstrated a very good understanding of how monetary policy operates and were able to provide suitable evaluation points. Some however suggested better alternative policies, or the effects on other government objectives, thus not accessing the evaluation marks.

(iii) examine how interest rate decisions may be used to achieve the government's inflation target.

(14)

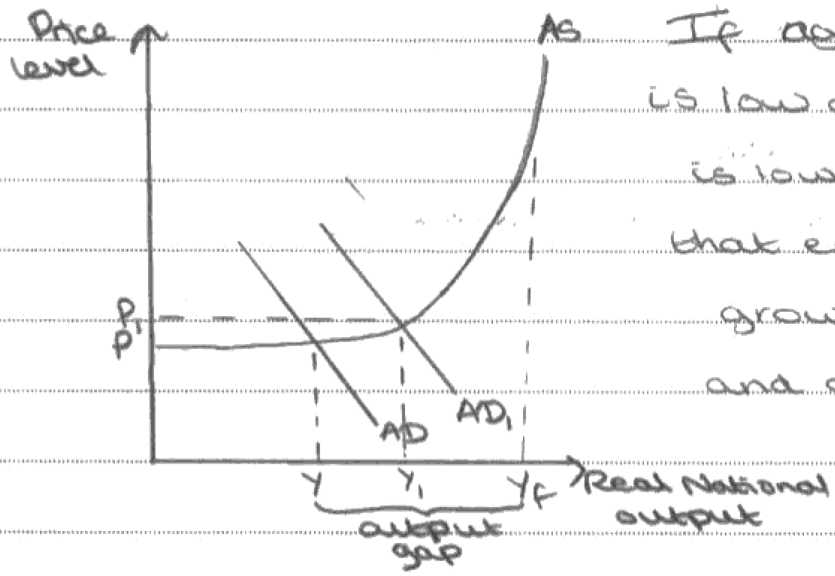
The government's inflation target is +/- 1% of 2% CPI. The Monetary Policy Comittee set interest rates to control inflation, it is their sole purpose. They look at a range of indicator ~~macroeco~~ such as ~~too~~ current CPI inflation, house prices and unemployment to predict whether they think CPI is likely to rise or fall.

~~If CPI is too~~ If CPI is too high, the MPC may increase interest rates in order to decrease AD. The increase in interest rates would make the cost of borrowing more expensive. Therefore ~~IB~~ it would decrease investment, which is a component of AD because businesses may not get as much return from investing as they have to



pay more in interest to the bank. ~~AD also~~ Interest ~~two~~ rate rises would also cause a fall in consumption as mortgage interest repayments increases so people have less discretionary

income so they have less money to spend on goods and services. ~~The~~ The rise in interest rates is likely to decrease AD ~~wi~~ from AD to AD_1 which would decrease the price level from P to P_1 and decrease in ~~P to P_1~~ Y to Y_1. The decrease in price level would reduce inflation. Higher mortgage repayments is likely ~~Higher mortgage repayments~~ ~~However, not everyone will be affected~~ ~~by~~ to reduce AD by quite a lot as the UK has high home ownership levels. However, the increase in payment only affect those ~~of~~ on variable tracker mortgages so those who have fixed mortgages ~~may~~ may not be affected and therefore it will not reduce their consumption.



If aggregate demand is low and inflation is low. This implies that economy is not growing by much and can grow more as there is a lot of spare capacity as shown by the output gap. The MPC may then decide to cut interest rates in order to ~~ot~~ increase AD. This would increase real national output and increase the price level. This would create wealth effects as when interest rates go down, house price increase. Therefore, people ~~spend~~ consume more and more jobs are created. This creates a multiplier effect. However, if the multiplier is strong it could increase AD by a lot and could cause higher inflation

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Examiner Comments

The candidate earns ten marks on the first page by answering the question directly. Two were awarded for the interest rate movement, four for the effect on Investment and another four for the excellently drawn and labelled diagram.

At the bottom of the first and the top of the second page, four marks were not awarded for the discussion on the impact on Consumption because the candidate has already obtained all the marks available for Knowledge, Application and Analysis by this point in their answer.

Four Evaluation marks were awarded for the extent of the effect.
Despite the answer already receiving full marks by half way down the second page, the final part of the answer would have not received any marks becuase the opposite effect has already been credited.

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Examiner Tip

Try to label your diagrams clearly like this candidate.

Question 2(b) (i)

Despite the irregular time axis in Figure 2 candidates were not disadvantaged by it. Most responses correctly identified changes to house prices, but there was much confusion when interpreting the movement of multiples of income and affordability.

Some seemed to think that a rising multiple made houses more affordable, and they did not grasp the inverse nature of the relationship. Likewise the concept of a multiple of income seemed to be confusing to many, often choosing to quote the figures as a percentage.

Question 2(b) (ii)

Most students understood this question clearly and gained full marks for good explanations of wealth effect.

(ii) define the term *wealth effect*.

(4)

Wealth effect is the effect peoples' own self value of their possessed weath (house prices, share prices, etc.) has on their levels of consumption due to consumer confidence. When people feel wealthier they tend to consume more due to high confidence (reverse also true). Fig 1 +2 imply ~~balca~~ weath effect would lead to increasing consumption between 2005 – mid 2007 while house prices rise, and falling consumption post '07 as house prices fall, as as house prices are a large component of weath.

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Examiner Comments

This candidate provided a detailed explanation worthy of full marks.

Question 2(b) (iii)

Candidates explained the transmission mechanisms well and a range of transmission mechanisms were described. Most candidates addressed the question by explaining the impact on output and the price level. Evaluation points were developed and often focussed on the positive impact on first time buyers.

Some candidates incorrectly interpreted the house price data but were able to provide suitable analysis. A small minority of students used micro analysis to explain the effects, believing that lower house prices would encourage us to buy more of them.

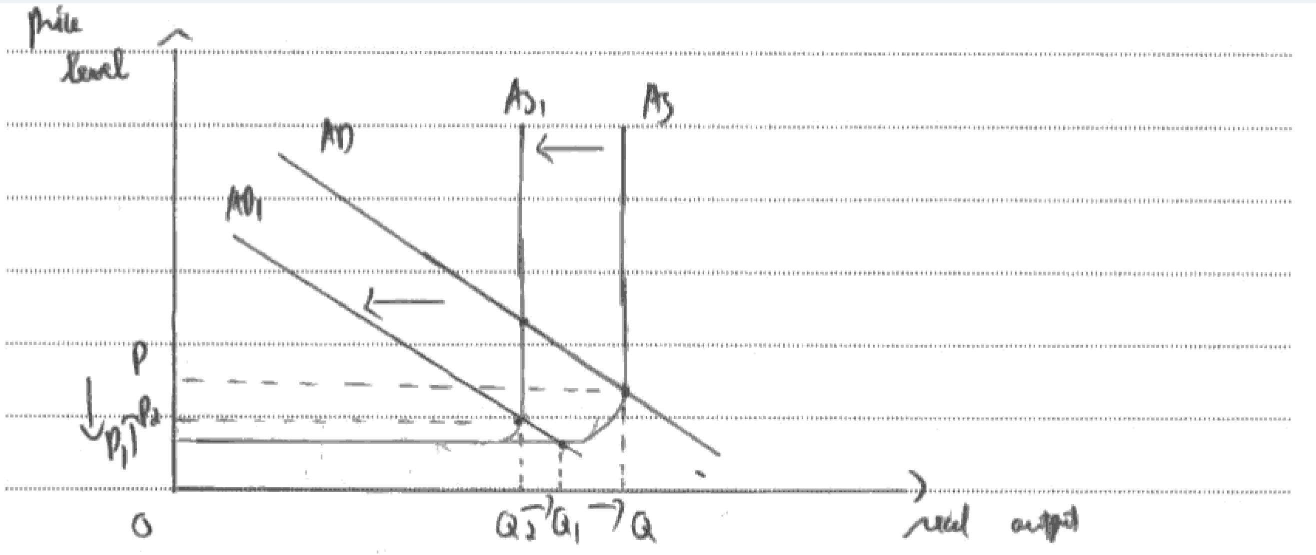
*(iii) assess the likely effects on real output and the general price level of changes in house prices since mid-2007. Use an aggregate demand and supply diagram to support your answer.

(16)

Since mid-2007, the house prices decreased from ~~at~~ 200 000 + above ~~£~~ 150000 in 2009, which would ~~seem~~ be a significant number.

As house price decreased, people would feel worse off (negative wealth effect), which decreased their confidence to spend. People would therefore spend less, decreasing their consumption.

As for the firms, ~~then~~ they would get less sales from decreasing spending of people, resulting in their decrease of the investment level, ~~&~~ according to the accelerator theory. In the long run, a decrease in the investment + the capital stock of firms could lead to the poor productive capacity, which decreases the aggregate supply in the long run. ~~That~~ In the short ~~run~~ run, as AD = C + I + G + X−M, the aggregate demand would decrease.



The AD curve shifts to the left from AD to AD1, decreasing the price level from OP to OP1, real output from OQ to OQ1. The AS curve shifts to the left from AS to AS1, increasing price level to OP2 (cost push inflation), decreasing real output to OQ2. The real GDP would decrease whilst unemployment increase.

In the short run, the price level would decrease whilst in the long run it would go up.

However, it depends on the spare capacity of the economy. If the economy is working with its fullest capacity, a decrease of the AD curve would only decrease the price level with no impacts on the real output.

Other things are not equal. A decrease in the oil price or a depreciation in the value of the pound would increase the aggregate supply and aggregate demand respectively.

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Examiner Comments

This answer is concise and directly answers the question.

On the first page full marks were awarded for explaining the transmission effect of the negative wealth effect on consumption and this means that although the point relating to investment levels is correct it was not credited.

The diagram received full marks.

On the second page 4 marks were obtained for changes to price and output levels.

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Examiner Tip

The final two paragraphs are brief but effective evaluation points.

Question 2(c)

Candidates approached this question in a number of ways and this seemed to reflect a lack of certainty regarding the requirements of the question. Candidates wrote a great deal of analysis, typically describing monetary, fiscal and supply side policies with many transmission mechanisms described.

Few errors were made with the analysis, but typically occurred when describing the impact on the exchange rate and the current account. Candidates demonstrated an excellent knowledge of the economic policies, and suitable evaluation points were given. Many candidates weighed up which was the most effective policy and described conflicts between macroeconomic objectives.

It was good to see students use examples and their knowledge of policies in the current economic climate.

Although this was not the best answer that we saw, it does just enough to obtain full marks and to that extent is an efficient response.

*(c) Evaluate three ways in which economic policy can be used to 'stimulate UK economic growth' (*Extract 1, lines 4 to 5*).

(30)

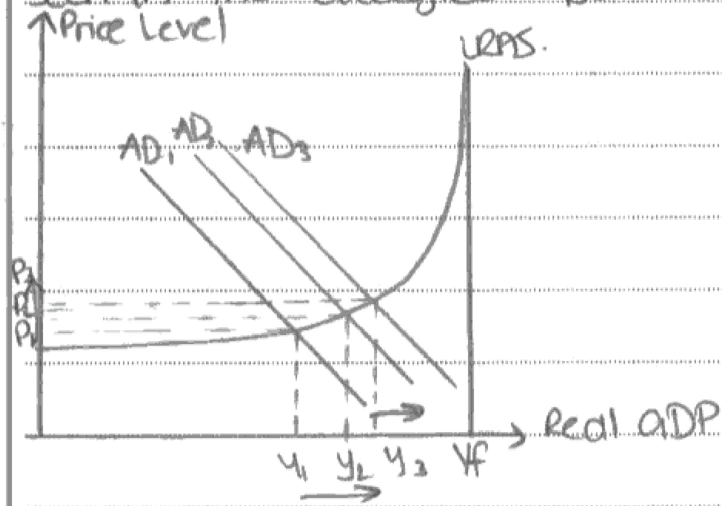
Economic Policy can be used to stimutate the UK's economic growth in many different ways. Fiscal and Monetary Policy can be manipulated to target the macroeconomic objective of stable growth.

Monetary Policy can be targetted to increase consumer spending by reducing interest Rates. If interest Rates are cut, consumers with mortgages have less to pay off as repayments become cheaper. This can lead to an increase in consumption as net savers become net borrowers, and investment increases consequently, leading to a rise in AD.

Secondly, Fiscal Policy can be targetted to reduce taxation on wages. This increases the disposable income of consumers, encouraging them to spend more. This may also be an effective way to raise the economic growth of the UK.

A third, and final way to stimulate the growth of UK's economy could be targetting Fiscal Policy to increase Government spending. If Government spending is increased in training and education for example, in the form of a government grant to large families or a subsidy to state schools to improve their teachers' training, consumers would feel more confident and possibly have more disposable income. This may lead to an increase in consumption and consequently an increase in Agregate Demand.

These tree policies would then lead to increased rounds of spending thanks to the Multiplier effect and lead to a larger increase in AD than the initial injection, as seen in the diagram below.



However, would these policies work in reality?
Firstly, monetary policy is difficult to target and thereby the first way is more difficult to achieve. A cut in interest rates is much less effective than a fiscal policy solution. Furthermore, interest rates are currently frozen at 0.5% and therefore cannot be lowered more.
Secondly, a reduction of wage tax could be effective but as consumers would not be very confident anyway, perhaps they would be more encouraged to save rather than spend, even if interest is low.
Thirdly, although the targetting of Government Spending

may have a positive effect, government spending may not affect economic growth as much as perhaps another tool would. Moreover, there is a large time lag before teacher training becomes effective, although grants to families may be more effective.

In conclusion, I believe the most effective ~~pol~~ use of economic policy to encourage the UK's economic growth would be the cut in income tax to consumers, as it has the most realistic boost to the AD.

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Examiner Comments

On the first page full marks (12) were awarded for the three policies that might stimulate growth.

On the second page the diagram was awarded four marks and the arrow on the real GDP axis was evidence of understanding that real GDP was increased, earning a further two marks. However, a sentence to this effect would have been preferable.

The three paragraphs that follow were all awarded four marks each for evaluation.

There was an 8:5 split in favour of answering Question 2, probably as a result of the more central concepts being assessed. Questions 2aiii, 2biii and 2c were relatively straight-forward questions and gave students the opportunity to display their skills. Although Q2aii challenged many candidates it was a relatively low tariff question. It was felt candidates may have avoided Question 1 because of its focus on the labour market, particularly as questions 1bii and 1c seemed to challenge the students more rigorously than most.

However, there were many excellent answers to Question 1 particularly 1aiii and 1d.

Most entrants showed considerable awareness of the current state of the economy and some were truly outstanding in their using this information to help them evaluate. This real interest in the economy was evident in many papers, and was easy to credit within the flexible mark scheme.

Grade Boundries

Grade	Max. Mark	A	B	C	D	E	N	U
Raw mark boundary	80	62	54	46	39	32	25	0
Uniform mark scale boundary	100	80	70	60	50	40	30	0

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