Pearson Edexcel

# Mark scheme

# Sample assessment materials

## Pearson Edexcel GCE A Level

## in Economics A (9EC0)

## Paper 3: Microeconomics and macroeconomics

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Sample assessment materials Issue 3
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**General Marking Guidance**

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

| Question Number | | Mark |
|---|---|---|
| **1(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge**<br>1 mark for identification of a possible cause and 1 mark for its relevance to energy use.<br><br>Possible causes:<br>• Increase in world population (1)<br>• Increase in devices requiring electricity (1)<br>• Increase in world GDP and living standards (1)<br><br>**Application**:<br>2 marks for data references from Figure 1 (identifying the forecast change):<br>• Demand for nuclear and renewable more than double<br>• Demand for gas doubles<br>• Demand for coal and oil increase by between 30% and 50%<br>• Comment on increase in overall demand<br><br>**Analysis:**<br>• 1 mark for explanation of the link between the identified case and energy use | **(5)** |

| Question Number | | Mark |
|---|---|---|
| **1(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge and analysis**<br>• 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)**<br>• Decreasing leakages (imports) **(K)** may lead to a reduction in the circular flow and reduce AD **(A)**<br><br>**Application:**<br>• Exports increasing, imports decreasing, but until 2020, leakages still greater than injections so overall leakage from circular flow (2)<br>• Or 2 specific data references from figure 4<br><br>**Evaluation** (2 marks for any relevant point):<br>• These are forecasts so the impact on the circular flow may be different from that described above<br>• Other injections and leakages influence the circular flow which may offset the changes described above | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **1(c)** | **Knowledge 2, Application 2, Analysis 4**<br><br>• recognition that gas and solar energy/nuclear energy are substitutes<br>• application of cross elasticity of demand: definition or formula<br>• value will be positive<br>• use of information provided to draw conclusion (reference to first paragraph, Extract B): a fall in the price of gas will lead to a fall in the demand for solar energy and nuclear energy. | **(8)** |

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|---|---|---|
| | 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.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **1(c)** continued | **Evaluation 4**<br>• much will depend on relative price of gas in relation to solar and nuclear energy<br>• recognition that there will be a time lag before any impact on market for other forms of energy because supply very price inelastic<br>• investors will want to be certain that change in relative prices is long term<br>• impact may be limited due to the rising demand for global energy | **(4)** |

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|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **1(d)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects:<br>• on price of gas to consumers – impact on consumers' surplus<br>• on price of gas to producers – impact on producers' surplus<br>• implications for producers of other forms of energy<br>• external costs – on environment and water supply<br><br>Macroeconomic effects:<br>• on investment – multiplier effect on GDP so promoting economic growth<br>• on employment – an estimate that 35 000 jobs will be created<br>• 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<br>• rate of inflation may fall – lower energy prices<br><br>Possible evaluation points include:<br>• Impact on price of energy may be less significant than in the USA<br>• Impact on other forms of energy – much will depend on how much gas is obtained from fracking<br>• Difficult to forecast the magnitude of external costs or to place a monetary value on them<br>• 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** | | |
|---|---|---|
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| Level 2 | 5–8 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. 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.<br>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.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **1(e)** | **Knowledge 4, Application 4, Analysis 8**<br>**Evaluation 9**<br><br>Microeconomic effects:<br>• impact on revenues and profits of energy companies<br>• impact on investment decisions by firms in the energy market<br>• impact on wages of workers in energy industries<br>• impact on consumer real incomes and on demand for other goods and services.<br><br>Macroeconomic effects:<br>• lower costs of production<br>• lower global rates of inflation (AD/AS analysis)<br>• impact on global growth rates<br>• impact on balance of payments on current account of different countries<br>• increase in CO2 emissions: consideration of impact on climate change on different countries, reference to external costs<br>• impact on consumers and producers of the main countries supplying energy.<br><br>Possible evaluation points include:<br>• impact on different industries will depend on their energy costs as a proportion of total costs<br>• impact on households will depend on cost of energy in household budgets<br>• impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt<br>• impact on inflation rates and growth rates depends on elasticities of AD and AS curves<br>• impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of energy<br>• impact on external costs depends on how different energy sources are affected | **(25)** |

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| Question Number | | Mark |
|---|---|---|
| **2(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge and Analysis**<br>• Definition of exchange rate: price of one currency in terms of another (1)<br>• Possible reasons:<br>– 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)**<br>– 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)**<br><br>**Application**: Reference from Figure 1: (2)<br>14% fall in value of the Turkish lira over the whole period | **(5)** |

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|---|---|---|
| **2(b)** | **Knowledge 2, Application 2, Analysis 4**<br><br>• understanding of *inflation:* general increase in the average price level<br><br>Costs of inflation include:<br>• arbitrary redistribution of income from lenders to borrowers<br>• loss of international competitiveness of Argentine goods<br>• uncertainty causing a fall in investment<br>• industrial unrest: reference to impact of strike by the police<br>• menu costs and shoe leather costs<br>• danger of hyperinflation if the current inflation is not brought under control. | **(8)** |

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| Level 3 | 6–8 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

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|---|---|---|
| **2(b)** continued | **Evaluation 4**<br>• current inflation rate may be a short-term phenomenon only<br>• impact of competitiveness depends on inflation rates of countries that Argentina trades with<br>• Argentine government is taking measures e.g. price controls to reduce the rate of inflation<br>• impact on living standards depends on what is happening to wages | **(4)** |

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|---|---|---|
| **2(c)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge and Analysis**<br>• 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)<br>• Soya production becoming more profitable because of growing demand from China (**K**). Therefore, farmers reallocating resources from beef production to soya production. (**A**) (2)<br><br>**Application**<br>• 10 million fall in the stock of cattle (over 10 years) to 48 million in 2011.<br>• Exports accounted for 20% of beef production in 2007, but have fallen to just 7% in 2013 (2)<br><br>**Evaluation**<br>2 marks for any valid point:<br>• Some farmers may find it difficult to switch production from beef to soya because of the costs involved and/or unsuitability of the land<br>• Farmers might think that government restrictions on beef exports may be short-term so they will not switch from beef to soya. | **(8)** |

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|---|---|---|
| **2(d)** | **Knowledge 4, Application 4, Analysis 8**<br>**Evaluation 9**<br><br>Microeconomic effects:<br>• supply and demand diagram illustrating the impact of maximum prices: contraction in supply and extension of domestic demand<br>• shortages of products subject to price controls<br>• need for rationing<br>• greater price stability for producers<br>• implications for resource allocation: producers will switch resources to the production of products not covered by price controls.<br><br>Macroeconomic effects:<br>• falling export revenues from beef sales<br>• negative impact on Argentina's balance of trade<br>• could cause fall in the rate of economic growth<br>• negative implications for Argentina's economic development<br>• fall in the rate of inflation<br>• price controls might act as an incentive for producers to diversify and/or develop manufacturing and tertiary industries.<br><br>Possible evaluation points include:<br>• impact of price controls depends on how rigorously they are enforced<br>• producers may not reallocate resources to products not subject to price controls if they believe that they will only exist for a short time<br>• impact on the balance of trade may be minimal, e.g. because of the increase in exports of soya<br>• 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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| **2(e)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects:<br>• primary producers: export revenues may fall since demand for many primary products is price inelastic<br>• increase in costs for firms reliant on imported raw materials<br>• increase in competitiveness for Argentine exporters of manufactured goods.<br><br>Macroeconomic effects:<br>• increase in the competitiveness of Argentine's goods and services may lead to an improvement in the current account of the balance of payments<br>• increase in the rate of economic growth<br>• leading to an increase in employment<br>• cost push inflation resulting from increased costs of imported goods<br>• increase in the real burden of foreign debt.<br><br>Possible evaluation points include:<br>• impact on individual Argentine producers depends on their reliance on imports and/or exports<br>• demand for some products, e.g. soya may not be adversely affected because demand is increasing rapidly in China<br>• 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<br>• short-run and long-run effect on the current account may be analysed using the J curve effect<br>• 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)** |

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