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AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

The Measurement of Macroeconomic Performance

AQA A-level Economics 7136 — Topic 4.2.1

53 questions · 336 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest mark tariff to the highest within each one.

Click any row below to jump straight to that sub-topic or question.

On every question page, click ANSWER in the top-right corner to jump to its mark scheme.

Diagrams, graphs, tables and data are printed exactly as they appeared in the original papers.

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QUESTIONS

53 questions · 336 marks · 3 sub-topics



SUB-TOPIC 4.2.1.1

THE OBJECTIVES OF GOVERNMENT ECONOMIC POLICY

Sub-topic 4.2.1.1 · 4 questions · 29 marks · lowest tariff first

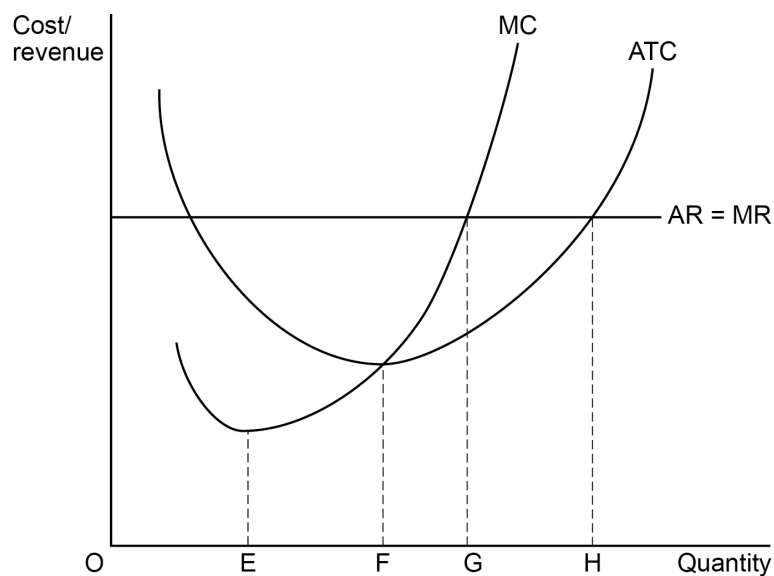


14

2 | 1

The diagram below shows a firm operating in perfect competition in the short run.

Which quantity, **OE**, **OF**, **OG** or **OH**, indicates the output where profits are maximised?



A OE

☐

B OF

☐

C OG

☐

D OH

☐

[1 mark]

2 | 2

Which one of the following policies is most likely to have an immediate effect in helping to reduce the amount of poverty in the UK?

A An increase in government subsidies for buyers of electric cars

☐

B A shift in the burden of taxation from direct to indirect taxes

☐

C Setting a price floor for basic foods

☐

D The introduction of a price ceiling for household energy

☐

[1 mark]



1 4

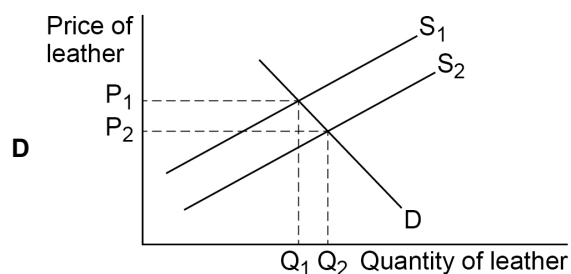
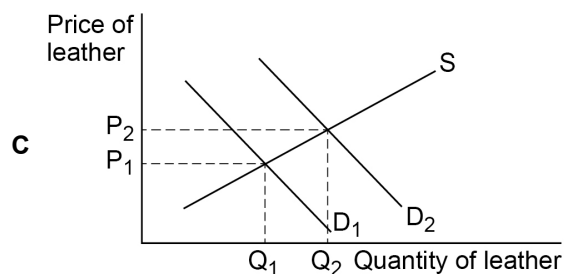
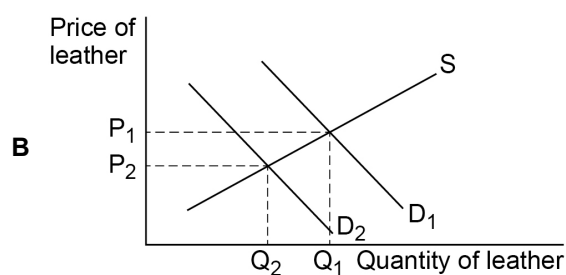
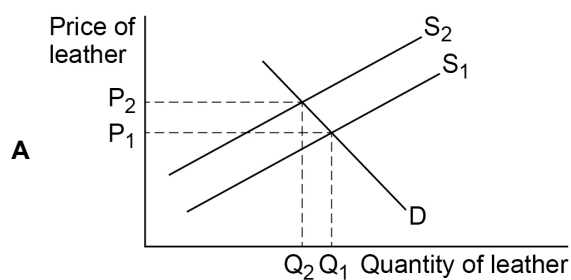
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13

2 2

Beef and leather are in joint supply. Changes in farming methods have resulted in a significant fall in the price of chicken, a substitute for beef. All other things being equal, which one of the following diagrams, **A**, **B**, **C**, or **D**, best illustrates the effects of the fall in the price of chicken on the market for leather?

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[1 mark]

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1 3

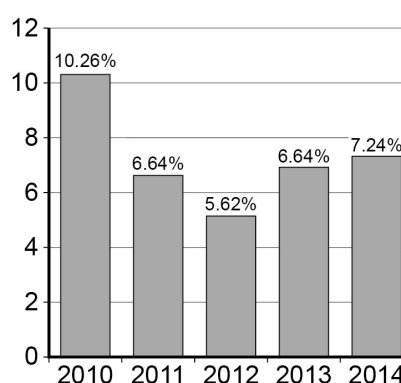
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Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Economic development in India**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: India's Human Development Index (HDI) trends, 1980 to 2014**

Year	Life expectancy at birth	Expected years of schooling	GNI per capita (2011 PPP \$)	HDI value
1980	53.9	6.4	1 255	0.362
1990	57.9	7.7	1 754	0.428
2000	62.6	8.5	2 522	0.496
2010	66.5	11.1	4 499	0.586
2014	68.0	11.7	5 497	0.609

GNI = gross national income
 PPP = purchasing power parity

Figure 2: India's real GDP growth rate, 2010 to 2014

Source: Official statistics, 2015

Extract B: Is India still a developing country?

Every region of the world has seen improvements in its HDI and India, in particular, has seen major changes. Job creation is a key aspect of development. However, 95% of all workers in India are in informal employment where there is no monitoring or taxation. Nearly 120 million more workers will enter the Indian labour force over the next 10 years seeking manufacturing jobs but, so far, these jobs have not appeared. Manufacturing still counts for less than 20% of all jobs and more than half of all workers are in low productivity agriculture. The large amount of informal employment also reduces tax receipts, which limits the amount the Indian government can spend to improve the economy.

India is still a very poor country with low per capita income, widespread destitution, hunger and malnutrition. Moreover, it has poor health facilities, housing and infrastructure as well as slowly expanding education and a strong reliance on foreign aid. Despite the emergence of a rising middle class, inequality is growing and the majority of the population lack basic social and economic rights. The Indian government must find a way to do more to provide for its citizens. However, when the government has intervened in the economy, it has often resulted in failure. Some say the Indian government should adopt the Chinese model of export-led industrialisation.

3

Until the early 1990s, India was a closed economy: average tariffs exceeded 200%, quotas on imports were extensive and there were restrictions on foreign investment. India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth. In the past, nearly all advanced economies have benefited from protectionist policies, why should India be any different? 20

Source: News reports, 2016

Extract C: 'Make in India' – the road to development?

India has steadily opened up its economy and reduced regulations that have sometimes held it back. More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation. These may be risky strategies as India lacks the infrastructure that most of its global competitors have. 1

Trade reforms do appear to have produced remarkable results. India's trade, as a percentage of GDP, has increased from 15% to 40% between 1990 and 2014, and the economy is now among the fastest growing in the world. In more recent years, the Indian government's stand on trade and investment policy has displayed a shift from protecting producers to benefiting consumers. 'Make in India' is an initiative to encourage multinational companies to manufacture their products in India and shift Indian employment from the unstable primary sector to the secondary sector. 5 10

Recently, there has been a promise by foreign companies to invest \$222 billion in India. When foreign companies come to a 'Make in India' event, they see an economy that is growing at 7% annually with a large well-educated and skilled workforce. However, problems persist with regulation and tax. In the World Bank's Doing Business Index, which indicates how easy it is to set up and run a business, India is ranked 130th out of 189 countries. The question still remains, is the road to a more developed India one which involves the free market and liberalisation of trade, or one which involves government intervention and protectionism? 15

Source: News reports, 2016

0 1 Using the data in **Extract A (Figure 2)**, calculate, to **two** decimal places, the mean growth rate for India from 2010 to 2014. [2 marks]

0 2 Explain why the data in **Extract A (Figure 1)** show that living standards in India have improved. [4 marks]

0 3 **Extract B** (lines 17–19) states 'India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth.'
With the help of a diagram, explain how export subsidies may help promote economic growth in India. [9 marks]

0 4 **Extract C** (lines 2–3) states 'More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation.'
Using the data in the extracts and your knowledge of economics, evaluate the view that greater use of market-based strategies is the best way to improve the economic development of India. [25 marks]

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

In 2017, the UK's annual budget deficit was 2.3% of GDP, the lowest level since 2001. In 2017, the UK's deficit on the current account of the balance of payments fell to 3.3% of GDP, the lowest level since 2011.

0	9
---	---

Explain the possible causes of a falling budget deficit.

[15 marks]

1	0
---	---

To what extent do you agree that reducing the budget deficit is more important to the UK's macroeconomic performance than reducing the current account deficit on its balance of payments? Justify your answer.

[25 marks]

OR**Essay 2**

During 2018, the UK experienced an annual growth rate of 1.4%, an unemployment rate of around 4.1%, inflation close to target at 2.5% and a reduced current account deficit on the balance of payments. However, in November 2018, the Bank of England warned that economic shocks could damage the UK's prosperity.

1	1
---	---

Explain how demand-side **and** supply-side shocks might increase unemployment in an economy.

[15 marks]

1	2
---	---

Evaluate the view that the main objectives of UK government macroeconomic policy can be achieved without conflicting with each other.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

SUB-TOPIC 4.2.1.2

MACROECONOMIC INDICATORS

Sub-topic 4.2.1.2 · 44 questions · 301 marks · lowest tariff first



9

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1 2

The tragedy of the commons can be applied to the fishing industry. What is the nature of this market failure?

- A Over-fishing resulting in declining fish populations ☐
- B The imposition of fishing quotas by the European Union ☐
- C The positive externalities associated with fish consumption ☐
- D The third-party effects on dolphins as a result of tuna fishing ☐

[1 mark]

1 3

Immobility of labour may lead to a misallocation of resources and market failure because

- A a change in the pattern of demand results in structural unemployment. ☐
- B the education and training needed to reduce labour immobility is a public good. ☐
- C the government's target for the rate of inflation is too high. ☐
- D the immobility of factors of production is a negative externality in production. ☐

[1 mark]

1 4

The following table shows the real GDP of an economy from 2012 to 2016.

Year	2012	2013	2014	2015	2016
Real GDP (£bn)	213	215	245	256	271

If the figures were converted to index form with 2013 as the base year, what would be the value of the index (to the nearest whole number) in 2016?

- A 124 ☐
- B 125 ☐
- C 126 ☐
- D 127 ☐

[1 mark]



0 9

Turn over ►

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1 5

The information below shows the changes in key economic indicators for a country over a period of one year.

Money GDP	Rate of inflation	Population increase	Gini coefficient
+6%	+4%	+1%	−8%

Which one of the following can be concluded from the data?

- A** External costs generated from economic activity have reduced the quality of life ☐
- B** Real GDP per capita has fallen ☐
- C** The distribution of income has become more unequal ☐
- D** The standard of living of typical residents in the country has probably improved ☐

[1 mark]

1 6

Assuming that the value of the marginal propensity to consume is 0.6, which of the following changes in national income would result from an increase in exports of £19bn?

- A** £31.7bn ☐
- B** £47.5bn ☐
- C** £76bn ☐
- D** £114bn ☐

[1 mark]



1 0

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1 5

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[1 mark]

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- D** £114bn ☐

[1 mark]



1 0

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2 | 3

The table below shows selected components of the UK balance of payments on current account as a percentage of GDP between 2011 and 2014.

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Year	Balance of trade in goods and services	Primary income balance	Secondary income balance	Current account balance
2011	-1.6	1.3	-1.3	-1.6
2012	-2.0	0.1	-1.3	-3.2
2013	-2.0	-1.0	-1.5	-4.5
2014	-1.9	-1.8	-1.4	-5.1

It can be concluded from the data that between 2011 and 2014 the main reason for the rise in the current account deficit as a percentage of GDP was

- A** GDP growing faster than the deficit on the current account. ☐
- B** the deficit on trade in goods increasing by more than the surplus on trade in services. ☐
- C** the deterioration in the primary income balance. ☐
- D** the growth in the deficit on the secondary income balance. ☐

[1 mark]**2 | 4**

Globalisation can make some product markets more contestable.

Which one of the following characteristics of globalisation is the most likely explanation for such an increase in contestability?

- A** A reduction in protectionism ☐
- B** Greater synchronisation of economic cycles between countries ☐
- C** Higher levels of labour migration ☐
- D** The growth of employment in emerging market economies ☐

[1 mark]

Turn over for the next question



1 5

Turn over ►

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19

3 0

The table below shows indices for real GDP and consumer prices in an economy over six quarters.

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Quarter	Index of real GDP	Index of consumer prices
1	106	100
2	105	105
3	104	111
4	105	116
5	107	120
6	110	123

During these six quarters the economy experienced

- A** deflation and a recession.
- B** disinflation when in recession.
- C** disinflation when recovering from recession.
- D** rising inflation when recovering from recession.

☐
☐
☐
☐

[1 mark]

30

Turn over Section B



1 9

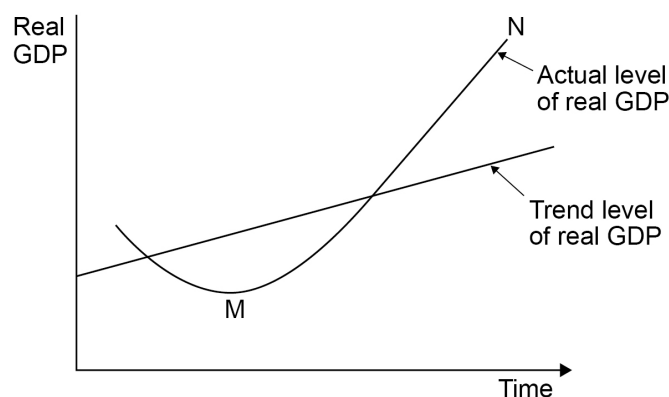
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9

1 | 3

The diagram below shows the actual level of real GDP and the trend level of real GDP over time for an economy. The economy starts its recovery from recession at point M. After several years of growth the economy reaches point N.



All other things being equal, which one of the following is the most likely consequence of the economy's growth path between points M and N?

- A A decrease in the level of interest rates due to deflation.
- B A decrease in the rate of inflation due to increased output.
- C An increase in investment due to the accelerator process.
- D An increase in the value of the multiplier due to a rise in the savings ratio.

☐☐☐☐

[1 mark]

1 | 4

All other things being equal, which one of the following would be most likely to result in a reduction in inequality in the distribution of income in the UK? An increase in the

- A amount of government tax revenue.
- B average standard of living.
- C level of median income.
- D share of income of the lowest quintile.

☐☐☐☐

[1 mark]

Turn over for the next question

Turn over ►



0 9

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14

Do not write
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box**2 | 3**

The table below shows different combinations of changes in a commercial bank's liquidity and capital ratios. All other things being equal, which one of the following combinations, **A**, **B**, **C** or **D**, is most likely to improve the bank's financial stability?

	Liquidity ratio	Capital ratio	
A	Increase	Decrease	☐
B	Increase	Increase	☐
C	Decrease	Increase	☐
D	Decrease	Decrease	☐

[1 mark]**2 | 4**

An economy had a 3% increase in its real GDP over a one year period. In the same period its population grew by 5% and its rate of inflation was 2.5%. From these data it can be inferred that

A its Human Development Index decreased by 2%. ☐

B nominal GDP per capita increased. ☐

C real wages fell due to inflation. ☐

D the number of unemployed people increased. ☐

[1 mark]**2 | 5**

The marginal propensity to consume (MPC) in an economy is 0.5. If the MPC increases by 20% the new value of its multiplier will be

A 2.0 ☐

B 2.5 ☐

C 5.0 ☐

D 10.0 ☐

[1 mark]

1 4

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17

3 0

An economy's GDP increased from £400 billion in 2016 to £428 billion in 2018. Using 2016 as the base year, what is the value of the index for GDP in 2018?

A 103.5☐**B** 106.5☐**C** 107.0☐**D** 128.0☐**[1 mark]****Turn over for Section B**

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30**Turn over ►**

1 7

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14

2 2 Table 3 shows different combinations of performance for three macroeconomic indicators.

Which one of the combinations, **A**, **B**, **C** or **D**, is most likely to indicate an economy experiencing an economic boom?

[1 mark]

Table 3

	Imports	Price level	Job vacancies	
A	Decreasing	Increasing	Decreasing	☐
B	Decreasing	Decreasing	Increasing	☐
C	Increasing	Increasing	Increasing	☐
D	Increasing	Decreasing	Decreasing	☐

2 3 Table 4 shows the values of nominal GDP and a price index in two different years.

Table 4

Year	2015	2019
Nominal GDP (£ billions)	250	290
Price index	100	110

What was the value of real GDP in 2019, to the nearest £ billion, expressed in 2015 prices?

[1 mark]

- A** £227 billion ☐
- B** £261 billion ☐
- C** £264 billion ☐
- D** £319 billion ☐



1 4

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3

0 2

The environment is a scarce resource. A consequence of this is that

[1 mark]

A all natural resources have a market price.

☐

B all natural resources will eventually be used up.

☐

C the environment has an opportunity cost.

☐

D the environment is a pure public good.

☐

0 3

Table 1 shows the price of a packet of peanuts and the number of packets of cashew nuts sold in a shop in one month. The price of a packet of cashew nuts is unchanged.

Table 1

Price of a packet of peanuts	Number of packets of cashew nuts purchased per month
£0.80	20 000
£0.84	32 500

When the price of a packet of peanuts rises from £0.80 to £0.84, the cross elasticity of demand for cashew nuts with respect to the price of peanuts is

[1 mark]

A -12.5

☐

B -0.08

☐

C +0.08

☐

D +12.5

☐

0 4

The change in nominal national income per head is an unsatisfactory indicator of the change in the living standards of a country's citizens over a period of time.

The main reason is that nominal national income per head does not take into account

[1 mark]

A consumer expenditure at market prices.

☐

B the output produced by different sectors of the economy.

☐

C the rate of inflation.

☐

D the size of the population.

☐

Turn over ►



0 3

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6

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09

In 2020, the market leader sold around three times as many vacuum cleaners in the UK as its closest rival. The market leader's dominance was built on technical innovation, protected by legal patents.

However, rivals have developed their own designs and are now challenging the market leader.

What feature of competitive markets does this illustrate?

[1 mark]

A Collusive oligopoly

☐

B Creative destruction

☐

C Hit and run competition

☐

D Static efficiency

☐

10

A £2 billion rise in government spending has led to an increase of £5 billion in national income.

All other things being equal, what is the value of the marginal propensity to consume?

[1 mark]

A 0.4

☐

B 0.6

☐

C 2.5

☐

D 3.0

☐

11

An economy operating at its long-run productive capacity at the start of 2020 has a trend rate of growth of 6% per year. Real GDP increases by 2% in 2021 and 10% in 2022.

Which one of the following accurately describes the position of the economy at the end of each year?

[1 mark]

	2021	2022	
A	Negative output gap	Negative output gap	☐
B	Negative output gap	No output gap	☐
C	Positive output gap	No output gap	☐
D	Positive output gap	Positive output gap	☐



06

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7

1 2

The quantity theory of money can be explained using Irving Fisher's equation of exchange, $MV=PQ$. Monetarist economists believe that the theory helps to explain inflation because some parts of the equation are normally stable.

Which parts of the equation do monetarist economists normally consider to be stable?

[1 mark]

A M and P

☐

B M and V

☐

C P and Q

☐

D V and Q

☐

1 3

Table 2 shows the relationship between the number of workers employed by a firm and the total output of a product. The amount of other factors of production employed remains the same.

Table 2

Number of workers	Total output
1	8
2	28
3	54
4	82
5	103
6	103
7	99

For this firm, diminishing marginal returns to labour occur when the

[1 mark]

A 4th worker is employed.

☐

B 5th worker is employed.

☐

C 6th worker is employed.

☐

D 7th worker is employed.

☐

Turn over ►



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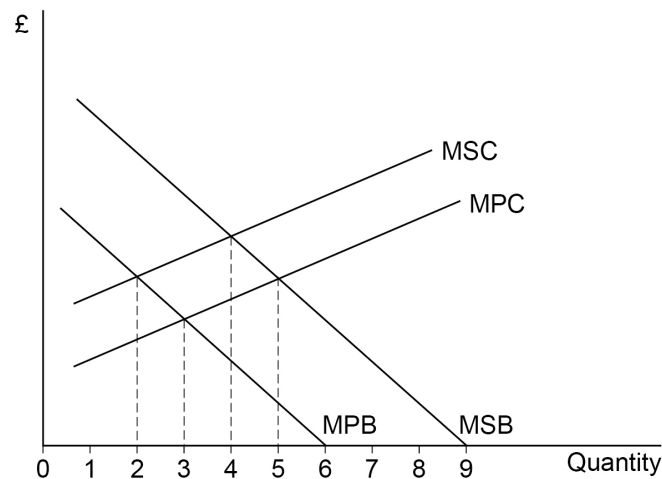
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12

2 | 0

Figure 5 shows the marginal private and social benefit (MPB and MSB) curves and the marginal private and social cost (MPC and MSC) curves for a product.

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Figure 5

The socially optimal level of output for this product is

[1 mark]

A 2 units

☐

B 3 units

☐

C 4 units

☐

D 5 units

☐
2 | 1

Which one of the following would be classified as a debit item in the secondary income section of the current account of the UK balance of payments?

[1 mark]

A Dividends paid to overseas owners of shares in UK companies

☐

B Emergency aid provided to another country following a natural disaster

☐

C Investment in building a factory abroad by a UK firm

☐

D Premiums paid by UK based organisations to foreign insurance companies

☐


1 2

IB/G/Jun23/7136/3

11

1 6

An economy's long-run trend rate of economic growth in real gross domestic product (GDP) is 2.8% per annum. In 2018, the economy's actual real GDP was equal to its trend level of real GDP. **Table 4** shows the economy's actual rate of growth in real GDP over a five-year period.

Do not write
outside the
box

Table 4

Year	Change in real GDP
2019	2.0%
2020	2.8%
2021	3.5%
2022	3.4%
2023	1.8%

All other things being equal, in which year was the economy likely to experience the most inflationary pressure?

[1 mark]**A** 2020☐**B** 2021☐**C** 2022☐**D** 2023☐**Turn over for the next question****Turn over ►**

1 1

IB/G/Jun24/7136/3

6

0 5

Which one of the following is most likely to lead to an increase in the number of people who are frictionally unemployed in the UK?

[1 mark]

A A fall in the number of Jobcentres provided by the government

☐

B A persistent fall in reported levels of consumer confidence

☐

C A reduction in the rate at which Jobseeker's Allowance is paid

☐

D A significant real terms increase in the National Living Wage

☐**0 6**

Which one of the following is most likely to indicate that a government is trying to cause a significant change in the pattern of economic activity?

[1 mark]

A A reduction in the rate of tax on income from retirement pensions

☐

B A reduction in the tax on a good with positive consumption externalities

☐

C An increase in the rate of an inheritance tax

☐

D An increase in the tax on a good with very inelastic demand

☐

Do not write
outside the
box



0 6

IB/M/Jun25/7136/3

10

1 0

Which one of the following best explains the operation of the accelerator process?

[1 mark]

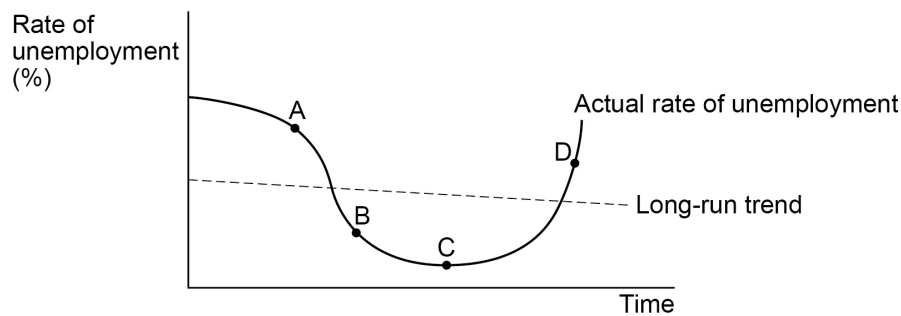
- A** An increase in investment leads to a larger increase in national income
- B** An increase in productive capacity leads to a larger change in investment
- C** The growth of productive capacity depends on the growth in investment
- D** The level of investment depends on the rate of change in national income

☐☐☐☐

1 1

Figure 2 shows the long-run trend rate of unemployment and the actual rate of unemployment in a country over a period of time.

Figure 2



At which one of the following points was the economy most likely to be in the recession phase of its economic cycle?

[1 mark]

- A** Point A

☐

- B** Point B

☐

- C** Point C

☐

- D** Point D

☐

1 0

IB/M/Jun25/7136/3

11

1 2

Table 3 shows the value of the Human Development Index (HDI) for three countries in 2021 and figures from the index's health and education dimensions.

Table 3

Country	Human Development Index	Life expectancy at birth (years)	Education dimension	
			Expected years of schooling	Mean years of schooling
Finland	0.940	82.0	19.1	12.9
Ireland	0.945	82.0	18.9	11.6
UK	0.929	80.7	17.3	13.4

Source: Human Development Report 2021/22

It can be deduced from **Table 3** that in 2021

[1 mark]

- A** Finland had a faster rate of growth than the UK.
- B** Finland's Human Development Index was 1.1% higher than the UK's.
- C** Ireland's gross national income per capita was higher than Finland's.
- D** Ireland had a more equitable distribution of income than Finland.

☐☐☐☐

Turn over for the next question

Turn over ►



1 1

IB/M/Jun25/7136/3

15

1 6

Table 4 shows the index of consumer prices and the unemployment rate for an economy. The data is for the end of each quarter in a particular year. The index of consumer prices for the final quarter of the previous year was 120.9.

Table 4

	Index of consumer prices	Unemployment rate (%)
Quarter 1	123.2	3.6
Quarter 2	126.7	3.7
Quarter 3	127.7	3.9
Quarter 4	131.1	4.2

According to the data, it can be concluded that

[1 mark]

- A** prices were lower at the start of the year and employment was lower at the end of the year. ☐
- B** the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year. ☐
- C** the relationship between the change in the inflation and unemployment rates was positive in each quarter. ☐
- D** there was an inverse relationship between prices and unemployment in each quarter. ☐

Turn over for the next question

Turn over ►



1 5

IB/M/Jun25/7136/3

30

Table 8 shows figures for the population (millions) and GDP (\$ billions) of four countries.

Table 8

Country	Population (millions)	GDP (\$ billions)
Country W	20	420
Country X	32	1 200
Country Y	40	920
Country Z	200	4 900

What is the mean GDP per capita for the four countries?

[1 mark]

- A \$23 750

☐
- B \$25 479

☐
- C \$26 500

☐
- D \$30 250

☐

30

Turn over for Section B

Turn over ►



3

0 3

Table 1 contains data for the rates of growth of nominal and real GDP and the rate of inflation for an economy in a given year. Which one of the following combinations, **A**, **B**, **C** or **D**, shows the correct relationship between the three variables?

Table 1

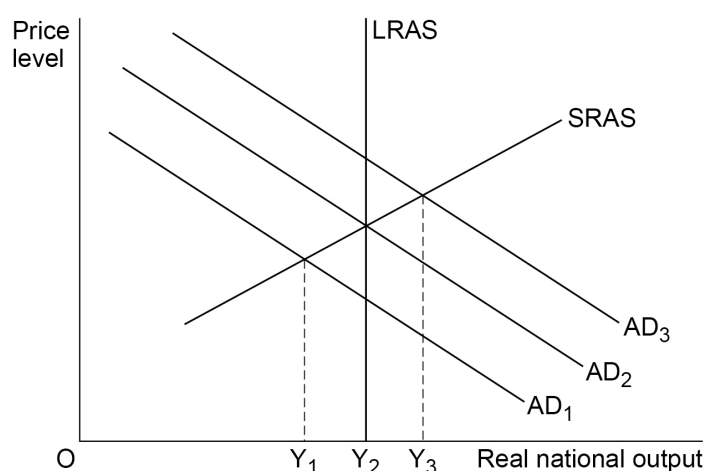
	Nominal GDP growth	Real GDP growth	Inflation	
A	−2%	0%	+2%	☐
B	+4%	+3%	−1%	☐
C	+5%	+5%	+1%	☐
D	−5%	−2%	−3%	☐

[1 mark]

0 4

Figure 1 shows three aggregate demand (AD) curves, a short-run aggregate supply (SRAS) curve and a long-run aggregate supply (LRAS) curve.

Figure 1



In **Figure 1**, when

- A** aggregate demand shifts from AD_1 to AD_2 , cyclical unemployment is likely to be eliminated. ☐
- B** aggregate demand shifts from AD_1 to AD_3 , the rate of economic growth is equal to $(Y_3 - Y_1)$. ☐
- C** the economy is producing at Y_1 , there is a positive output gap. ☐
- D** the economy is producing at Y_2 , there is no unemployment. ☐

[1 mark]

Turn over ►



0 3

IB/M/Jun20/7136/3

2

Section A

Answer **all** questions in this section.Do not write
outside the
boxOnly **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.



If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.



- 0 1** The average university graduate can expect to earn more over their working life than the average school leaver.

This is most likely to be explained by

- A** discrimination in the labour markets for non-graduates.
- B** the higher marginal revenue productivity of graduates.
- C** the higher price elasticity of demand for graduates.
- D** the relatively low elasticity of supply of non-graduates.

☐☐☐☐

[1 mark]

- 0 2** Which one of the following statements regarding supply-side policies is correct?

Supply-side policies

- A** can have microeconomic as well as macroeconomic effects on the economy.
- B** can increase the potential output of an economy but not its trend rate of growth.
- C** cannot be used to correct market failures and improve the operation of markets.
- D** do not affect competitiveness or the current account of the balance of payments.

☐☐☐☐

[1 mark]



0 2

IB/M/Jun21/7136/3

16

*Do not write
outside the
box***2 2**

Which one of the following combinations of possible shocks: A, B, C, or D, is most likely to move an economy from a negative output gap to a positive output gap?

An unexpected increase in

- A** productivity growth combined with a larger than expected decrease in inflation. ☐
- B** the exchange rate combined with an unexpected fall in business confidence. ☐
- C** the government's budget surplus combined with a downturn in world trade. ☐
- D** the marginal propensity to consume combined with a fall in the exchange rate. ☐

[1 mark]**2 3**

All other things being equal, which one of the following is the most likely consequence of technological innovation in the production process by the firms within an industry?

- A** A decrease in the number of firms in the industry ☐
- B** A reduction in firms' unit costs of production ☐
- C** The elimination of entry barriers into the industry ☐
- D** The invention of a product that did not previously exist ☐

[1 mark]

1 6

IB/M/Jun21/7136/3

19

2 | 8

The index of real GDP for an economy was 100 in 2017, its base year, and 105 in 2020. In 2017, real GDP was £500 billion. The monetary value of real GDP for this economy in 2020 must therefore have been

A £395 billion.

☐

B £475 billion.

☐

C £525 billion.

☐

D £605 billion.

☐**[1 mark]****2 | 9**

Which one of the following is an expenditure switching policy that would help to reduce a deficit on the balance of payments on current account?

An increase in

A government expenditure on public goods.

☐

B income tax to reduce consumer expenditure.

☐

C quotas on exports of demerit goods.

☐

D tariffs to raise the price of imports.

☐**[1 mark]**

Turn over for the next question

Turn over ►



1 9

IB/M/Jun21/7136/3

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Inflation, deflation and economic policy

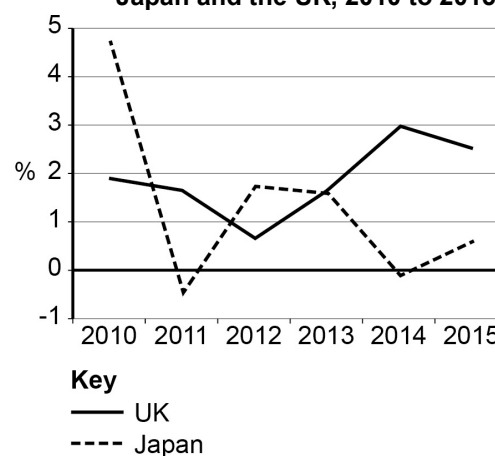
Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: CPI inflation rates (%) for Japan and the UK, 2010 to 2015

Year	Japan	UK
2010	-0.72	3.29
2011	-0.28	4.48
2012	-0.03	2.83
2013	0.36	2.56
2014	2.75	1.46
2015	0.80	0.05

Figure 4: Real GDP growth rates (%) for Japan and the UK, 2010 to 2015



Source: Official Statistics

Extract E: Good and bad deflation

Deflation is bad when it is the result of falling aggregate demand. Consumers buy fewer goods and services and firms cut prices whilst consumption and investment decisions are delayed. This can lead to worsening company profits, cost cutting and job losses. Less spending damages economic growth and could lead to a deflationary spiral. However, this has not been the UK's recent experience. A glut in the supply of oil has driven down its price. This has had a positive effect on most businesses who face lower costs. In the retail sector, in particular, prices are lower because goods are cheaper to manufacture and transport. Businesses can also spend more on investment, hiring staff or offering pay rises. This has led to pay growth and productivity gains in the private sector after years of stagnation. Improvements in productivity on the supply side of the economy could actually lead to more deflation but this could be viewed as good deflation.

Professor Steve Keen believes even mild deflation is bad news. If the government continues with its programme of austerity, he is convinced the UK is heading for bad deflation. "Deflation is only benign, or even beneficial, in a world in which no one has any debt. Bizarrely, this is the world that conventional economists actually imagine we live in, since their models have ignored debt. Deflation increases the burden of people's debt, which is what happened in the 1930s, during the Great Depression."

The most immediate implication of continued deflation is that it makes a rise in interest rates less likely and, in the short term, this is good news for borrowers, but not for savers. This should also allow more time for the economy to recover, with low interest rates helping consumers and firms to access cheaper credit.

Source: News reports, 2016

5

Extract F: The Japanese problem

If the UK wishes to see another economy's experience of when deflation turns bad, then it only needs to look at Japan. Over the last two decades, Japan has used a variety of policies in an attempt to overcome deflation. For almost 20 years, the Bank of Japan's main interest rate has hovered around 0% and at times been negative. Japan has embarked on several fiscal stimulus programmes, although with a debt to GDP ratio of 245% in 2015, some see this as a worry. Furthermore, the Bank of Japan is currently carrying out quantitative easing equivalent to approximately £500bn per year. So far, the Japanese economy has not escaped from the risk of deflation.

So what can the UK learn from Japan? For much of 2015, CPI inflation in the UK was at, or very close to, 0%. Consumer spending is fairly robust at the moment but if economic agents anticipate falling prices, they may begin to factor this into their expectations. This could lead to bad deflation which can be very difficult to tackle effectively.

In recent times, the UK has arguably seen a stronger recovery than many other developed economies, although there is uncertainty over what should be done to maintain this in the future. After the financial crisis of 2007/08, UK Bank Rate was reduced to an historic low of 0.5%, and although it has since been cut to 0.25%, there is little scope to reduce it much further. The Bank of England has also used quantitative easing to try to stimulate the economy. However, the results of this are debatable. In terms of fiscal policy, the current government appears to be determined to continue with its austerity programme. What is not clear is what should be done if low inflation turns to bad deflation.

Source: News reports, 2016

0 5

Using the data in **Extract D (Figure 3)**, calculate, to **two** decimal places, the mean inflation rate for Japan from 2010 to 2015.

[2 marks]**0 6**

Explain how the data in **Extract D (Figure 4)** show that Japan has been less successful than the UK in achieving a stable rate of economic growth.

[4 marks]**0 7**

Extract E (lines 9–10) states 'Improvements in productivity on the supply side of the economy could actually lead to more deflation.'

With the help of a diagram, explain how improvements in productivity could cause deflation.

[9 marks]**0 8**

Extract F (lines 19–20) states 'What is not clear is what should be done if low inflation turns to bad deflation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that monetary policy is the most effective way of tackling deflation in developed economies such as the UK and Japan.

[25 marks]**Turn over ►**

2

Section AAnswer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****GDP and living standards**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Selected data for Costa Rica, UK and USA, 2015/2016 unless stated**

	Costa Rica	UK	USA
GDP (PPP \$bn)	69.6	2 518.1	16 890.2
Population (millions)	4.9	64.7	321.8
Mean years of schooling	8.7	13.3	13.2
Infant mortality rate (under 5s per 1000 births)	9.7	4.2	6.5
Average annual increase (%) of the HDI (1990–2015)	0.7	0.6	0.3
Gini coefficient (average 2010–2015)	0.49	0.33	0.41
CO ₂ emissions (tonnes per capita)	1.6	6.2	16.1

Footnote: PPP = Purchasing Power Parity
HDI = Human Development Index

Source: United Nations and World Bank

Extract B: What is GDP?

Imagine £50 notes stacked on top of each other, stretching almost 4500 kilometres into the sky. This fantastically large amount of money (more than £2 trillion) is the current estimated value of the UK's Gross Domestic Product (GDP). 1

GDP is the standard measure of the size and health of a country's economy but it is important to distinguish between nominal and real GDP. It's the way we measure and compare how well or badly countries are doing. In other words, it is the total value of the output of goods and services produced in an economy over a period of time. The higher the value of GDP, the bigger the economy. If injections into an economy's circular flow of income increase, then this may generate multiple increases in GDP, depending upon the size of the marginal propensity to consume. 5 10

Why is the measurement of GDP important? Well, it's a way of keeping track of how the economy is doing, and whether it is growing. We can also use it to measure one economy against other economies using purchasing power parity exchange rates. If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending. If real GDP goes down, the economy is not doing so well; this is associated with falling incomes, lower consumption and a lower standard of living. 15

Source: News reports, 2017

Extract C: A happy planet?

We are facing tough times. The crises that dominate the media today are set against a background of an increasingly unstable global economy, rising inequalities and the ever-present challenges of climate change. GDP growth on its own does not mean a better life for everyone, particularly in countries that are already wealthy. This growth of GDP may not reflect inequalities in material conditions between people in a country and does not value the things that really matter to people, such as social relations, health, or how they spend their free time.

The Happy Planet Index is one of the alternative ways of measuring what really matters: sustainable wellbeing for all. This year, Costa Rica has topped the Happy Planet Index for the third time, achieving relatively high life expectancy and wellbeing with a small ecological footprint. Costa Ricans generally have higher wellbeing than the residents of many rich nations and live longer than people in the USA (who are ranked 108th in the index). This is achieved with an impact on the environment which is much smaller than that of the USA or UK (ranked 34th).

Costa Rica is a world leader when it comes to environmental protection, with 99% of its electricity coming from renewable sources, and a commitment to becoming carbon neutral by 2021. They also abolished the army in 1949 and reallocated the defence budget to funding education, health and pensions, further enriching the lives of its citizens. Other measures of living standards, such as the HDI, do not rank Costa Rica quite so highly (66th compared to the USA in 10th position). This is because the HDI does not place as much emphasis on the environment compared to the Happy Planet Index.

Increasingly economic growth is incompatible with the planetary limits we are up against. Rising GDP may be a sign that we are using more of the earth's scarce resources. Some believe the Happy Planet Index gives a clearer picture of broader living standards and their sustainability.

Source: News reports, 2017

0 1

Using the data in **Extract A**, calculate the GDP per capita for Costa Rica in 2015/2016 to the nearest dollar.

[2 marks]

0 2

Explain how the data in **Extract A** indicate living standards may be higher in the UK than in the USA.

[4 marks]

0 3

Extract B (lines 8–9) states 'If injections into an economy's circular flow of income increase, then this may generate multiple increases in GDP.'

With the help of a diagram, explain how an increase in injections may generate multiple increases in an economy's GDP.

[9 marks]

0 4

Extract B (lines 13–15) states 'If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending.'

Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, governments across the world should prioritise achieving economic growth.

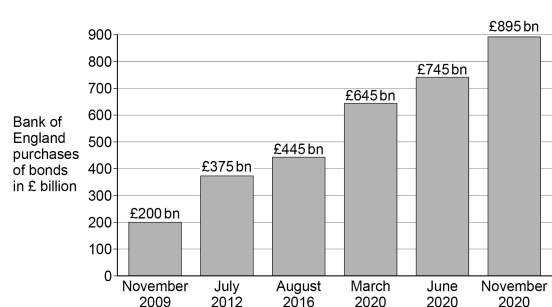
[25 marks]

Turn over ►

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2**Total for this context: 40 marks****Quantitative easing in the UK**Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 3: Cumulative value of quantitative easing in the UK**

Source: Bank of England, 2022

Figure 4: Macroeconomic performance indicators for the UK, averages, 2006 to 2021

	2006 –2009	2010 –2013	2014 –2017	2018 –2021
Economic growth rate (%)	0.1	1.8	2.5	0.4
CPI inflation rate (%)	2.6	3.3	1.2	2.0
Unemployment rate (%)	6.0	7.9	5.2	4.2
Balance of payments on current account (% of GDP)	–3.3	–3.3	–4.8	–3.1

Source: ONS, 2022

Extract E: Unconventional monetary policy?

Since March 2009, an experiment has been underway in the UK. The Bank of England reduced Bank Rate to almost zero and introduced a new policy to the UK, known as quantitative easing (QE). Back then, financial markets around the world were in crisis and banks in the UK decreased lending, reducing the availability of credit for households and firms. This damaged the real economy and created high unemployment.

5

Faced with these problems, the Monetary Policy Committee (MPC) decided to cut Bank Rate to 0.5%, down from 5% in October 2008, but this was not enough on its own. Emergency meetings with the Chancellor at the time, Alistair Darling, led to the use of unconventional monetary policy in the form of QE. Initially, the Bank of England bought bonds worth £75bn but soon began to purchase more.

10

QE was originally intended to be an emergency measure but has remained in place. The total spent on buying government bonds under QE has been expanded repeatedly, reaching £895bn, with the latest round coming during the coronavirus pandemic. However, the fact that the Bank of England has continued increasing its bond purchases, and that interest rates remain close to zero, indicate that QE may not have been as successful as was hoped. Andrew Sentance, an economist who was on the MPC and who helped draw up the plan, said that financial markets in March 2009 pointed to Bank Rate returning to 3% by 2011. He also stated that he didn't think anybody on the MPC believed that QE was anything other than an emergency measure.

15

In some respects, the policy worked wonders. The UK enjoyed a strong recovery from the 2008 crash and had the longest run of unbroken quarterly growth of any major economy. UK unemployment peaked at 8.5%, compared to 10% in the US and 12.1% in the eurozone. It then dropped to 3.8% before the pandemic, the lowest rate since the mid-1970s.

20

Source: News reports, 2022

5

Extract F: Quantitative easing – a dangerous addiction?

While helping to keep borrowing costs down, low interest rates and QE created huge inequalities. Those with assets such as property have seen their prices soar. The FTSE 100 share index reached record highs and more than doubled between 2009 and 2021. The least wealthy 10% of households saw their real wealth rise by an average of £3000 between 2008 and 2014, compared to an average rise of £350 000 for the wealthiest 10%. However, the Bank of England argues that QE has helped to keep people in work. 5

Low interest rates meant that the return on savings fell but families with mortgages had cheaper repayment costs. This encouraged spending, helping to fuel the economic recovery. Cheap borrowing costs have, however, allowed debts to build up. Borrowing on credit cards, personal loans and car finance have soared above pre-2008 levels. There is also the effect on the cost of living through higher inflation rates. 10

Rock-bottom interest rates and QE stimulated the economy. However, the Conservative-led coalition government, elected in 2010, adopted a policy of austerity, cutting government spending to reduce the budget deficit. Monetary policy fuelled growth, but austerity pulled in the opposite direction. This made it harder to raise Bank Rate as growth was low. Although interest rates began to rise in late 2017 and 2021, they are still below the rates seen before the 2007–08 financial crisis. 15

Some say that the use of QE is a dangerous addiction and its overuse can lead to problems in the future. Many economists believe QE has lost some of its effectiveness and warn that a fresh round could lead to higher inflation and increase wealth inequality. It is argued that, in the future, the Treasury should use fiscal policy to stimulate the economy rather than relying on QE. 20

Source: News reports, 2022

0 5

Using the data in **Extract D (Figure 3)**, calculate the value of bonds that had been purchased by November 2020 for every £1 worth of bonds purchased by November 2009.

Give your answer in £s and to **two** decimal places.

[2 marks]**0 6**

Explain how the data in **Extract D (Figure 4)**, show that the growth in quantitative easing (shown in **Figure 3**) may have been successful in helping the UK achieve its macroeconomic objectives since 2009.

[4 marks]**0 7**

Extract E (lines 4–5) states: ‘...banks in the UK decreased lending, reducing the availability of credit for households and firms. This damaged the real economy and created high unemployment.’

With the help of a diagram, explain how reduced availability of credit from banks may lead to increased unemployment.

[9 marks]**0 8**

Extract F (lines 18–19) states: ‘Some say that the use of QE is a dangerous addiction and its overuse can lead to problems in the future.’

Using the data in the extracts and your knowledge of economics, assess the view that the continued use of quantitative easing (QE) is damaging for the UK economy.

[25 marks]

2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Productivity and living standards**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A: Indicators of economic performance and living standards, selected nations, 2021**

	Productivity (GDP per hour worked, US \$)	Productivity change 2010–2021 (%)	Life expectancy at birth (years)	Gini coefficient	Expected years of schooling (years)	CO ₂ emissions per capita (tonnes)
Estonia	42.9	+28.8	77.1	0.308	15.9	7.9
Hungary	39.9	+16.7	74.5	0.300	15.0	5.0
UK	59.1	+3.5	80.7	0.351	17.3	4.9

Source: OECD & WHO, 2022

Extract B: The UK's productivity puzzle

The economist Paul Krugman once wrote that “Productivity isn’t everything, but, in the long-run, it is almost everything”. Productivity is a key determinant of living standards because it affects the amount of goods and services that can be produced, and therefore consumed, from the resources that are available. Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards. Although productivity can be measured in several different ways, one common way is GDP per hour worked. 5

When economies move through their economic cycles, it is not unusual for productivity to fall during downturns, as happened in 2008–2009. However, the persistently low rate of growth of productivity that the UK has experienced since 2010 is unusual. Productivity growth in other nations, including Estonia and Hungary, has been much higher. The UK’s low rate of productivity growth is often referred to as ‘The UK’s productivity puzzle’. If the pre-2007 trend in productivity growth had continued, UK productivity would now be over 30% higher than it is today. 10

Many economists have tried to provide reasons for the productivity puzzle. Among the suggestions are low levels of investment and the impact of the financial crisis on banks’ willingness to lend to new businesses. More people working beyond normal retirement age has led to an older workforce and may have affected productivity. These factors may be relevant but they do not provide a complete explanation for the weakness in UK productivity growth. 15

So, what can be done to raise productivity? Investing in human capital to improve people’s skills and supporting improvements in technology should help. Creating a stable economy and effective use of the tax and benefits system are also key factors in driving productivity growth. 20

Source: News reports, 2022

Extract C: Falling living standards in the UK?

According to the Office for Budget Responsibility (OBR), in 2022, the UK faced its biggest fall in living standards on record as the surging cost of living reduced real wages. The OBR also forecast a significant increase in unemployment.

Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound and the war in Ukraine. Inflation was at a 41-year high and average real household income was expected to fall by 7%, back to the level it was in 2013. The rising cost of living led to industrial action by workers trying to achieve pay increases that compensated for the rise in prices. 5

In response to the rise in inflation, the Bank of England increased Bank Rate. The rise in Bank Rate meant that financial institutions raised the rate of interest on mortgages. As a result, it has been forecast that house prices are likely to fall by around 9% over the next two years. 10

In his Autumn Statement of 2022, the UK Chancellor of the Exchequer, Jeremy Hunt, announced tax rises and cuts in public spending even though the UK economy was expected to contract in 2023. The cuts in public spending are likely to damage public services and came at a time when poverty and inequality appeared to be rising with life expectancy falling. Some have argued that tackling these issues, to prevent a further fall in living standards, is more important than introducing measures to increase productivity. 15

Source: News reports, 2022

0 1

Using the data in **Extract A**, calculate the ratio of the UK's GDP per hour worked to \$1 of GDP per hour worked in Hungary.

Give your answer to **two** decimal places.

[2 marks]

0 2

Explain how the data in **Extract A** show that higher productivity may result in higher living standards.

[4 marks]

0 3

Extract C (lines 4–5) states 'Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound...'

With the help of a diagram, explain how a depreciation of the pound may cause inflation.

[9 marks]

0 4

Extract B (lines 4–5) states: 'Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards.'

Using the data in the extracts and your knowledge of economics, assess the view that the government should make raising productivity a priority in order to improve living standards in the UK.

[25 marks]

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Globalisation and deglobalisation

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D: Macroeconomic performance indicators, selected Southeast Asian economies, 2010 to 2021

	GDP per capita (constant prices, PPP)		Average annual growth rate 2010–2021 (%)	Average unemployment rate 2010–2021 (%)	Exports (% of GDP)	
	2010	2021			2010	2021
Malaysia	9 041	11 371	4.3	3.4	86.9	68.8
Thailand	5 076	7 233	2.6	0.7	66.5	58.2
Vietnam	1 673	3 694	5.9	1.6	54.2	93.3

Note: PPP = Purchasing power parity

Source: World Bank, 2022

Extract E: Made in Vietnam

Trade and foreign investment have helped Vietnam emerge from extreme poverty. Integration with global manufacturing has kept Vietnam's economy growing even during the pandemic. In 2020, GDP rose by 2.9%, while many other countries experienced recession. The latest forecasts indicate an economic growth rate of over 8% in 2022.

Vietnam's openness to trade and investment has made the country an important link in the global economy and it has been one of the five fastest growing countries in the world over the past 30 years. Its record has been characterised by steady growth compared to boom-busts in similar nations. According to the World Bank, Vietnam is a lower-middle income economy but the government wants it to become a high-income economy by 2045. 5

Vietnam's development is often compared to that of China in the 1990s or early 2000s. Both are former command economies that now focus on export-led growth. However, Vietnam is very different in terms of the amount of foreign investment and its connection to global supply chains. Since 1990, Vietnam's inflows of foreign direct investment have averaged 6% of GDP each year, more than twice the global average and a much higher percentage of GDP than China has ever recorded over a sustained period. 10

As many countries in Southeast Asia developed and wages rose, multinational corporations (MNCs) were attracted by Vietnam's low labour costs and stable exchange rate. A low rate of corporation tax has also contributed to both short-run and long-run economic growth. Vietnam is also a member of the ASEAN free trade area and has bilateral trade deals with the European Union and the USA. In the past decade, exports have risen by over 140%. However, Vietnam has become increasingly dependent on foreign companies for growth and employment, while foreign competition has meant that many domestic firms have struggled. 15

Source: News reports, 2022

5

Extract F: A period of deglobalisation?

After decades of growing integration and interdependence between nations, trade and investment flows between countries have been growing more slowly and, in some cases, falling. This process has been labelled 'deglobalisation' and is characterised by rising protectionism, reduced dependence on foreign imports and increased self-reliance by nations. However, could the rise in protectionism have boosted the Vietnamese economy in the short term? 5

The trade war between the USA and China, which started in 2018, has probably helped Vietnam. It is estimated that, in 2019, US tariffs on imports from China resulted in the US buying \$31bn more imports from other low-cost Asian countries rather than China. Vietnam supplied almost half of these imports. 10

China's rising labour costs, and the growing tensions between the world's superpowers, make it easy to see why many big firms are relocating to Vietnam. Apple's biggest suppliers, Foxconn and Pegatron, are building big factories in Vietnam, creating many jobs. Other big firms moving production from China to Vietnam include Dell, Hewlett Packard, Google and Microsoft. 15

Some see deglobalisation as a threat. Many nations such as Vietnam rely on international trade and investment for employment and economic growth. If other countries start to protect their economies from Vietnamese imports, this could damage the economic development of Vietnam. The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost. 20

Source: News reports, 2022

0 5

Using the data in **Extract D**, calculate the percentage change in Vietnam's GDP per capita between the years 2010 and 2021.

Give your answer to **one** decimal place.

[2 marks]**0 6**

Explain how the data in **Extract D** show that Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.

[4 marks]**0 7**

Extract E (lines 17–18) states: 'A low rate of corporation tax has also contributed to both short-run and long-run economic growth.'

With the help of a diagram, explain how a low rate of corporation tax may cause short-run **and** long-run economic growth.

[9 marks]**0 8**

Extract F (lines 19–20) states: 'The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost.'

Using the data in the extracts and your knowledge of economics, discuss the view that a slowing, or reversal, of globalisation would be harmful to developing economies such as Vietnam.

[25 marks]

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2 The emergence of BRICS+

Total for this context: 40 marks

Study **Extracts D, E and F**, and then answer **all** parts of Context 2 which follow.

Extract D:

Figure 3: Development indicators of selected BRICS+ and G7 economies, 2001 and 2023

	GDP (\$ billions)*		Population (millions)		Life expectancy at birth (years)		Expected years of schooling	
	2001	2023	2001	2023	2001	2023	2001	2023
Egypt	437	2 123	75	115	67.6	71.6	10.9	12.9
Ethiopia	40	400	69	129	51.4	67.3	4.7	9.9
Japan	3 439	6 398	127	124	81.5	84.7	15.0	15.5
USA	10 582	27 720	284	343	76.9	79.3	15.8	16.4

Note: *GDP at current prices, using purchasing power parity exchange rates
some figures are estimated

Source: Official statistics, 2024

Extract E: BRICS+

The term ‘BRIC’ was first used by Jim O’Neill, an economist at Goldman Sachs, in a 2001 paper titled ‘Building Better Global Economic BRICs’. The paper identified Brazil, Russia, India and China as the major emerging economies with the potential to significantly reshape the global economic landscape. This was due to their large populations, high economic growth rates and increasing influence in world affairs. By 2009, the group had adopted a formal identity, with their governments meeting annually.

5

South Africa joined in 2010, making it ‘BRICS’. Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates were invited to join the BRICS in 2024, which is now referred to as ‘BRICS+’. The group was designed to bring together the world’s most important developing countries and to challenge the political and economic power of the G7 countries (a group of seven of the world’s most advanced economies including the UK, Japan and the USA).

10

The middle-class populations of the BRICS+ countries are increasing fast, providing growing export markets for the G7. Firms based in the G7 can reduce their costs by outsourcing production to the BRICS+ countries. The G7 nations may benefit from investing in infrastructure, technology and energy industries in the BRICS+ economies. In recent years, some of the BRICS+ countries, including China and India, have been responsible for large foreign direct investment (FDI) inflows into the G7.

15

Source: News reports, 2024

5

Extract F: A new world order?

While some see the benefits of the emergence of the BRICS+ economies, others are more worried by their rapid economic growth. BRICS+ countries are using their vast resources, large markets and expanding technological capabilities to challenge the dominance of traditional economic powers like the USA and the European Union. Their competitive pricing in manufacturing, energy exports and technology services threatens industries in developed countries, potentially leading to job losses and a reallocation of global capital flows.

5

The BRICS+ economies' heavy reliance on resource extraction and industrialisation raises environmental concerns. Some argue that their pursuit of economic growth prioritises short-term gains over sustainable practices, contributing to global environmental problems. This may impose economic costs on other nations through climate change and resource scarcity, leading to increased commodity prices.

10

Recently, there has been a rise in protectionism which led to tensions between countries, increased economic uncertainty and affected the pattern of world trade. Even before the new members joined, the BRICS' share of global export of goods increased from 10.7% in 2000 to 23.3% in 2023. Meanwhile, the share of the G7's global export of goods fell from 45.1% to 28.9% over the same period.

15

Source: News reports, 2024

0 5

Using the data in **Extract D (Figure 3)**, calculate the difference between the percentage increase in GDP for Japan and the USA between 2001 and 2023.

Give your answer to **one** decimal place.

[2 marks]**0 6**

Explain how the data in **Extract D (Figure 3)** show how Ethiopia has developed at a faster rate than Japan since 2001.

[4 marks]**0 7**

Extract E (lines 15–17) states: 'In recent years, some of the BRICS+ countries, including China and India, have been responsible for large foreign direct investment (FDI) inflows into the G7.'

With the help of a suitable diagram, explain how increased inward foreign direct investment (FDI) can affect a country's level of employment.

[9 marks]**0 8**

Extract F (lines 1–2) states: 'While some see the benefits of the emergence of the BRICS+ economies, others are more worried by their rapid economic growth.'

Using the data in the extracts and your knowledge of economics, assess the view that the continued rapid economic growth of the BRICS+ economies is likely to be damaging to the macroeconomic performance of G7 nations, such as the UK.

[25 marks]

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Monetary policy and stability

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: UK household gross debt to income, 2006 to 2020

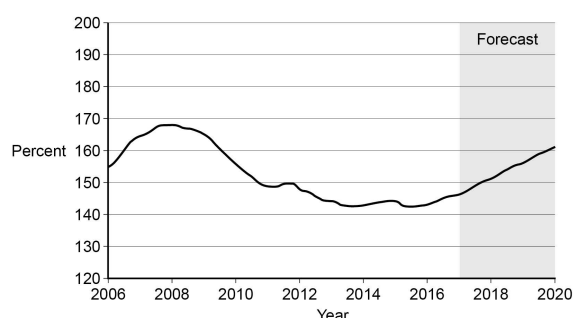


Figure 4: Household saving ratio, 2006 to 2016

Year	Saving ratio (%)
2006	7.6
2008	7.5
2010	11.2
2012	9.3
2014	8.4
2016	7.1

Source: ONS

Extract E: Financial regulation and monetary policy

In response to the lessons learned from the global financial crisis of 2007/08, the government of the UK has introduced major reforms to financial markets. The government recognised that systemic risk, moral hazard and imperfect information had all contributed to the credit crunch and subsequent recession in the UK. As a result, changes have been made to try to avoid a recurrence of failing banks and expensive state-backed bailouts. 5

The Prudential Regulation Authority (PRA) was established to ensure the stability of firms offering financial services and the Financial Conduct Authority (FCA) was set up to regulate the industry. Also, the Bank of England is responsible for supervising the whole financial system through the Financial Policy Committee (FPC). The FPC identifies and attempts to reduce risks in the system. The new framework is seen as the biggest change for the Bank of England since it was given operational independence for the conduct of monetary policy in 1997. 10

Since 2013, the Treasury has required the Bank of England to place more emphasis on helping the government to achieve its objectives for growth and employment, in addition to its central objective of maintaining price stability. However, some argue that trying to maintain stable prices and low unemployment could create trade-offs. 15

The Monetary Policy Committee's decision to lower Bank Rate to 0.5% in 2009, and the subsequent decision to lower it to 0.25% in 2016, have been instrumental in the UK's sustained recovery and return to low levels of unemployment. The Bank of England has also used quantitative easing (QE) to boost consumption and investment. Maintaining low interest rates is considered by many to be vital for both consumer and business confidence. 20

Source: News reports, 2016

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5

Extract F: A new financial crisis?

Has increased regulation worked or could the UK be on the verge of another financial crisis? The Bank of England is keeping a close watch on consumer spending amid signs that households are reducing their savings and building up debts. The Governor of the Bank, Mark Carney, said that consumption has been high in recent times, helping the economy, but he repeated the warning that living costs were likely to rise on the back of a weak pound and put a strain on households' real incomes. He also stated: "The saving ratio has fallen towards its pre-crisis lows, and consumer borrowing has accelerated noticeably." 5

It can be argued that rising borrowing has been caused by Bank Rate being kept too low for too long. The Austrian economist, Friedrich Hayek, highlighted artificially low interest rates and excessive credit creation as being the main causes of cyclical instability, damaging both investment and confidence. Asset price bubbles occur, including unsustainable rises in house prices, and eventually boom turns to bust. A major cause of the financial crisis in 2007/08 was arguably the unsustainably high level of debt that had been accumulated, but total world debt is now far in excess of the 2008 level. 10 15

Some form of financial crisis appears to occur every 7 to 10 years. As inflation rises, there will come a time when the Monetary Policy Committee decides to increase Bank Rate. This will affect many people who have become accustomed to cheap credit and who are tied into mortgages where the monthly repayments vary with interest rates. 20

Source: News reports, 2016

0 5 Using the data in **Extract D (Figure 4)**, calculate the average amount saved per household in 2016 if average household income was £26 300. Give your answer to the nearest pound. [2 marks]

0 6 Explain how the data in **Extract D (Figures 3 and 4)** show that consumer confidence may have risen since 2014. [4 marks]

0 7 **Extract E** (lines 16–17) states 'However, some argue that trying to maintain stable prices and low unemployment could create trade-offs.' [9 marks]

With the help of a diagram, explain why a trade-off between price stability and low unemployment might occur.

0 8 **Extract F** (lines 10–12) states 'The Austrian economist, Friedrich Hayek, highlighted artificially low interest rates and excessive credit creation as being the main causes of cyclical instability.' [25 marks]

Using the data in the extracts and your knowledge of economics, evaluate the view that maintaining low interest rates for a sustained period of time may be damaging to the UK's macroeconomic stability.

Turn over ►

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Extract C: Falling living standards in the UK?

According to the Office for Budget Responsibility (OBR), in 2022, the UK faced its biggest fall in living standards on record as the surging cost of living reduced real wages. The OBR also forecast a significant increase in unemployment.

Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound and the war in Ukraine. Inflation was at a 41-year high and average real household income was expected to fall by 7%, back to the level it was in 2013. The rising cost of living led to industrial action by workers trying to achieve pay increases that compensated for the rise in prices. 5

In response to the rise in inflation, the Bank of England increased Bank Rate. The rise in Bank Rate meant that financial institutions raised the rate of interest on mortgages. As a result, it has been forecast that house prices are likely to fall by around 9% over the next two years. 10

In his Autumn Statement of 2022, the UK Chancellor of the Exchequer, Jeremy Hunt, announced tax rises and cuts in public spending even though the UK economy was expected to contract in 2023. The cuts in public spending are likely to damage public services and came at a time when poverty and inequality appeared to be rising with life expectancy falling. Some have argued that tackling these issues, to prevent a further fall in living standards, is more important than introducing measures to increase productivity. 15

Source: News reports, 2022

0 1

Using the data in **Extract A**, calculate the ratio of the UK's GDP per hour worked to \$1 of GDP per hour worked in Hungary.

Give your answer to **two** decimal places.

[2 marks]

0 2

Explain how the data in **Extract A** show that higher productivity may result in higher living standards.

[4 marks]

0 3

Extract C (lines 4–5) states 'Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound...'

With the help of a diagram, explain how a depreciation of the pound may cause inflation.

[9 marks]

0 4

Extract B (lines 4–5) states: 'Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards.'

Using the data in the extracts and your knowledge of economics, assess the view that the government should make raising productivity a priority in order to improve living standards in the UK.

[25 marks]

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Section A

Answer EITHER Context 1 OR Context 2.

EITHER

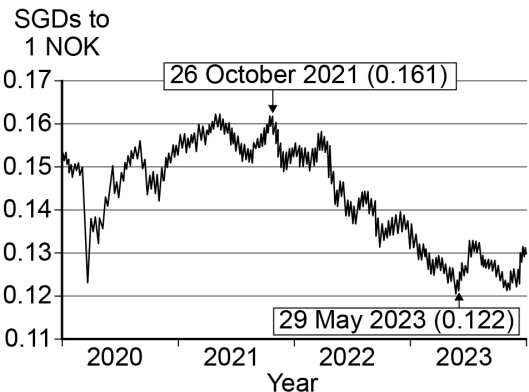
Context 1 The value of the Norwegian krone and its effects on Norway’s economy

Total for this context: 40 marks

Study Extracts A, B and C, and then answer all parts of Context 1 which follow.

Extract A:

Figure 1: Norwegian krone (NOK) to Singapore dollar (SGD) exchange rate, January 2020 to December 2023



Source: Investing.com, 2024

Figure 2: Macroeconomic performance indicators for Germany, Norway and Singapore, average rates between 2020 and 2023

	Germany	Norway	Singapore
GDP growth (%)	0.2	1.5	2.7
Inflation rate (%)	4.0	4.0	3.3
Unemployment rate (%)	3.4	3.9	3.9
Current account balance (% of GDP)	6.5	15.9	17.6

Source: World Bank, 2024

Extract B: Norway’s currency, the krone, has depreciated

The value of the Norwegian currency, the krone, has depreciated. Over the past 10 years, the krone has fallen by over 20% against the euro and the US dollar. Although a fall in the value of the krone may help some macroeconomic objectives, it can make others harder to achieve.

Inflation has decreased since its peak of 7.5% in October 2022. However, the depreciating krone means that it will take longer for inflation to reach its target rate as imported goods become more expensive. Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.

Norway’s average CPI inflation rate for 2023 was 5.5%, with nominal wage growth of 5.1%. Thus, real wage growth was negative, reducing average living standards. Norway’s economy is heavily reliant on the export of oil, which makes the krone sensitive to changes in oil prices. Sales of oil and gas helped Norway record a current account surplus of 17.5% of GDP in 2023.

Some economists argue that in a small open economy like Norway’s, managing the exchange rate, by intervening in currency markets, is the best way to achieve economic and price stability. They believe that, over the medium-term, there is a stable and predictable link between the exchange rate and inflation. However, targeting the exchange rate means the central bank gives up control of interest rates.

Source: News reports, 2024

Extract C: Singapore's managed exchange rate

An economy that has seen considerable success by intervening in the foreign exchange market to manage its currency is Singapore. Rather than focusing on using interest rates, the Monetary Authority of Singapore (MAS) manages the country's exchange rate. Singapore does not peg its currency directly to another, such as the US dollar. Instead, the Singapore dollar (SGD) is allowed to fluctuate, within a band, against a trade-weighted basket of currencies. 5

This approach has several benefits for Singapore's economy. A managed floating exchange rate provides Singapore's government with the flexibility to respond to economic shocks and maintain stability. It allows the exchange rate to adjust gradually, reducing the risk of volatile currency movements. Also, by managing the SGD against a basket of currencies, Singapore's government can ensure that its economy remains competitive in international trade. 10

A stable economy and exchange rate is attractive to foreign investors, leading to large inflows of foreign direct investment (FDI). It is also crucial for Singapore's role as a global financial centre. However, by targeting the exchange rate, the ability to use other tools of macroeconomic policy is limited. 15

Source: News reports, 2024

0 1 Using the data in **Extract A (Figure 1)**, calculate how the value of the Norwegian krone has changed compared to the Singapore dollar between 26 October 2021 and 29 May 2023.

Give your answer as a percentage and to **one** decimal place.

[2 marks]

0 2 Explain how the data in **Extract A (Figure 2)** show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.

[4 marks]

0 3 **Extract B** (lines 6–7) states: 'Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.'

With the help of a suitable diagram, explain how an appreciation of the krone could help Norway reduce inflation.

[9 marks]

0 4 **Extract C** (lines 1–2) states: 'An economy that has seen considerable success by intervening in the foreign exchange market to manage its currency is Singapore.'

Using the data in the extracts and your knowledge of economics, assess the view that an economy is likely to perform better with a managed exchange rate rather than a freely floating exchange rate.

[25 marks]

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Extract C: Free market, supply-side labour market reforms

Free market supply-side reforms often focus on either encouraging individuals to take up work by making it more attractive, or by making it more difficult for people to remain on unemployment-related benefits. A feature of recent government supply-side policy has been to create and maintain flexible working practices. The Confederation of British Industry (CBI) argues that “the UK’s flexible labour market is an invaluable strength of our economy which should be protected”. The UK’s employment rate is the highest since recent records began in 1971, and 97% of firms say the UK’s flexible labour market is vital to improving firms’ competitiveness. 1 5

Having a flexible workforce, which can respond quickly to changes in demand, may benefit both businesses and workers. There is a growing need for workers to have more flexibility, whether to allow them to balance work with such things as childcare, study commitments or as an alternative income when work in their preferred occupation is unavailable. Some labour market analysts also point to flexible labour markets as one of the key reasons that, after the recession of 2008–09, unemployment did not reach the levels it did in the recessions of the 1980s and 1990s. 10 15

Some point to the fact the UK has the least-regulated labour market in Europe. Hiring and firing staff is easier than in countries such as France, where the difficulty of getting rid of unproductive workers makes firms more cautious about employing someone in the first place. Improving workers’ productivity is the key to increasing real GDP and real wage rises. Having a flexible workforce allows the UK to meet the challenges of a dynamic global economy. It not only helps keep unemployment low, but also helps achieve other macroeconomic objectives. 20

Source: News reports, 2018

0 1 Using the data in **Extract A** (Figure 1), calculate the mean unemployment rate for the UK from 2007–08 to 2017–18. Give your answer to **one** decimal place. [2 marks]

0 2 Explain how the data in **Extract A** (Figure 2) show that the UK has had poor real wage growth since 2008. [4 marks]

0 3 **Extract C** (line 19) states: ‘Improving workers’ productivity is the key to increasing real GDP’. With the help of a diagram, explain how improving productivity should lead to rising real GDP. [9 marks]

0 4 **Extract B** (lines 13–14) states: ‘It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation’s workers’. Using the data in the extracts and your knowledge of economics, evaluate the view that free market supply-side reforms to labour markets are beneficial to the UK economy. [25 marks]

Turn over ►

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7

OR**Essay 3**

In the past few years, CPI inflation has often differed by more than 1% from its 2% target. In the winter of 2015 the UK experienced a brief period of deflation but, more recently, inflation has been over 3%.

1	3
---	---

Explain the main causes of a rise in inflation.

[15 marks]

1	4
---	---

Evaluate the view that inflation is always preferable to deflation.

[25 marks]**END OF QUESTIONS**

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7

OR

Essay 3

According to the Office for National Statistics, the UK's real gross domestic product (GDP) increased by an estimated 7.5% in 2021, the fastest rate in 80 years. This followed a fall in real GDP of 9.4% in 2020.

1	3
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Explain possible causes of economic growth.

[15 marks]

1	4
---	---

Evaluate the view that economic growth usually leads to an improvement in living standards.

[25 marks]

END OF QUESTIONS

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6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

By September 2024, the UK's national debt had risen to approximately £2 776 billion, which was equivalent to over 100% of GDP. To pay for an increase in its spending, the government may have to increase taxes.

0 9

Explain factors that may lead to an increase in a country's national debt as a percentage of GDP.

[15 marks]**1 0**

Assess the view that raising direct taxes to finance an increase in government spending is better than raising indirect taxes.

[25 marks]**OR****Essay 2**

In 2023, the UK government allocated £5.9 billion for supply-side policies to boost long-term growth and competitiveness. One aim of supply-side policies is to achieve a lower, stable rate of inflation.

1 1

Explain how supply-side policies can help to achieve a low, stable rate of inflation.

[15 marks]**1 2**

Evaluate the view that a low rate of inflation is always beneficial for a country's macroeconomic performance.

[25 marks]

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6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Since 1992, the UK has had a floating exchange rate, and between August and December 2019, the pound sterling rose by around 10%. In the recent past, several nations, such as Japan, Switzerland and China, have actively intervened to influence the value of their currencies.

0	9
---	---

Explain how a government or central bank can intervene to prevent the value of its currency rising.

[15 marks]

1	0
---	---

Evaluate the possible impact on the cost of living **and** the standard of living in the UK of a sustained rise in the value of the pound sterling against other currencies, such as the euro and the US dollar.

[25 marks]**OR****Essay 2**

The savings ratio is the proportion of national income that is saved. The UK savings ratio reached 10.6% in 2015 but fell to 3.9% in 2017. This indicates rising consumption and a fall in savings across the economy. Economists debate whether or not this change in consumption and savings is beneficial.

1	1
---	---

Explain the main causes of rising consumption in an economy.

[15 marks]

1	2
---	---

To what extent do you agree that a fall in savings is beneficial for the UK economy? Justify your answer.

[25 marks]

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6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

0	9
---	---

Explain how government policies can reduce the natural rate of unemployment.

[15 marks]

1	0
---	---

Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

[25 marks]**OR****Essay 2**

The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

1	1
---	---

Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world.

[15 marks]

1	2
---	---

Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments.

[25 marks]

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OR**Essay 3**

The Government has ruled out the possibility of a rise in VAT before 2020 but other indirect taxes may increase. It has also stated that the personal income tax allowance will be increased from £10 800 in 2015/16 to £12 500 by 2020, and plans to cut the main rate of corporation tax from 20% to 17%.

1 3

Explain how changes in both government spending **and** taxation might affect the level of economic activity.

[15 marks]**1 4**

Evaluate the economic consequences for the UK economy of a significant shift in the burden of taxation from direct taxes to indirect taxes.

[25 marks]**END OF QUESTIONS****Turn over ►**

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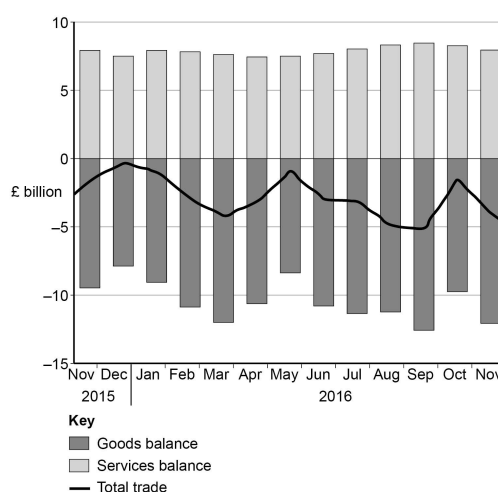
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2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****The UK's trade balance**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Sterling effective exchange rate index, November 2015 to November 2016****Figure 2: Balance of UK trade, November 2015 to November 2016**

Source: ONS

Extract B: The UK's trade deficit

In September 2016, the UK's trade deficit with the rest of the world widened unexpectedly. Exports fell, despite a sharp fall in the value of the pound. The trade deficit in goods alone rose to £12.7bn. The value of imports increased by £1.3bn to £38.8bn, while exports fell by £0.2bn to £26.1bn. The rebalancing of the UK economy to achieve export-led growth has not happened yet.

5

The disappointing trade figures suggest that the 16% fall in the value of the pound since the EU referendum in June 2016 has failed to lift exports significantly. An economist at Scotiabank, said "If we are lucky, the weak pound may boost exports, but export growth tends to be driven more by the strength of overseas demand, rather than the exchange rate." Others point to a lack of competitiveness and low productivity as being central to the UK's poor export performance.

10

In Quarter 3 of 2016, the UK economy grew much faster than many economists had initially expected, with signs that the growth had been supported by rising consumer spending. This may be one of the reasons why imports of goods have increased. A statistician at the ONS, said that "In this first full quarter since the EU referendum, there is little evidence of the lower pound feeding through into trade volumes or prices."

15

In recent years, the UK's earnings on assets overseas have fallen relative to the earnings of foreign investors in the UK. This contributed to the deterioration in the

3

current account balance, leading to a record deficit of 5.4% of GDP in 2015. Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit. The effects on employment, the need to attract inward investment and the possible negative effects on growth and living standards are among the causes for concern. 20

Source: News reports, 2016

Extract C: Germany's trade surplus

Germany's surplus on the current account of its balance of payments surged to a record level in 2015, at 8.5% of GDP. It has now overtaken the Chinese surplus as the largest imbalance in the world. This imbalance is clearly causing problems inside the eurozone and globally. If the German current account is in surplus, it implies that other nations are in deficit. 5

Although the German government views the surplus as evidence of economic success, there is growing pressure from other countries and the European Commission for Germany to take steps to reduce the surplus. Trade deficits and surpluses may be self-correcting in a floating exchange rate system, but as Germany is part of the eurozone, its currency does not fluctuate against those of other member countries, since they all use the euro. 10

Germany's surplus has been increased by low oil prices and the relatively low value of the euro. Healthy growth in other European nations has also contributed to strong demand for German exports. Whatever the reason for Germany's surplus, the UK may only look on in envy. 15

Source: News reports, 2016

0 | 1

Using the data in **Extract A (Figure 1)**, calculate the change in the effective exchange rate index, as a percentage, between November 2015 (point A) and November 2016 (point B). Give your answer to **two** decimal places.

[2 marks]**0 | 2**

Extract B describes the trade figures as 'disappointing'.

Explain how the data in **Extract A (Figure 2)** show that the UK's trade performance has been 'disappointing' given the fall in the value of the pound since November 2015.

[4 marks]**0 | 3**

Extract C (lines 8–9) states 'Trade deficits and surpluses may be self-correcting in a floating exchange rate system.'

With the help of a diagram showing the supply of and demand for a currency, explain how a floating exchange rate may help to correct a trade surplus.

[9 marks]**0 | 4**

Extract B (lines 19–21) states 'Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit.'

Using the data in the extracts and your knowledge of economics, assess the impact of a persistent current account deficit on the macroeconomic performance of the UK economy.

[25 marks]**Turn over ►**

IB/G/Jun18/7136/2

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7

OR**Essay 3**

In the past few years, CPI inflation has often differed by more than 1% from its 2% target. In the winter of 2015 the UK experienced a brief period of deflation but, more recently, inflation has been over 3%.

1	3
---	---

Explain the main causes of a rise in inflation.

[15 marks]

1	4
---	---

Evaluate the view that inflation is always preferable to deflation.

[25 marks]**END OF QUESTIONS**

There are no questions printed on this page

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IB/M/Jun19/7136/2

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6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

By September 2024, the UK's national debt had risen to approximately £2 776 billion, which was equivalent to over 100% of GDP. To pay for an increase in its spending, the government may have to increase taxes.

0 9

Explain factors that may lead to an increase in a country's national debt as a percentage of GDP.

[15 marks]**1 0**

Assess the view that raising direct taxes to finance an increase in government spending is better than raising indirect taxes.

[25 marks]**OR****Essay 2**

In 2023, the UK government allocated £5.9 billion for supply-side policies to boost long-term growth and competitiveness. One aim of supply-side policies is to achieve a lower, stable rate of inflation.

1 1

Explain how supply-side policies can help to achieve a low, stable rate of inflation.

[15 marks]**1 2**

Evaluate the view that a low rate of inflation is always beneficial for a country's macroeconomic performance.

[25 marks]

7

OR

Essay 3

Gross domestic product (GDP) is a widely used measure of economic activity, but it has several limitations when used as the sole indicator of living standards. Less economically developed countries (LEDCs) need to look at ways to not only boost their GDPs but also to develop their economies.

1 3

Explain the main limitations of using national income data to assess differences in living standards between countries.

[15 marks]**1 4**

Assess the view that economic development in LEDCs is best achieved through interventionist strategies.

[25 marks]

END OF QUESTIONS

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6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

In 2017, the UK's annual budget deficit was 2.3% of GDP, the lowest level since 2001. In 2017, the UK's deficit on the current account of the balance of payments fell to 3.3% of GDP, the lowest level since 2011.

0	9
---	---

Explain the possible causes of a falling budget deficit.

[15 marks]

1	0
---	---

To what extent do you agree that reducing the budget deficit is more important to the UK's macroeconomic performance than reducing the current account deficit on its balance of payments? Justify your answer.

[25 marks]**OR****Essay 2**

During 2018, the UK experienced an annual growth rate of 1.4%, an unemployment rate of around 4.1%, inflation close to target at 2.5% and a reduced current account deficit on the balance of payments. However, in November 2018, the Bank of England warned that economic shocks could damage the UK's prosperity.

1	1
---	---

Explain how demand-side **and** supply-side shocks might increase unemployment in an economy.

[15 marks]

1	2
---	---

Evaluate the view that the main objectives of UK government macroeconomic policy can be achieved without conflicting with each other.

[25 marks]

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6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Since 1992, the UK has had a floating exchange rate, and between August and December 2019, the pound sterling rose by around 10%. In the recent past, several nations, such as Japan, Switzerland and China, have actively intervened to influence the value of their currencies.

0	9
---	---

Explain how a government or central bank can intervene to prevent the value of its currency rising.

[15 marks]

1	0
---	---

Evaluate the possible impact on the cost of living **and** the standard of living in the UK of a sustained rise in the value of the pound sterling against other currencies, such as the euro and the US dollar.

[25 marks]**OR****Essay 2**

The savings ratio is the proportion of national income that is saved. The UK savings ratio reached 10.6% in 2015 but fell to 3.9% in 2017. This indicates rising consumption and a fall in savings across the economy. Economists debate whether or not this change in consumption and savings is beneficial.

1	1
---	---

Explain the main causes of rising consumption in an economy.

[15 marks]

1	2
---	---

To what extent do you agree that a fall in savings is beneficial for the UK economy? Justify your answer.

[25 marks]

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SUB-TOPIC 4.2.1.3

USES OF INDEX NUMBERS

Sub-topic 4.2.1.3 · 5 questions · 6 marks · lowest tariff first



15

Do not write
outside the
box**2 5**

The table below shows how much of each of two products can be produced by two countries with the same amount of resources.

	Motorbikes		Cars
Brazil	10	or	5
United States	6	or	2

Which one of the following statements is correct?

- A** Brazil has a comparative advantage in the production of both motorbikes and cars. ☐
- B** Brazil has a comparative advantage in the production of cars. ☐
- C** The opportunity cost of producing motorbikes is higher in the United States than Brazil. ☐
- D** Trade will not take place because Brazil is better at producing both goods. ☐

[1 mark]**2 6**

A country has a Human Development Index of 0.91. This country is most likely to have

- A** a high dependence on its primary sector. ☐
- B** a low level of life expectancy. ☐
- C** rapid population growth. ☐
- D** relatively low levels of illiteracy. ☐

[1 mark]

Turn over for the next question



1 5

Turn over ►

IB/G/Jun17/7136/3

16

Do not write
outside the
box**2 7**

The table below shows the Consumer Prices Index for a country over a number of years.

Year	End of year prices index
1	100
2	98
3	103
4	105
5	106
6	104
7	107

Which one of the following can be concluded from the table?

- A** The country suffered disinflation in Year 5
- B** The inflation rate was highest in Year 7
- C** The only time the country suffered deflation was in Year 2
- D** Real incomes fell between Year 1 and Year 7

☐☐☐☐**[1 mark]**

1 6

IB/G/Jun17/7136/3

20

2 | 8

Table 9 shows the price index for an economy at the end of each of the years from 2019 to 2023.

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outside the
box

Table 9

Year	Price index
2019	110
2020	108
2021	117
2022	123
2023	135

In which year did the economy experience disinflation?

[1 mark]**A** 2020
☐
B 2021
☐
C 2022
☐
D 2023
☐
2 | 9

Which one of the following might be part of a market-based strategy for promoting economic growth and development in a less-developed economy?

[1 mark]**A** Adopting a fixed exchange rate
☐
B Encouraging overseas aid
☐
C Privatising key industries
☐
D Subsidising exports
☐


2 0

IB/G/Jun24/7136/3

12

2 2 **Table 4** shows the weights used in the Consumer Prices Index (CPI) for a selection of items in 2008 and 2018.

Do not write
outside the
box

Table 4

Category	2008 weight	2018 weight
Food and non-alcoholic beverages	109	101
Alcoholic beverages and tobacco	42	42
Clothing and footwear	63	70
Transport	152	156
All goods	547	519
All services	453	481

The data in **Table 4** indicate that between 2008 and 2018 the

- A** average price of goods fell, whereas the average price of services increased.
- B** percentage increase in the price of 'Clothing and footwear' was greater than the percentage increase in the price of 'Transport'.
- C** proportion of total expenditure, by a typical household, on 'Alcoholic beverages and tobacco' did not change.
- D** total expenditure of a typical household on 'Food and non-alcoholic beverages' fell.

☐
☐
☐
☐

[1 mark]



1 2

IB/M/Jun20/7136/3

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Investment in Africa**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Real GDP (US\$ bn), selected African nations, 2015–2018**

Country	2015	2016	2017	2018
Egypt	250.0	260.9	271.8	286.3
Kenya	52.3	55.4	58.1	61.7
Liberia	2.6	2.6	2.5	2.6
Morocco	113.4	114.6	119.5	123.2
Nigeria	461.8	454.4	458.0	466.9

Source: World Bank, 2020

Figure 2: Foreign direct investment (FDI) net inflows (US\$ bn), selected African nations, 2015–2018

Country	2015	2016	2017	2018
Egypt	6.9	8.1	7.4	8.1
Kenya	0.6	0.7	1.3	1.6
Liberia	0.2	0.3	0.2	0.1
Morocco	3.3	2.2	2.7	3.5
Nigeria	3.0	4.5	3.5	2.0

Source: World Bank, 2020

Extract B: Foreign direct investment in Africa

In 2018, foreign direct investment (FDI) in Africa rose to \$46 billion, an 11% increase on the previous year. Morocco and Kenya saw some of the biggest rises in FDI, although many nations in Sub-Saharan and Central Africa experienced falls. Nations with high and stable growth seem better able to attract FDI inflows.

It was expected that increased rates of economic growth in Africa, along with progress towards the African Continental Free Trade Area (AfCFTA) agreement and key improvements in infrastructure, would boost FDI. Multinational corporations (MNCs) from developing countries have been expanding their activities in Africa but investors from developed countries remain key. French companies are currently the largest investors in Africa, followed by the Netherlands, the United States and the UK. Africa is a key producer of commodities and with higher demand and rising commodity prices, FDI inflows are expected to increase even further.

The growing number of special economic zones (SEZs) are also likely to help Africa attract more FDI. SEZs are areas with relaxed trade rules, little regulation and little or no tax on firms that invest in the zone. This makes locating in a SEZ very appealing to foreign firms. The creation of these zones has helped to promote development in several Asian economies and many African nations hope to make their economies more business-friendly. There are an estimated 237 SEZs in the African continent already.

FDI can have many benefits. It should create employment, boost long-run economic growth and increase exports. SEZs and improving competitiveness should contribute to the achievement of key macroeconomic objectives and the development of a country's economy.

Source: News reports, 2020

Extract C: Problems for Africa

It has been said that ‘investing in Africa is only for the brave’. Some of the issues faced by firms include lack of infrastructure such as poor electricity and transport networks, bureaucracy, political instability and corruption. African nations’ current share of global trade is only around 3%.

Since African governments began to use SEZs in the early 1970s, they have failed to attract significant investment, to promote exports, or to create sustainable industrial development. SEZs create distortions in markets, with too much focus on short-term gains. Often, conflicts of interest occur between host governments and investors. Many MNCs, that have been attracted to Africa by the SEZs, have been accused of doing little to improve the living standards of the African people. It has been said that they do not create many jobs, they exploit workers and damage the environment. Too often, profits are not reinvested in Africa but distributed to shareholders or invested elsewhere.

Some argue that African governments should be doing more to improve the living standards of their citizens, rather than relying on foreign firms. However, high debts, high unemployment rates and low tax revenues often make it difficult for the governments of African nations to develop their economies without investment from abroad.

Source: News reports, 2020

- 0 1** Using the data in **Extract A (Figure 1)**, if 2015 is the base year, calculate the index of Egypt’s real GDP in 2018.
- Give your answer to **one** decimal place.
- [2 marks]**
- 0 2** Explain how the data in **Extract A (Figures 1 and 2)** show that nations with high and stable economic growth attract rising foreign direct investment (FDI) inflows.
- [4 marks]**
- 0 3** **Extract B** (lines 18–19) states: ‘FDI can have many benefits. It should create employment, boost long-run economic growth and increase exports.’
- With the help of a suitable diagram, explain how a rise in inward foreign direct investment (FDI) may lead to increased exports.
- [9 marks]**
- 0 4** **Extract C** (lines 13–14) states: ‘Some argue that African governments should be doing more to improve the living standards of their citizens, rather than relying on foreign firms.’
- Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, African nations should pursue policies to attract foreign direct investment (FDI).
- [25 marks]**

Turn over ►

MARK SCHEMES

official mark schemes



MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

Section A

Context 1

Total for this Context: 40 marks

0 1 Using the data in **Extract A (Figure 2)**, calculate, to **two** decimal places, the mean growth rate for India from 2010 to 2014.

[2 marks]

Calculation:

$$(10.26 + 6.64 + 5.62 + 6.64 + 7.24) = 36.4 \quad 36.4 \div 5 = 7.28 \quad = 7.28\% \text{ to 2 d.p.}$$

Response	Max 2 marks
For the correct answer (7.28%) with the % sign and to 2 d.p.	2 marks
For a correct answer but without the % sign and/or not to 2 d.p.	1 mark

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

- 1 2** Evaluate the view that the main objectives of UK government macroeconomic policy can be achieved without conflicting with each other.

[25 marks]

Areas for discussion include:

- definitions/explanations: macroeconomic objectives, trade-offs, macroeconomic policies
- explaining each of the macroeconomic objectives, sustainable economic growth, low stable inflation, low unemployment and a strong current account on the balance of payments
- explaining why economic objectives may conflict with each other such as:
 - rising aggregate demand and disposable incomes leading to a worsening deficit on the current account of the balance of payments
 - contractionary monetary policy designed to reduce inflationary pressure causing rising unemployment rates
 - expansionary fiscal policy causing short-run economic growth but leading to demand-pull inflation
 - protectionist policies designed to reduce the deficit on the balance of payments could lead to retaliation and rising unemployment
- explaining supply-side policies and how they can achieve the macroeconomic objectives simultaneously
- considering long-run economic growth as opposed to short-run economic growth and how this may impact on each of the objectives
- considering the Phillips curve and distinguishing between the short-run and long-run
- considering external factors and the difficulties of external shocks
- considering globalisation and the impact of other nations on the UK
- considering possible 'secondary' objectives such as issues regarding the government's fiscal position, inequality, poverty or the environment
- considering the experience of the UK in periods such as the 'NICE' decade.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

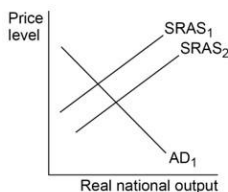
KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2023

SECTION A

KEY LIST

1	D (favourable weather leading to a record harvest.)	11	A (A)	21	B (Emergency aid provided to another country following a natural disaster)
2	C (the environment has an opportunity cost.)	12	D (V and Q)	22	B (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
3	D (+12.5)	13	B (5th worker is employed.)	23	A (strengthened against the pound sterling and strengthened against the euro.)
4	C (the rate of inflation.)	14	D (zero)	24	D (industry regulators grow too close to the firms they are regulating.)
5	A (A)	15	C (The adoption of satisficing behaviour)	25	C (An increase in the minimum qualifications required for workers in the industry and a fall in the price of a complement for the output produced)
6	B (Bringing down the rate of inflation)	16	B (Economic agents have higher inflation expectations due to the intervention)	26	A (The proportion of employers' total costs which are made up by wages)
7	B (Availability bias and social norms)	17	C (Evaluating the government's performance against its own fiscal targets)	27	C (more equal and the Gini coefficient has decreased.)
8	B (Some firms will leave the market and the price will rise)	18	A (Increase its purchases of government securities)	28	B (An improvement in the balance of payments on current account)
9	B (Creative destruction)	19	D (The supply curve for potatoes shifts due to the incentive function of prices)	29	B (Banks may engage in more risky lending if they believe the central bank will support them in a crisis)
10	B (0.6)	20	C (4 units)	30	A ((\$50bn)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2023

SECTION A

KEY LIST

1	D (favourable weather leading to a record harvest.)	11	A (A)	21	B (Emergency aid provided to another country following a natural disaster)
2	C (the environment has an opportunity cost.)	12	D (V and Q)	22	B (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
3	D (+12.5)	13	B (5th worker is employed.)	23	A (strengthened against the pound sterling and strengthened against the euro.)
4	C (the rate of inflation.)	14	D (zero)	24	D (industry regulators grow too close to the firms they are regulating.)
5	A (A)	15	C (The adoption of satisficing behaviour)	25	C (An increase in the minimum qualifications required for workers in the industry and a fall in the price of a complement for the output produced)
6	B (Bringing down the rate of inflation)	16	B (Economic agents have higher inflation expectations due to the intervention)	26	A (The proportion of employers' total costs which are made up by wages)
7	B (Availability bias and social norms)	17	C (Evaluating the government's performance against its own fiscal targets)	27	C (more equal and the Gini coefficient has decreased.)
8	B (Some firms will leave the market and the price will rise)	18	A (Increase its purchases of government securities)	28	B (An improvement in the balance of payments on current account)
9	B (Creative destruction)	19	D (The supply curve for potatoes shifts due to the incentive function of prices)	29	B (Banks may engage in more risky lending if they believe the central bank will support them in a crisis)
10	B (0.6)	20	C (4 units)	30	A (£50bn)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2023

SECTION A

KEY LIST

1	D (favourable weather leading to a record harvest.)	11	A (A)	21	B (Emergency aid provided to another country following a natural disaster)
2	C (the environment has an opportunity cost.)	12	D (V and Q)	22	B (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
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10	B (0.6)	20	C (4 units)	30	A (£50bn)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2023

SECTION A

KEY LIST

1	D (favourable weather leading to a record harvest.)	11	A (A)	21	B (Emergency aid provided to another country following a natural disaster)
2	C (the environment has an opportunity cost.)	12	D (V and Q)	22	B (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
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10	B (0.6)	20	C (4 units)	30	A ((\$50bn)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

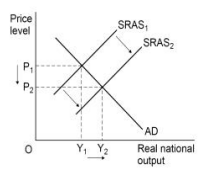
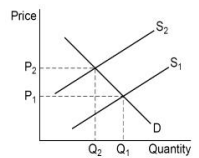
SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

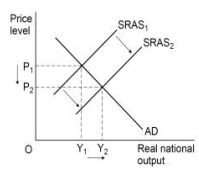
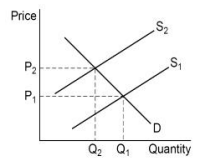
MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R_1 cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
7	D (Increasing returns to scale)	17	C (Savings deposited with commercial banks that have more than a year to maturity)	27	D (High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority.)
8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R_1 cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
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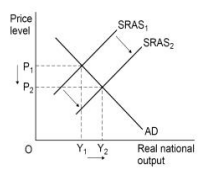
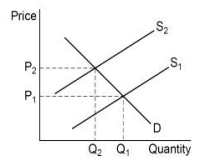
MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R ₁ cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
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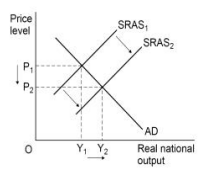
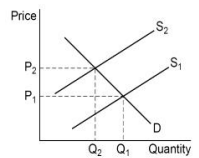
MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R_1 cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
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MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
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10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A**KEY LIST**

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
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MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
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10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

Section A

Context 2

Total for this Context: 40 marks

0 5 Using **Extract D (Figure 3)**, calculate, to **two** decimal places, the mean inflation rate for Japan from 2010 to 2015.

[2 marks]

Calculation:

$$(-0.72 + -0.28 + -0.03 + 0.36 + 2.75 + 0.80) = 2.88 \quad 2.88 \div 6 = 0.48 \quad = 0.48\% \text{ to 2 d.p.}$$

Response	Max 2 marks
For a correct answer (0.48%) with the % sign and to 2 d.p.	2 marks
For a correct answer but without the % sign and/or not to 2 d.p.	1 mark

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2019

Section A

Context 1

Total for this context: 40 marks

0 1 Using the data in **Extract A**, calculate the GDP per capita for Costa Rica in 2015/2016 to the **nearest dollar**.

[2 marks]

Response	Max 2 marks
For the correct answer (\$14,204) with the \$ sign.	2 marks
For a correct answer (\$14,204) but without the \$ sign and/or not to the nearest \$. Or For the correct method but the wrong answer, to the nearest \$ and with the \$ sign.	1 mark

Calculation: $\$69.6\text{bn}/4.9\text{m} = \$14,204.08 = \$14,204$ (to the nearest \$)

Note: a correct method would include $69.6\text{bn}/4.9\text{m}$ or equivalent but not $69.6/4.9$.

MAXIMUM FOR QUESTION 01: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2023

Context 2

Total for this context: 40 marks

0 5

Using the data in **Extract D (Figure 3)**, calculate the value of bonds that had been purchased by November 2020 for every £1 worth of bonds purchased by November 2009.

Give your answer in £s and to **two** decimal places.

[2 marks]

Response	Max 2 marks
For the correct answer (£4.48) with the £ sign and to 2 decimal places.	2 marks
For a correct answer but without the £ sign and/or not to 2 decimal places. OR For the correct method but the wrong answer, to two decimal places with the £ sign.	1 mark

Calculation:

$\text{£}895\text{bn}/\text{£}200\text{bn} = \text{£}4.475 = \text{£}4.48$ to 2 decimal places.

MAXIMUM FOR QUESTION 05: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A**, calculate the ratio of the UK's GDP per hour worked to \$1 of GDP per hour worked in Hungary.

Give your answer to **two** decimal places.

[2 marks]

Response	Max 2 marks
For the correct answer (1.48:1) to two decimal places. Also allow \$1.48:\$1 Also allow Hungary \$1 : UK \$1.48 (allow the symbols : or = or the word "to")	2 marks
For a correct answer but not to two decimal places. OR For the correct answer (1.48 or \$1.48) but not displayed as a ratio. OR For an answer with the ratio displayed the wrong way round (1:1.48 or \$1:\$1.48) OR For the correct method but the wrong answer, to two decimal places, displayed as a ratio.	1 mark

Calculation: $59.1/39.9 = 1.4812$
 $= 1.48$ (to 2 decimal places)
 $= 1.48:1$

MAXIMUM FOR QUESTION 01: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2018

0 6 Explain how the data in **Extract D (Figures 3 and 4)** show that consumer confidence may have risen since 2014.

[4 marks]

Response:	Max 4 marks
- includes evidence that shows that consumer confidence may have risen since 2014 - clearly explains how this data is evidence that consumer confidence may have risen since 2014.	4 marks
- includes evidence that shows that consumer confidence may have risen since 2014 - unclear explanation of how this data is evidence that consumer confidence may have risen since 2014.	3 marks
- includes some limited evidence that shows that consumer confidence may have risen since 2014 - limited explanation of how this data is evidence that consumer confidence may have risen since 2014.	2 marks
- includes evidence that does not clearly show that consumer confidence may have risen since 2014 - no explanation of how this data is evidence that consumer confidence may have risen since 2014.	1 mark

Relevant issues include:

- explanation of relevant terms such as saving ratio and consumer confidence
- explaining why the saving ratio may indicate consumer confidence
- explaining why the gross debt to income ratio is an indicator of consumer confidence
- the household gross debt to income ratio rose in 2014 to 141%, the first rise since 2011 indicating households were more willing to take on debt
- confidence may have been low before 2014, as household gross debt to income was falling from a high of about 168% in 2008 to a low of 140% in 2013 indicating households were reducing indebtedness
- forecast data for the household gross debt to income ratio indicate this will continue to rise until 2020 (to 162%) indicating households are expected to borrow more in the future
- the savings ratio fell in 2014 by 0.9 percentage points from 2012, but had a larger fall after 2014 by 1.3 percentage points in 2016 indicating a small rise in the marginal propensity to consume
- the lowest saving ratio was in 2016 at 7.1% indicating a peak in consumer confidence and willingness to consume
- confidence may have been low before 2014 as the savings ratio peaked in 2010 at 11.2% indicating household pessimism and a reluctance to spend.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

0 3 **Extract C** (lines 4–5) states ‘Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound...’

With the help of a diagram, explain how a depreciation of the pound may cause inflation.

[9 marks]

Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

An AD/AS diagram which shows SRAS shifting leftward is likely to be used. Equally, some candidates may just show AS shifting leftward. Some candidates may consider the effect of a depreciation on net trade and AD rising.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2025

0 3 **Extract B** (lines 6–7) states: ‘Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.’

With the help of a suitable diagram, explain how an appreciation of the krone could help Norway reduce inflation.

[9 marks]

Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

An AD/AS diagram which shows SRAS shifting rightward is likely to be used. Equally, some candidates may just show AD shifting leftward, away from productive capacity. An exchange rate diagram showing an appreciation may also be used and this can be credited if accompanied by a valid, relevant explanation.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

0 3 **Extract C** (line 19) states: ‘Improving workers’ productivity is the key to increasing real GDP’.

With the help of a diagram, explain how improving productivity should lead to rising real GDP.

[9 marks]

Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

An AD/AS diagram which shows AS shifting right (either LRAS or SRAS) is acceptable if analysed correctly.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2019

Essay 3**Total for this essay: 40 marks****1 3** *Explain the main causes of a rise in inflation.***[15 marks]****Relevant issues include:**

- definitions/explanations: inflation, cost-push inflation, demand-pull inflation, the general price-level, price indices
- explaining possible causes of rises in demand-pull inflation through an increase in the components of AD such as:
 - increased consumption due to the falling unemployment
 - increased investment due to falling interest rates
 - increased government spending due to a discretionary policy to raise welfare spending, eg pensions
 - increased exports due to higher economic growth in a trade partner
 - decreased imports and increased exports due to a depreciation in the currency
 - a rise in the money supply supporting the monetarist view and using the Fisher equation
- explaining possible causes of rising cost-push inflation through an increase in the costs of the factors of production such as:
 - rising wage costs
 - rising raw material costs
 - rising commodity prices such as oil
- explaining external shocks which may impact upon inflation
- explain microeconomic issues which may impact upon inflation such as rising housing costs affecting the RPI measure or possible collusion in energy markets affecting domestic fuel prices
- explaining possible short-run reasons for increases in prices and long-run reasons.

The use of relevant diagrams to support the analysis such as rising AD/AS should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2023

Essay 3**Total for this essay: 40 marks****1 3** *Explain possible causes of economic growth.***[15 marks]****Relevant issues include:**

- definitions/explanations: economic growth, short-run growth, long-run growth
- explaining the causes of increased short-run growth by increasing the components of aggregate demand $C+I+G+(X-M)$
- explaining causes of increased consumption such as:
 - expansionary monetary policy, expansionary fiscal policy, increased confidence, the wealth effect or increased employment/reduced unemployment
- explaining causes of increased investment such as:
 - the accelerator, increased retained profit, advances in technology, increased credit availability or research and development
- explaining causes of increased government spending such as:
 - increased spending on infrastructure, increased spending on public/merit goods, or increased spending on welfare benefits
- explaining causes of increased net trade such as:
 - a depreciation of currency leading to increased exports and reduced imports or growth in a foreign trading partner leading to increased exports
- explaining the main causes of long-run economic growth such as:
 - supply-side policies, investment, research and development, immigration or education

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2025

Essay 2**Total for this essay: 40 marks****1 1***Explain how supply-side policies can help to achieve a low, stable rate of inflation.***[15 marks]****Relevant issues include:**

- definitions/explanations: supply-side policies, inflation
- relating a low, stable rate of inflation to the target rate of 2%+/-1%
- explanation of how intervention can target product or labour markets
- explanation of the difference between interventionist and free-market approaches
- linking supply-side policies to improved efficiency and productivity
- linking supply-side policies to increasing the productive potential of the economy
- linking the increased productive potential to the alleviation of demand-pull pressures
- explanation of how cost-push pressures can be reduced by supply-side policies
- explanation of both short-run and long-run effects of supply-side policies on firms' costs
- explanation of how specific interventionist supply-side policies, such as spending on education or infrastructure, can help achieve a low, stable rate of inflation
- explanation of how specific free-market supply-side policies, such as privatisation or reduced taxation, can help achieve a low, stable rate of inflation.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2021

Essay 2

Total for this essay: 40 marks

1	1
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 Explain the main causes of rising consumption in an economy.**[15 marks]**

Relevant issues include:

- definitions/explanations: consumption, saving
- explaining the marginal propensity to consume/marginal propensity to save
- explaining some of the major causes of rising consumption such as:
 - rising disposable income (possibly due to income tax cuts)
 - real wage growth
 - increased consumer confidence/expectations
 - falling unemployment/rising employment rates
 - reduced interest rates
 - the wealth effect and rising asset prices
 - inflation
 - increased availability of credit
- explaining the effect this has on aggregate demand (AD) and subsequent accelerator effects which may lead to greater consumption if more investment takes place.
- explaining the multiplier effect creating additional rises in consumption.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

- 1 2** Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments.

[25 marks]

Areas for discussion include:

- definitions/explanations: the balance of payments, the current account, current account deficit
- explaining the difference between a surplus or deficit on current account
- explaining the composition of the current account of the balance of payments
- explaining the historical experience of the UK's current account
- explaining the causes of deficits
- explain possible measures to reduce the deficit such as:
 - exchange rate manipulation
 - changes in interest rates potentially affecting the exchange rate
 - expenditure-reducing policies
 - expenditure-switching policies
 - the role of protectionism
 - government role in export promotion/trade deals
 - the role of fiscal and monetary policy
 - supply-side improvements which might begin to provide a solution to the weakness, such as:
 - competitiveness/unit labour costs
 - investment (human and physical capital)
 - technology, R&D and productivity
 - infrastructure
- consideration of the UK's membership of the WTO and EU restricting its ability to use protectionism
- consideration of whether the deficit is a problem if the capital account is in surplus
- consideration of the impact on other macroeconomic goals of trying to reduce the deficit on the current account of the balance of payments.

The use of relevant diagrams such as AD/AS diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

- 1 4** Evaluate the economic consequences for the UK economy of a significant shift in the burden of taxation from direct taxes to indirect taxes.

[25 marks]

Areas for discussion include:

- definitions/explanations: burden of taxation, taxation, direct/indirect taxation, fiscal policy
- explaining the burden of taxation, expressed, for example, as a % of GDP
- describing the current forms of taxation used in the UK and recent changes
- explaining the principals of taxation such as equity
- giving examples of the various direct and indirect taxes
- identifying the differences between progressive, regressive and proportional tax
- the redistributive impact of direct and indirect taxation
- how falling direct taxes may:
 - incentivise work
 - reduce tax avoidance/evasion
 - influence consumption
 - influence investment
 - any other relevant point
- how rising indirect taxes may:
 - affect inflation
 - reduce consumption of demerit goods
 - affect SRAS
 - affect consumption decisions
 - affect wage demands
- evaluating the size of the shift
- evaluating empirical evidence
- evaluating the period of time over which the shift takes place
- policy myopia and political ideology affecting decisions
- the Laffer curve.

The use of relevant diagrams such as the Laffer curve to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2018

0 4 **Extract B** (lines 19–21) states ‘Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit.’

Using the data in the extracts and your knowledge of economics, assess the impact of a persistent current account deficit on the macroeconomic performance of the UK economy.

[25 marks]

Areas for discussion include:

- definitions/explanations: trade or current account deficit, trade, balance of payments, macroeconomic performance
- explaining how a trade or current account deficit may impact upon:
 - economic growth
 - unemployment
 - inflation
 - other measures of performance
- considering the causes of the trade or current account deficit
- explaining the difference between trade in goods and services
- considering other parts of the current account of the balance of payments, ie primary and secondary income flows, and their significance
- the role of the capital and financial accounts
- the significance of having a floating exchange rate
- possible government responses to the deficit and their impact on macroeconomic performance
- the UK's past experiences with current account deficits
- the relative importance of the current account deficit in comparison to the other economic goals
- the “persistent” nature of the deficit
- the potential costs and benefits of surpluses on the financial account
- possible structural problems in the UK economy causing the imbalance.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2019

1 4 Evaluate the view that inflation is always preferable to deflation.

[25 marks]

Areas for discussion include:

- definitions/explanations: inflation, deflation
- explaining the different types of inflation (demand-pull and cost-push)
- explaining the different types of deflation (malign and benign)
- explaining the UK's recent history of inflation and deflation
- explaining the causes of inflation and deflation
- explaining the effects of inflation or deflation upon:
 - individuals, such as inflation causing a higher cost of living
 - borrowers, such as the relative value of debt falling with inflation
 - savers, such as inflation eroding the value of savings
 - those on fixed incomes such as the current government policy of raising JSA at 1% or inflation (whichever is lowest)
 - real interest rates and borrowing
 - firms and investment
 - labour markets, such as individuals with low bargaining power being unable to negotiate higher wages
 - consumption decisions, such as delayed consumption due to deflation
 - international competitiveness
 - activity and stability
- considering the different types of inflation in terms of creeping or hyper-inflation
- considering that inflation may benefit one group but at the expense of another
- considering that the type of deflation may determine the effects
- considering the duration of the inflation or deflation
- considering the ability of the MPC to return to the target of 2% inflation, eg the problem of the lower bound to interest rates (liquidity trap).

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2025

- 1 2** Evaluate the view that a low rate of inflation is always beneficial for a country's macroeconomic performance.

[25 marks]

Areas for discussion include:

- definitions/explanations: inflation, macroeconomic performance
- explanation of possible reasons why the inflation rate may be low
- splitting the reasons into demand-side or supply-side causes
- analysis and evaluation of the benefits of a low rate of inflation such as:
 - lower relative cost of living changes
 - economic stability may encourage investment
 - allowing consumers to continue to spend
 - helping economic agents planning, leading to better resource allocation
 - allowing the central bank to keep interest rates low, making borrowing cheaper for firms and individuals
 - reducing the problems associated with high inflation rates or hyperinflation
 - increasing international competitiveness if other countries' inflation rates are higher
 - reducing some of the effects of inequality by keeping essential goods affordable
 - considering the impact on the other macroeconomic performance indicators
- analysis and evaluation of the problems of a lower rate of inflation such as:
 - the risk of malign deflation
 - the possibility that consumers will delay consumption decisions
 - wage rigidity
 - firms facing lower revenue growth
 - debt not eroding as quickly as with moderate inflation
- considering the causes of the low rate of inflation may determine its impact
- considering the differences between the cause and effects of a low inflation rate
- analysis and evaluation of how benign deflation/disinflation may be beneficial
- discussing the role of the MPC and the target of 2%+/-1% on the CPI measure
- discussing the fact that as inflation approaches zero, it is likely that the central bank's interest rate is low, possibly causing a liquidity trap
- analysis and evaluation of trade-offs, for example has obtaining the low inflation been at the expense of growth or employment
- considering where the economy is on the economic cycle
- An overall assessment of whether a falling rate of inflation is always beneficial for a country's economy.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

1 0

To what extent do you agree that reducing the budget deficit is more important to the UK's macroeconomic performance than reducing the current account deficit on its balance of payments? Justify your answer.

[25 marks]**Areas for discussion include:**

- definitions/explanations: budget deficit, current account deficit, balance of payments, macroeconomic performance
- arguments why a budget deficit may need to be reduced:
 - it adds to national debt
 - it could cause crowding out
 - possible loss of credit status leading to increased costs of government borrowing
 - future generations facing rising tax rates
 - possibility of future cuts in spending on merit/public goods
 - it could be inflationary
- arguments why a current account deficit may need to be reduced:
 - it could indicate lack of productivity
 - it could cause depreciation of currency
 - possible risk of capital flight
 - it could cause problems for a country's reserves
 - a surplus on the financial section of the balance of payments increasing international indebtedness
 - deflationary pressure
 - it could indicate structural weaknesses
 - effects on jobs such as structural unemployment
- considering that both issues are not mutually exclusive, an improved supply-side performance could help both
- considering whether the budget deficit is cyclical or structural
- considering the components of the current account of the balance of payments
- considering the UK's ability to attract FDI will help finance the capital account and may off-set any problems on the trade deficit. However, this may also benefit the UK's budget deficit in terms of job creation and generating tax revenue
- deficits on both may be necessary and advantageous, they may both benefit living standards in terms of more goods being consumed or boosting AD
- considering that trade-offs may take place with the other macroeconomic goals

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2021

1 2

*To what extent do you agree that a fall in savings is beneficial for the UK economy?
Justify your answer.*

[25 marks]**Areas for discussion include:**

- definitions/explanations: savings, macroeconomic performance
- explaining causes of a fall in the savings
- explaining the significance of the savings ratio
- explaining how a fall in savings is likely to affect economic growth such as:
 - in the short run in terms of consumption being a component of aggregate demand (AD)
 - in the long run creating more investment if AD is rising
 - possibly limiting bank lending if there are insufficient funds
- explaining how a fall in savings is likely to affect unemployment such as:
 - cyclical unemployment is likely to fall if consumption rises
- explaining how a fall in savings is likely to affect inflation such as:
 - increasing demand-pull inflation if consumption rises close to productive capacity
 - a rise in labour costs and cost-push inflation if the economy is close to productive capacity
- explaining how a fall in savings is likely to affect net trade such as:
 - a rise in imports
 - potential domestic inflationary pressure making the UK less competitive and reducing exports
- considering the possibility that higher savings would have led to increased long-term investment
- considering the position of the economy in the economic cycle and how this impacts on the wider economy
- considering the volatility of savings and whether the changes are temporary or long lasting
- considering the possible stabilising (or destabilising) effects that savings can have
- considering the paradox of thrift.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A**KEY LIST**

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2022

Section A

Context 1

Total for this context: 40 marks

0 1 Using the data in **Extract A (Figure 1)**, if 2015 is the base year, calculate the index of Egypt's real GDP in 2018.

Give your answer to **one** decimal place

[2 marks]

Response	Max 2 marks
For the correct answer (114.5) to one decimal place	2 marks
For a correct answer but not to one decimal place, ie 114.52 OR For the correct method but the wrong answer, to 1 decimal place OR For an answer of 14.5% OR For a correct answer (114.5) but with symbols added such as \$ or bn	1 mark

Calculation: $(286.3/250.0) \times 100 = 114.52$

= 114.5 to 1dp

MAXIMUM FOR QUESTION 01: 2 MARKS