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AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

The International Economy

AQA A-level Economics 7136 — Topic 4.2.6

38 questions · 445 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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QUESTION	SOURCE	MARKS	PAGE
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QUESTIONS

38 questions · 445 marks · 5 sub-topics



SUB-TOPIC 4.2.6.1

GLOBALISATION

Sub-topic 4.2.6.1 · 7 questions · 88 marks · lowest tariff first



4

0 5

In an economy, over the last decade, each of the top five decile groups has experienced a fall in their share of total income. In contrast, the bottom five decile groups have experienced a substantial increase in their share of total income.

It can be concluded that, over this period, the distribution of income is most likely to have become

A more equal.

☐

B more equal but less equitable.

☐

C more equitable.

☐

D more equitable but less equal.

☐

[1 mark]

0 6

In an economy, the marginal propensity to consume is 0.6. All other things being equal, which one of the following statements is correct?

A A £5 billion reduction in the economy's national income will result in a £3 billion fall in consumption

☐

B If injections into the circular flow of income equal £20 billion, national income will equal £32 billion

☐

C If injections into the circular flow of income rise by £10 billion, national income will rise by £6 billion

☐

D When the economy's national income equals £100 billion, consumption will equal £60 billion

☐

[1 mark]

0 7

Which one of the following combinations, **A**, **B**, **C** or **D**, shows the essential characteristics of a customs union?

	Internal trade barriers	Common external tariffs	Common currency	
A	Yes	No	Yes	☐
B	No	Yes	No	☐
C	Yes	Yes	No	☐
D	No	No	Yes	☐

[1 mark]



0 4

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. 5 10

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. 15

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. 20

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
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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
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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 ►

Section A

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Source: News reports, 2020

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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 ►

Handwriting practice area with horizontal dotted lines.

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]

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6

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

EITHER**Essay 1**

Over the last two centuries, international trade has grown faster than global GDP, completely transforming the world economy. Today, about one quarter of total global output is exported. Globalisation has generated gains for the UK economy but has also made it vulnerable to external shocks.

0	9
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Explain the main causes of globalisation.

[15 marks]

1	0
---	---

Assess the view that increased globalisation has been beneficial for the UK economy.

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

Throughout 2021 and 2022, the UK suffered from supply-side problems which caused prices to rise. Within an economic cycle, there are often trade-offs between different macroeconomic objectives. However, many economists argue that the government should do more to reduce the likelihood of these trade-offs persisting in the long run.

1	1
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Explain the possible causes of a shift in the short-run aggregate supply curve to the left.

[15 marks]

1	2
---	---

Evaluate how, in the long-run, governments could try to reconcile conflicts between the various objectives of economic policy.

[25 marks]

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Handwriting practice area with horizontal dotted lines.

6

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0	9
---	---

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[15 marks]

1	0
---	---

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

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1	1
---	---

Explain the possible causes of a shift in the short-run aggregate supply curve to the left.

[15 marks]

1	2
---	---

Evaluate how, in the long-run, governments could try to reconcile conflicts between the various objectives of economic policy.

[25 marks]

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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]

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SUB-TOPIC 4.2.6.2

TRADE

Sub-topic 4.2.6.2 · 16 questions · 111 marks · lowest tariff first



9

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outside the
box

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 ►

IB/G/Jun17/7136/3

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

11

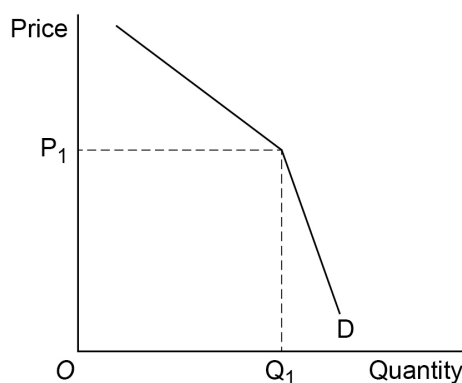
1 7

The UK's labour productivity increases by only 10% over a five year period. Over the same period its main trading partners increase their productivity by 25%. All other things being equal, the most likely consequence for the UK is

- A** a decline in UK imports from its main trading partners. ☐
- B** a 15% deterioration in its balance of trade on the current account. ☐
- C** a loss of competitiveness against its main trading partners. ☐
- D** the imposition of a 15% tariff on imports to maintain international competitiveness. ☐

[1 mark]**1 8**

The diagram below shows the kinked demand curve (D) for a firm operating in a competitive oligopolistic market.



The kinked demand curve model provides an explanation of why the

- A** firm colludes with competitors to set the price of OP_1 . ☐
- B** firm's demand curve becomes more elastic as it lowers its price. ☐
- C** firm's price changes depend on competitors' pricing behaviour. ☐
- D** firm won't change its price from OP_1 even if competitors change their prices. ☐

[1 mark]

Turn over for the next question

Turn over ►



IB/M/Jun19/7136/3

9

1 3 Which one of the following is a role of the World Trade Organisation?

[1 mark]

- A** Helping countries settle disputes over tariffs and quotas
- B** Lending money to countries with balance of payments problems
- C** Monitoring the stability of the international monetary system
- D** Providing loans at low rates of interest to low-income countries

☐☐☐☐

1 4 Which one of the following is a reason why the supply of cars is likely to be price elastic in the short run when the price of cars increases?

[1 mark]

- A** Car manufacturers' stocks of unsold cars are low
- B** The demand for cars is also price elastic
- C** The marginal cost of producing cars increases significantly with output
- D** There is considerable spare capacity in the car industry

☐☐☐☐

Turn over for the next question

Do not write
outside the
box

Turn over ►



0 9

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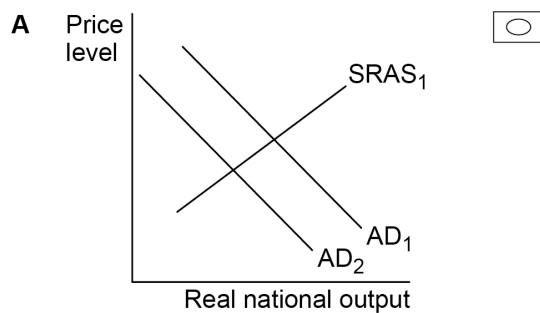
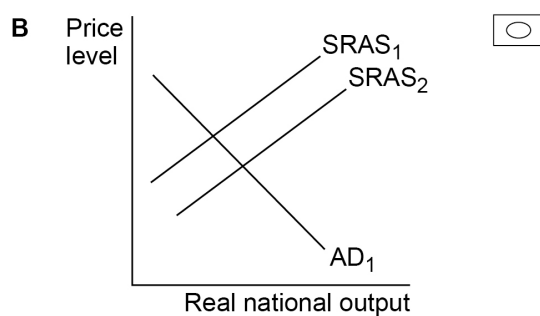
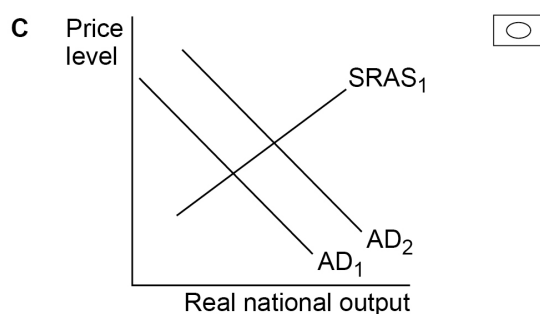
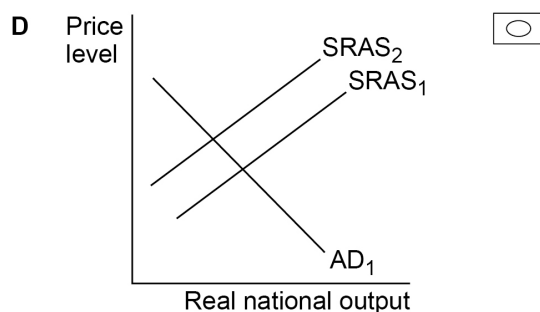
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1 | 5

Which one of the following diagrams, **A**, **B**, **C** or **D**, shows the most likely short-run impact on an economy of an improvement in technology in the production process?

[1 mark]

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8

1 4

A firm faces a downward sloping demand curve. The firm discovers that any increase or decrease from its current level of output leads to a fall in total revenue. This means that at its current output marginal revenue is

[1 mark]

A equal to average revenue.

☐

B negative.

☐

C positive.

☐

D zero.

☐**1 5**

Which one of the following is the most likely result of a divorce of ownership from control in an organisation?

[1 mark]

A Profits are maximised

☐

B Shareholders make all organisational decisions

☐

C The adoption of satisficing behaviour

☐

D The free-rider problem

☐

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13

2 2

Table 3 below shows the amount of coffee or tea that two countries can produce with a given amount of resources.

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box*

Table 3

	Coffee (tonnes)	Tea (tonnes)
Country X	80 000	100 000
Country Y	50 000	75 000

Which one of the following statements is supported by the data in **Table 3**?

[1 mark]

- A** Country X has a comparative advantage in the production of both coffee and tea
- B** Country X has a comparative advantage in the production of coffee and has an absolute advantage in the production of tea
- C** The opportunity cost of producing both coffee and tea is higher in Country X than in Country Y
- D** The opportunity cost of producing tea in Country X is lower than the opportunity cost of producing tea in Country Y

☐☐☐☐

Turn over for the next question

Turn over ►



1 3

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18

Do not write
outside the
box**2 4**

Following a reduction in the level of cash reserves required by the regulator, a commercial bank increases its mortgage lending.

Which one of the following describes how the bank's liquidity and profitability are most likely to change?

[1 mark]

- A** Liquidity and profitability both improve
- B** Liquidity and profitability both worsen
- C** Liquidity improves and profitability worsens
- D** Liquidity worsens and profitability improves

☐☐☐☐**2 5**

A country joins a customs union. Which one of the following is the most likely consequence of its membership?

[1 mark]

- A** Exports to non-member countries will increase
- B** Exports to other member countries will be more expensive
- C** Imports from non-member countries will be cheaper
- D** Imports from other member countries will increase

☐☐☐☐**2 6**

Which one of the following helps to explain why, in a freely floating exchange rate system, market forces are likely to automatically reduce a deficit or surplus on a country's balance of trade?

[1 mark]

- A** A deficit will lead to excess demand for the country's currency and a depreciating exchange rate.
- B** A deficit will lead to excess supply of the country's currency and an appreciating exchange rate.
- C** A surplus will lead to excess demand for the country's currency and an appreciating exchange rate.
- D** A surplus will lead to excess supply of the country's currency and a depreciating exchange rate.

☐☐☐☐

1 8

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4

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0 5

In an economy, over the last decade, each of the top five decile groups has experienced a fall in their share of total income. In contrast, the bottom five decile groups have experienced a substantial increase in their share of total income.

It can be concluded that, over this period, the distribution of income is most likely to have become

A more equal.

☐

B more equal but less equitable.

☐

C more equitable.

☐

D more equitable but less equal.

☐

[1 mark]

0 6

In an economy, the marginal propensity to consume is 0.6. All other things being equal, which one of the following statements is correct?

A A £5 billion reduction in the economy's national income will result in a £3 billion fall in consumption

☐

B If injections into the circular flow of income equal £20 billion, national income will equal £32 billion

☐

C If injections into the circular flow of income rise by £10 billion, national income will rise by £6 billion

☐

D When the economy's national income equals £100 billion, consumption will equal £60 billion

☐

[1 mark]

0 7

Which one of the following combinations, **A**, **B**, **C** or **D**, shows the essential characteristics of a customs union?

	Internal trade barriers	Common external tariffs	Common currency	
A	Yes	No	Yes	☐
B	No	Yes	No	☐
C	Yes	Yes	No	☐
D	No	No	Yes	☐

[1 mark]



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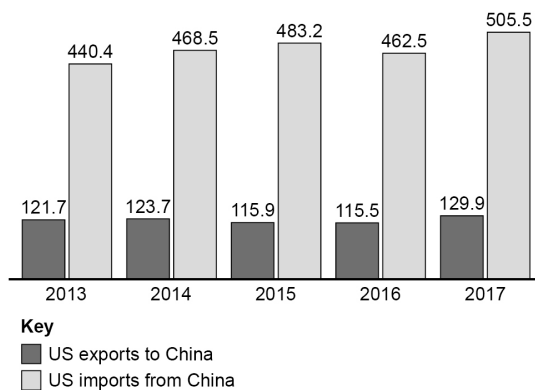
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Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Trade wars and protectionismStudy **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 3: US trade in goods with China (\$bn), 2013–2017**

Source: US Census Bureau, 2018

Figure 4: US trade in goods with China (\$bn), 2018

Month	Exports	Imports
January	9.8	45.8
February	9.8	39.0
March	12.4	38.3
April	10.3	38.2
May	10.6	43.8
June	11.1	44.6
July	10.3	47.1
August	9.3	47.9
September	9.8	50.0
October	9.1	52.2
November	8.7	46.6
December	9.2	46.0
TOTAL	120.4	539.5

Source: US Census Bureau, 2019

Extract E: US and China trade wars

The International Monetary Fund (IMF) has warned that a trade war between the US and China risks making the world a 'poorer and more dangerous place' and it has lowered its forecast for global growth this year and next. The IMF's chief economist said that further trade barriers would hit households, businesses and the wider economy. Downgrades to global growth also reflected predictions of a slower expansion in the eurozone as well as problems in a number of emerging economies. 1

China recently announced new trade tariffs on \$60bn of US goods, including products such as liquefied natural gas, produced in states loyal to the US President, Donald Trump. In a tweet, Mr Trump warned that 'there will be great and fast economic retaliation against China if our farmers, ranchers and/or industrial workers are targeted'. US tariffs on \$200bn of Chinese imports came into effect in September. 5

The US and China's escalation of trade tariffs is expected to hit growth in both countries in 2019, when the boost from President Trump's sweeping tax cuts announced in 2017 will also start to fade. The IMF warned that the world faced further damage to growth if the US followed through on a threat to impose a 25% tariff on all imported cars. Additional tariffs would raise prices, hit business confidence and discourage investment. Unless world leaders respond by working together to raise living standards, improve education and reduce inequality, world development will be seriously hampered. 10

Source: News reports, 2018

5

Extract F: Protectionism in Brazil

Protectionism is on the rise this year, but those who support free trade say increased tariffs will lead to higher prices, less choice and lower living standards. Others maintain that protectionism can help economic development. Roberto Azevedo, Director General of the World Trade Organization (WTO), concedes that trade barriers which keep foreign rivals out will encourage domestic industries to grow. 1
5

Many countries in Latin America are in favour of tariffs to protect their infant industries. Tariffs can support the growth of domestic firms that may otherwise be crushed by foreign competition. Much of modern Brazil was built with the help of protectionist policies. Since the 1950s, foreign companies have been motivated to set up production in Brazil to avoid high tariff barriers. Government subsidies have also been used, for example, to encourage major car manufacturers, including Volkswagen, Ford, Fiat and Mercedes, to set up factories in the country. This inward investment has created jobs, growth and improved living standards for the Brazilian population. 10

In Brazil, many uncompetitive industries, from textiles to computers, were able to grow due to protectionist trade policies that made foreign goods too expensive to import. Current tariffs on imported trucks or buses more than double the original price. The price of an Apple iPhone in Brazil is on average 50% more than in the US, again due to tariffs. Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies. They believe free trade is a way in which developed economies keep developing nations poor. 15
20

However, the Director of the Brazilian branch of the International Chamber of Commerce (ICC), an organisation that supports free trade, argued that 'because Brazil is such a closed economy, it ends up having very low productivity compared to more developed countries. If you are more competitive you become more productive – and for that you need to be more open and more integrated into global supply chains'. 25

Source: News reports, 2018

0 5 Using the data in **Extract D** (Figure 4), calculate how much was spent by the US on imports from China for every \$1 it received from exports to China in 2018. Give your answer to **two** decimal places. [2 marks]

0 6 Explain how the data in **Extract D** (Figure 3) **and** (Figure 4) show why the US may have decided to implement protectionist policies. [4 marks]

0 7 **Extract E** (lines 10–11) states: 'US tariffs on \$200bn of Chinese imports came into effect in September.'
With the help of a diagram, explain how the imposition of a tariff may affect the volume of imports. [9 marks]

0 8 **Extract F** (lines 17–19) states: 'Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies.'
Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development. [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****Is inflation a problem?**

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

Extract D

Figure 3 and Figure 4 not reproduced here due to third-party copyright restrictions

Extract E: Argentina's economic woes

In 2019, Argentina's inflation rate hit 53.8%, climbing to its highest level in thirty years. This confirmed Argentina's place among the five countries with the highest inflation rates in the world, just behind Venezuela, Zimbabwe, South Sudan and Sudan. However, inflation isn't the only problem faced by Argentina. The country has just suffered three years of recession and the government has often struggled to meet its debt repayments.

5

Despite one of the tightest monetary policies in Argentina's history, implemented in 2018 after a currency crisis, inflation continued to rise and the recession deepened. It was hoped that policy measures, including a reduction in tariffs and strict currency controls, would help to reduce inflation, but so far this has not happened.

In 2020, Argentina's central bank cut its base interest rate to support the recovery of the economy. However, it has been argued that lower interest rates would be likely to cause further inflation. "Loosening monetary policy without having a clear fiscal plan or winning over the confidence of businesses and consumers is a mistake", said an Argentine economist.

10

Some argue that Argentina should prioritise eliminating inflation over other objectives of economic policy. In the 1970s and 1980s, the UK experienced high inflation. Policies were put in place to reduce the money supply and reduce government spending. The control of inflation became the main target of UK government macroeconomic policy. However, reducing inflation often comes at the expense of growth and jobs, at least in the short term.

15

Source: News reports, 2020

Extract F: Is the problem of high inflation in the past?

These days, most advanced economies no longer suffer from rapidly rising prices. Despite over a decade of low interest rates, increases in the money supply and record employment levels, inflation rates in most advanced economies remain low.

Since the 1990s, many governments have set inflation targets which their central banks are required to achieve. This has contributed to a reduction in inflation. In some countries, the risk of deflation has been greater than the risk of inflation. In the 2000s and the early 2010s, rising commodity prices added to inflationary pressures. However, since oil and some other commodity prices crashed in 2014, in many advanced economies inflation above 3% has been rare. In emerging markets, inflation tends to be higher, but the direction of change is the same. For nearly two decades, economists have talked about an era of 'global disinflation'.

Low inflation can be self-reinforcing as expectations change. Also, as inflation falls, the real rate of interest is likely to increase, weakening demand and further reducing inflation. This would not be a problem if central banks could cut nominal interest rates sufficiently to offset the risk of deflation, but many have little room to do so. Nominal rates are near zero in the UK, and only a little higher in the USA.

Before the pandemic, two-thirds of countries in the Organisation for Economic Co-operation and Development (OECD) had low inflation and a record proportion of their population of working age in employment. This has led some to claim that the Phillips curve is outdated and no longer a relevant model. Low inflation and low unemployment can be achieved simultaneously.

Source: News reports, 2020

0	5
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Using the data in **Extract D (Figure 3)**, calculate the difference between the UK's and Argentina's mean unemployment rates over the period 2015 to 2018.

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

[2 marks]

0	6
---	---

Explain how the data in **Extract D (Figures 3 and 4)** show that there may be a short-run trade-off between unemployment and inflation.

[4 marks]

0	7
---	---

Extract E (lines 7–9) states: 'It was hoped that policy measures, including a reduction in tariffs... would help to reduce inflation'.

With the help of a diagram, explain how a reduction in tariffs could help to reduce inflation.

[9 marks]

0	8
---	---

Extract E (lines 15–17) states: 'Policies were put in place to reduce the money supply and reduce government spending. The control of inflation became the main target of UK government macroeconomic policy.'

Using the data in the extracts and your knowledge of economics, evaluate the view that achieving a low and stable rate of inflation should be the main economic objective of governments.

[25 marks]

Turn over ►

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4

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

OR

Context 2

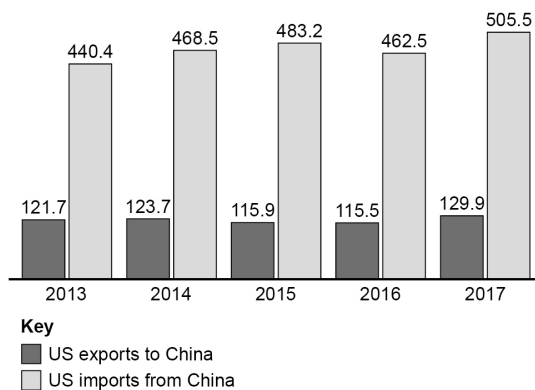
Total for this context: 40 marks

Trade wars and protectionism

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

Extract D

Figure 3: US trade in goods with China (\$bn), 2013–2017



Source: US Census Bureau, 2018

Figure 4: US trade in goods with China (\$bn), 2018

Month	Exports	Imports
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Source: News reports, 2018

Extract F: Protectionism in Brazil

Protectionism is on the rise this year, but those who support free trade say increased tariffs will lead to higher prices, less choice and lower living standards. Others maintain that protectionism can help economic development. Roberto Azevedo, Director General of the World Trade Organization (WTO), concedes that trade barriers which keep foreign rivals out will encourage domestic industries to grow. 1
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Many countries in Latin America are in favour of tariffs to protect their infant industries. Tariffs can support the growth of domestic firms that may otherwise be crushed by foreign competition. Much of modern Brazil was built with the help of protectionist policies. Since the 1950s, foreign companies have been motivated to set up production in Brazil to avoid high tariff barriers. Government subsidies have also been used, for example, to encourage major car manufacturers, including Volkswagen, Ford, Fiat and Mercedes, to set up factories in the country. This inward investment has created jobs, growth and improved living standards for the Brazilian population. 10

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However, the Director of the Brazilian branch of the International Chamber of Commerce (ICC), an organisation that supports free trade, argued that 'because Brazil is such a closed economy, it ends up having very low productivity compared to more developed countries. If you are more competitive you become more productive – and for that you need to be more open and more integrated into global supply chains'. 25

Source: News reports, 2018

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Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development. [25 marks]

Turn over ►

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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**

Over the past 20 years, the growth of world trade has averaged 6% per year, twice as fast as the growth in world output. As countries become ever more interconnected, they experience both economic opportunities and threats.

1	3
---	---

 Explain reasons for changes in the value of exports from the UK to the rest of the world. **[15 marks]**

1	4
---	---

 Evaluate the view that international trade always benefits nations. **[25 marks]**

END OF QUESTIONS

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7

OR**Essay 3**

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1	3
---	---

 Explain reasons for changes in the value of exports from the UK to the rest of the world.
[15 marks]

1	4
---	---

 Evaluate the view that international trade always benefits nations.
[25 marks]**END OF QUESTIONS**

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Extract F: Protectionism in Brazil

Protectionism is on the rise this year, but those who support free trade say increased tariffs will lead to higher prices, less choice and lower living standards. Others maintain that protectionism can help economic development. Roberto Azevedo, Director General of the World Trade Organization (WTO), concedes that trade barriers which keep foreign rivals out will encourage domestic industries to grow. 1
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Source: News reports, 2018

0 5

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Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development.

[25 marks]

Turn over ►

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SUB-TOPIC 4.2.6.3

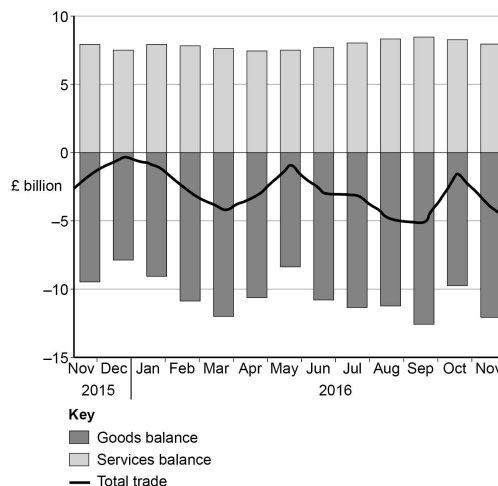
THE BALANCE OF PAYMENTS

Sub-topic 4.2.6.3 · 2 questions · 19 marks · lowest tariff first



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

6

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

EITHER**Essay 1**

The UK has been running a deficit on its balance of trade in goods and services since 1998. Expenditure-reducing and expenditure-switching policies can both be used to correct a trade deficit. However, the UK government has focused on other objectives rather than achieving a trade balance.

0	9
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Explain how expenditure-switching policies can be used to reduce a deficit on a country's balance of trade in goods and services.

[15 marks]

1	0
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Assess the view that floating exchange rates are always better than fixed exchange rates.

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

In 2018, the European Commission estimated that Bulgaria and Romania were both experiencing positive output gaps whilst the UK was experiencing a negative output gap. Persistent output gaps can cause problems for economies which may be addressed by supply-side improvements.

1	1
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Explain the main problems for an economy of having a large positive output gap.

[15 marks]

1	2
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Evaluate the view that supply-side improvements in the UK economy can best be achieved through the use of interventionist policies.

[25 marks]

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SUB-TOPIC 4.2.6.4

EXCHANGE RATE SYSTEMS

Sub-topic 4.2.6.4 · 8 questions · 102 marks · lowest tariff first



5

0 6

Table 2 shows the UK's balance of trade in goods and services in successive quarters.

Do not write
outside the
box

Table 2

Quarter	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2
Balance of trade (£bn)	−8.5	3.6	0.9	−12.1	−4.7	−25.3	−25.0

What was the UK's median quarterly balance of trade over the period shown in Table 2?
[1 mark]

A −£12.1bn

☐

B −£10.2bn

☐

C −£8.5bn

☐

D £11.4bn

☐

0 7

Which one of the following is an injection into the circular flow of income?

[1 mark]

A Factor incomes

☐

B Government borrowing

☐

C Investment

☐

D Savings

☐

Turn over for the next question

Turn over ►



0 5

IB/G/Jun24/7136/3

18

Do not write
outside the
box**2 4**

Following a reduction in the level of cash reserves required by the regulator, a commercial bank increases its mortgage lending.

Which one of the following describes how the bank's liquidity and profitability are most likely to change?

[1 mark]

- A** Liquidity and profitability both improve
- B** Liquidity and profitability both worsen
- C** Liquidity improves and profitability worsens
- D** Liquidity worsens and profitability improves

☐☐☐☐**2 5**

A country joins a customs union. Which one of the following is the most likely consequence of its membership?

[1 mark]

- A** Exports to non-member countries will increase
- B** Exports to other member countries will be more expensive
- C** Imports from non-member countries will be cheaper
- D** Imports from other member countries will increase

☐☐☐☐**2 6**

Which one of the following helps to explain why, in a freely floating exchange rate system, market forces are likely to automatically reduce a deficit or surplus on a country's balance of trade?

[1 mark]

- A** A deficit will lead to excess demand for the country's currency and a depreciating exchange rate.
- B** A deficit will lead to excess supply of the country's currency and an appreciating exchange rate.
- C** A surplus will lead to excess demand for the country's currency and an appreciating exchange rate.
- D** A surplus will lead to excess supply of the country's currency and a depreciating exchange rate.

☐☐☐☐

1 8

IB/G/Jun24/7136/3

20

2 | 8

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

*Do not write
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

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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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6

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

EITHER**Essay 1**

Between 2014 and 2018, the pound fell by more than 20% against the dollar and euro. Some argued that this would benefit the UK's macroeconomic performance, but others claimed that a lower exchange rate will cause problems.

0	9
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Explain why the value of a currency may fall in a floating exchange rate system.

[15 marks]

1	0
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Assess the view that a depreciation of the pound against other currencies is likely to improve the UK's macroeconomic performance.

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

Since 1998, the Bank of England has had responsibility for the operation of monetary policy and maintaining price stability. In response to the financial crisis of 2007–08, the Financial Services Act 2012 gave the Bank of England overall responsibility for financial stability. This was designed to reduce systemic risk and the impact on the real economy of problems that arise in financial markets.

1	1
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Explain how the monetary policy transmission mechanism works when the Monetary Policy Committee (MPC) raises Bank Rate.

[15 marks]

1	2
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Evaluate the view that strict rules and regulations on financial markets are essential to help create a more stable economy.

[25 marks]

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6

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

EITHER**Essay 1**

The UK has been running a deficit on its balance of trade in goods and services since 1998. Expenditure-reducing and expenditure-switching policies can both be used to correct a trade deficit. However, the UK government has focused on other objectives rather than achieving a trade balance.

0	9
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Explain how expenditure-switching policies can be used to reduce a deficit on a country's balance of trade in goods and services.

[15 marks]

1	0
---	---

Assess the view that floating exchange rates are always better than fixed exchange rates.

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

In 2018, the European Commission estimated that Bulgaria and Romania were both experiencing positive output gaps whilst the UK was experiencing a negative output gap. Persistent output gaps can cause problems for economies which may be addressed by supply-side improvements.

1	1
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Explain the main problems for an economy of having a large positive output gap.

[15 marks]

1	2
---	---

Evaluate the view that supply-side improvements in the UK economy can best be achieved through the use of interventionist policies.

[25 marks]

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

[15 marks]

1	0
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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
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Explain the main causes of rising consumption in an economy.

[15 marks]

1	2
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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 4.2.6.5

ECONOMIC GROWTH AND DEVELOPMENT

Sub-topic 4.2.6.5 · 5 questions · 125 marks · lowest tariff first



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 ►

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

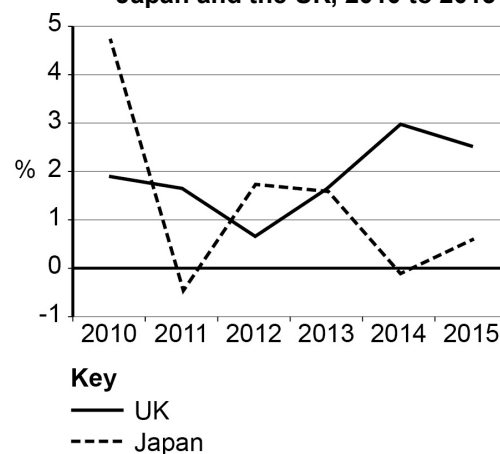
Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

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

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6

Section BAnswer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

An African Development Bank report showed that Angola received more direct foreign investment than any other African country in 2015. Angola is a less economically developed country (LEDC) that has had fluctuating economic growth in the past. Despite having suffered from a long civil war which ended in 2002, many multinational corporations (MNCs) are now investing heavily in Angola's growing economy.

0	9
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Explain the main barriers that LEDCs face when attempting to achieve stable, long-term economic growth.

[15 marks]

1	0
---	---

Evaluate the view that MNCs play a positive role in the development of LEDCs.

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

In the 2016 Autumn statement, the UK Chancellor of the Exchequer, Philip Hammond, officially abandoned the government's policy of trying to achieve a budget surplus by 2020. While some criticise the government for failing to achieve its fiscal target, others argue that the government should be doing more to help the supply side of the economy.

1	1
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Explain how fiscal policy can be used to try to improve the supply side of an economy.

[15 marks]

1	2
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Evaluate whether achieving a budget surplus is a desirable objective of economic policy.

[25 marks]

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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]**

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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 (LEDs) 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 LEDs is best achieved through interventionist strategies.

[25 marks]**END OF QUESTIONS**

There are no questions printed on this page

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Extract F: Is South Korea's miracle economic performance over?

Although growth in South Korea is forecast to be around 3% in 2019, this is far below its average rate of 7.3%, and the country finds itself with a negative output gap. Recently, exports declined for a tenth consecutive month and in September the consumer price index fell 0.4% from a year earlier. Some are wondering if South Korea's miracle economic performance is over.

Trade ministry data showed exports in September plunged 11.7% from a year earlier. Economists said the data reinforced the view that the slump in South Korea's trade-reliant economy would continue beyond this year, requiring the Bank of Korea to cut interest rates further. The central bank cut its base rate of interest from 1.75% to 1.50% in July 2019, the first cut in three years, as falling global demand and increasing trade tensions damaged macroeconomic performance. However, the South Korean government and central bank issued statements, saying that Asia's fourth-largest economy would not fall into a long period of deflation.

South Korea is one of the world's top ten exporters and its trade problems have been made worse by a number of recent events. Overseas shipments by South Korea are heavily dependent on sales of computer chips and electronic goods, which have been suffering from a fall in chip prices. South Korea also became involved in a trade war with Japan which was referred to the World Trade Organisation (WTO). Slowing growth in China, the world's second-largest economy and South Korea's top market for exports, also damaged trade.

Source: News reports, 2019

0 5 Using the data in **Extract D** (Figure 4), calculate South Korea's rate of inflation for the year ended 31 December 2019. Give your answer to **two** decimal places. **[2 marks]**

0 6 Explain how the data in **Extract D** (Figures 3 and 4) show why the South Korean central bank may have been considering a further cut in its base rate of interest. **[4 marks]**

0 7 **Extract E** (line 14) states: 'Investment in R&D has been an important driver of economic growth and industrial progress.'

With the help of a diagram, explain how investment in research and development (R&D) can help to increase the long-run growth rate of an economy. **[9 marks]**

0 8 **Extract F** (lines 7–8) states: 'Economists said the data reinforced the view that the slump in South Korea's trade-reliant economy would continue beyond this year'.

Using the data in the extracts and your knowledge of economics, evaluate policies which could be used to boost South Korea's exports and increase its trade surplus. **[25 marks]**

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MARK SCHEMES

official mark schemes



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

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]

Response:	Max 4 marks
- includes evidence that shows that nations with high and stable economic growth attract rising foreign direct investment inflows - clearly explains how this data is evidence that nations with high and stable economic growth attract rising foreign direct investment inflows.	4 marks
- includes evidence that shows that nations with high and stable economic growth attract rising foreign direct investment inflows - explanation of how this data is evidence that nations with high and stable economic growth attract rising foreign direct investment inflows.	3 marks
- includes some limited evidence that shows that nations with high and stable economic growth attract rising foreign direct investment inflows - limited explanation of how this data is evidence that nations with high and stable economic growth attract rising foreign direct investment inflows.	2 marks
- includes evidence that does not clearly show that nations with high and stable economic growth attract rising foreign direct investment inflows - no explanation of how this data is evidence that nations with high and stable economic growth attract rising foreign direct investment inflows.	1 mark

Relevant issues include:

- the meaning of the terms 'high and stable economic growth' and 'rising foreign direct investment inflows'
- economic growth is derived from Figure 1 by determining the annual percentage change in real GDP
- explaining why high and stable economic growth may attract FDI such as improved confidence and the opportunity for greater profits
- Kenya had the highest economic growth over the period (18.0%) and the largest proportionate increase in FDI (+166.7%)
- Egypt had the second highest economic growth over the period (14.5%) and the second largest proportionate increase in FDI (+17.4%)
- the country which had the largest absolute increase in FDI (Egypt going from \$6.9bn in 2015 to \$8.1bn in 2018) also achieved the second highest growth rate (14.5%)
- the country which achieved the largest growth rate (Kenya at 18.0%) also achieved the second highest absolute increase in FDI (\$0.6bn to \$1.6bn)
- in terms of stability, the two countries which both experienced negative economic growth (Liberia and Nigeria) both experienced falling FDI over the whole period. Liberia fell from \$0.2bn to \$0.1bn (a fall of 50%) and Nigeria fell from \$3bn to \$2bn (a fall of 33.3%)
- the only country which had FDI increasing throughout (Kenya) also had high growth throughout.

Data tables to help examiners with percentage changes (numbers are rounded): and include two data tables below

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

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]

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

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

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]

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 both AD and LRAS increasing is likely to be used although responses just showing AD rising are also suitable. Candidates may also decide to use a diagram with multiple increases in AD, due to the possible multiplier effects of increased investment. A labour market diagram showing an increase in demand for labour is also acceptable.

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

Section B

Essay 1

Total for this essay: 40 marks

0	9
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Explain the main causes of globalisation.
[15 marks]**Relevant issues include:**

- definitions/explanations: globalisation
- explaining the main features of globalisation in terms of:
 - trade
 - movement of labour
 - movement of capital
 - transfer of technology
- explaining the main causes of globalisation such as:
 - the work of the WTO in removing trade barriers
 - trade liberalisation agreements between nations/the creation of trading blocs
 - the opening up of previously closed economies to trade
 - economic co-operation between nations
 - specialisation/comparative advantage
 - cheaper transportation costs
 - containerisation
 - the freer movement of labour
 - improved communication methods such as the Internet
 - policies to promote migration of labour
 - improvements in infrastructure
 - the growth of MNCs.

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 09: 15 MARKS

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

1 0 Assess the view that increased globalisation has been beneficial for the UK economy. **[25 marks]**

Areas for discussion include:

- definitions/explanations: globalisation, the UK economy
- explaining the main causes of globalisation
- explaining the impacts of globalisation on the UK in terms of the macroeconomic objectives
- explaining the impacts of globalisation on the UK in terms of its effects on individuals, firms or the environment
- explaining the main benefits of globalisation for the UK such as:
 - comparative advantage arguments and trade
 - job creation in areas such as financial services affecting employment
 - allowing access to goods and services difficult to produce domestically
 - lower priced imports reducing inflation
 - increased choice
 - benefits from transfer of technology and its effects on growth
 - welfare gains in terms of trade
 - economies of scale arguments
 - the benefits of international co-operation
 - increased inward FDI
- explaining the possible costs of globalisation for the UK such as:
 - outsourcing leading to structural unemployment in regions of the UK
 - issues surrounding labour migration
 - MNCs exploiting tax loopholes
 - MNCs influence over political decisions
 - the domestic economy being now open to more global shocks affecting imports, prices and growth
 - the potential for imported inflation
 - overdependence on certain markets/possible strategic markets arguments
 - environmental issues with transport
- considering trade-offs such as the benefits of lower priced imports against possible structural unemployment in certain industries such as steel
- the role of the WTO in further integration
- the different experiences in terms of the UK's membership of the EU/Brexit
- the different experiences in different regions of the UK or inequality
- the difference between labour and capital mobility
- globalisation as a source of competition creating more resilience in UK firms
- loss of manufacturing could lead to long-run overdependence on certain economies
- how MNCs with global brands may be damaged by events abroad
- comparative advantage as a dynamic concept, although benefits may occur now this is not guaranteed in the future.

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 10: 25 MARKS

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

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]**Areas for discussion include:**

- definitions/explanations: globalisation/deglobalisation, developing economies, specialisation, foreign direct investment
- linking the slowing or reversal of globalisation to reduced trade/protectionism/reduced FDI/reduced movement of labour/reduced international capital flows
- assessing reasons why the slowing or reversal of globalisation may be occurring such as:
 - to reduce a current account or trade deficits
 - to protect infant industries or employment
 - to help economic growth
 - to reduce dependence on other countries for essential components or materials
 - for political/strategic reasons or to protect culture
 - to protect against ‘dumping’
 - to insulate against economic shocks
- assessing the costs or problems of the slowing or reversal of globalisation such as:
 - retaliation if protectionist measures are used
 - higher prices or increased cost of living/inflation
 - potential job losses in other industries not protected
 - labour shortages, particularly in nations which have a large amount of migrant workers
 - firms don’t benefit from economies of scale
 - the benefits of comparative advantage being reduced
 - the effects of reduced FDI
 - reduced competition and efficiency arguments
 - reduction in remittances to developing economies from people living or working abroad
- considering reasons why exports are important for the economic performance of developing economies
- considering whether developing economies are primary product dependent
- analysing the effects of the slowing or reversal of globalisation on the macroeconomic objectives
- analysing the effects of the slowing or reversal of globalisation on other issues such as living standards, development, firms, government revenue, inequality or the environment
- assessing the costs and benefits of a reduction in international capital flows for developing economies
- contrasting the effects on developing economies against the effects on developed economies
- considering the difference between, and significance of, a slowing down or reversal of globalisation
- considering short-run versus long-run consequences for developing economies
- an overall assessment of whether the slowing or reversal of globalisation is likely to be harmful to developing economies.

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 08: 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 2019

SECTION A

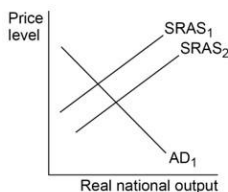
KEY LIST

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

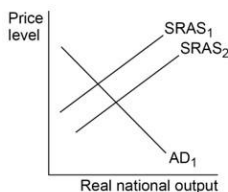
KEY LIST

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 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)
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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 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 2020

0 6

Explain how the data in **Extract D** (Figure 3) **and** (Figure 4) show why the US may have decided to implement protectionist policies.

[4 marks]

Response:	Max 4 marks
- includes evidence that show why the US may have decided to implement protectionist policies - clearly explains how this data is evidence as to why the US have decided to implement protectionist policies.	4 marks
- includes evidence that show why the US may have decided to implement protectionist policies - explanation of how this data is evidence as to why the US have decided to implement protectionist policies.	3 marks
- includes some limited evidence that show why the US may have decided to implement protectionist policies - limited explanation of how this data is evidence as to why the US have decided to implement protectionist policies.	2 marks
- includes evidence that does not clearly show why the US may have decided to implement protectionist policies - no explanation of how this data is evidence as to show why the US have decided to implement protectionist policies.	1 mark

Relevant issues include:

- the meaning of 'protectionist policies'
- the value of US imports from China have risen over the period from \$440.4bn in 2013, to \$505.5bn in 2017 (an increase of 14.8%) or \$539.5bn in 2018 (an increase of 22.5%)
- the value of US exports to China have risen, but at a slower rate. Exports have risen from \$121.7bn in 2013, to \$129.9bn in 2017 (an increase of 6.7%) or have actually fallen in 2018 to \$120.4bn in 2018 (a fall of 1.1%)
- the trade deficit increased over the whole period from \$318.7bn in 2013 to \$375.6bn in 2017 or \$419.2bn in 2018
- US trade with China was always in deficit throughout the period despite a reduction from \$367.3bn in 2015 to \$347bn in 2016
- the ratio of US imports to exports widened over the period from 3.62:1 in 2013 to 3.89:1 in 2017 and 4.48:1 in 2018
- explaining the large widening deficit to the decision to implement protectionist policies
- linking each of these issues to the possible effects of protectionist policies on the value of imports and exports.

Note: Candidates may combine discussion of figure 3 and figure 4 in their answers or discuss each figure separately.

MAXIMUM FOR QUESTION 06: 4 MARKS

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

0 7**Extract E** (lines 7–9) states: ‘It was hoped that policy measures, including a reduction in tariffs ... would help to reduce inflation.’

With the help of a diagram, explain how a reduction in tariffs could help to 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

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

0 7 **Extract E** (lines 10–11) states: ‘US tariffs on \$200bn of Chinese imports came into effect in September.’

With the help of a diagram, explain how the imposition of a tariff may affect the volume of imports.

[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

A tariff diagram is expected which shows the imposition of a tariff. In its simplest form, a candidate may use simple supply and demand analysis with a supply curve shifting to the left.

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Essay 2**Total for this Essay: 40 marks**

- | | |
|---|---|
| 1 | 1 |
|---|---|
- Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world.

[15 marks]**Relevant issues include:**

- definitions/explanations: trade, pattern of trade
- explaining the pattern in terms of the geographical distribution of UK exports and imports
- explaining the significance of trade to the UK economy
- explaining the pattern in terms of different goods and services traded
- using relevant examples to illustrate the changes in the pattern of trade
- explaining comparative advantage and how changes in comparative advantage might be significant
- giving a numerical example of comparative advantage
- explaining other possible reasons for changes in the pattern of trade, eg:
 - changes in absolute advantage
 - changes in protectionist/free trade policies in other countries
 - joining/changing membership of trading blocs
 - consideration of trade diversion/trade creation due to trading blocs
 - exchange rate changes
 - changing quality/reputation
 - government intervention distorting markets
 - de-industrialisation
 - causes and changes in globalisation
 - external shocks
 - economic development
 - factor endowment and exploitation of resources
 - innovation and invention (both product and process)
 - any other valid argument.

The use of relevant diagrams, such as a tariff diagram, 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 13 to award students marks for this question.

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

Essay 3**Total for this essay: 40 marks**

- | | | |
|----------|----------|--|
| 1 | 3 | <i>Explain reasons for changes in the value of exports from the UK to the rest of the world.</i> |
|----------|----------|--|
- [15 marks]**

Relevant issues include:

- definitions/explanations: trade, exports, value of exports
- explaining the value of exports in terms of the quantity/volume and price of exports
- explaining how changes in the pattern of trade can affect trade values
- the significance of trade and exports to the UK economy
- using relevant examples to illustrate the changes in the value of exports
- explaining comparative advantage and possibly giving a numerical example of comparative advantage
- explaining possible reasons for changes in the value of exports from the UK to the rest of the world such as:
 - changes in comparative advantage
 - changes in protectionist/free trade policies in other countries
 - leaving or changing membership of trading blocs such as the EU
 - consideration of trade diversion/trade creation arguments
 - exchange rate changes
 - changing quality/reputation
 - de-industrialisation
 - economic growth (or decline) in other nations
 - external shocks
 - innovation and invention (both product and process)
 - technological improvements that have led to reductions in cost of transport and communications.

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 16 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

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

1 4 Evaluate the view that international trade always benefits nations.

[25 marks]

Areas for discussion include:

- definitions/explanations: international trade
- explaining the alternatives to international trade such as protectionism or closed economies
- different stakeholder groups for analysis such as firms, households, the government or in terms of the macroeconomic objectives or other objectives such as the environment
- explaining the benefits of trade such as:
 - benefits from comparative advantage
 - economies of scale
 - increased competition
 - lower prices
 - access to more diverse markets
 - trade creation
 - export-led growth and employment
 - encouraging FDI
 - increased product and process innovation
 - welfare gains
 - improving international relations/reducing conflict
- explaining the potential drawbacks of trade such as:
 - loss of domestic industry
 - structural unemployment
 - potential loss of infant/sunset industry arguments
 - leakages to the circular flow if a net importer
 - environmental damage due to transportation
 - trade deals may cause political arguments
 - potential trade of demerit goods/illegal goods/weapons
- using real-life examples of where international trade has helped or damaged industries in the UK or the rest of the world
- whether protectionist policies or having a closed economy would have benefited different nations rather than trade
- the limitations of trade such as assumptions about the model of comparative advantage
- the different industries that LEDCs and MEDCs end up specialising in and the effects of this in terms of development
- the different experiences of LEDCs and MEDCs regarding the terms of trade or problems of primary product dependency
- considering living standards in LEDCs may be damaged in terms of worker exploitation or the environment
- considering the term 'always'
- the inability of some nations to be able to fully exploit their comparative advantage
- considering both the positive and negative impact of MNCs on different nations.

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 2020

0 8

Extract F (lines 17–19) states: ‘Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies.’

Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development.

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

- definitions/explanations: protectionism, economic development, emerging economies
- explaining different forms of protectionism such as tariffs, quotas, non-tariff barriers or export subsidies
- explaining the benefits of protectionist policies such as:
 - infant industry arguments
 - sunset industry arguments
 - helping to diversify domestic industry
 - raising of government revenue
 - safeguarding jobs
 - insulating against economic shocks
 - prevent dumping
 - correcting a current account deficit
- explaining the costs or problems of protectionism such as:
 - retaliation
 - higher prices on the cost of living
 - potential job losses in other industries not protected
 - encouraging inefficient business to stay in the market
 - firms don't benefit from economies of scale
 - the benefits of comparative advantage are not achieved
 - reduced competition and other efficiency arguments
- linking arguments to economic development in terms of growth or wider issues such as social development of a nation
- considering short-term gains of protectionism against long-run development
- considering the experiences of nations such as Brazil or China in terms of development over the past few decades
- considering other ways to achieve development other than protectionism such as supply-side policies, aid, or free-trade
- considering the nature of the goods traded by different nations.

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 08: 25 MARKS

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

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]

Response:	Max 4 marks
- includes evidence that shows that the UK’s trade performance has been disappointing given the fall in the value of the pound - clearly explains how this data is evidence that the UK’s trade performance has been disappointing given the fall in the value of the pound.	4 marks
- includes evidence that shows that the UK’s trade performance has been disappointing given the fall in the value of the pound - unclear explanation of how this data is evidence that the UK’s trade performance has been disappointing given the fall in the value of the pound.	3 marks
- includes some limited evidence that shows that the UK’s trade performance has been disappointing given the fall in the value of the pound - limited explanation of how this data is evidence that the UK’s trade performance has been disappointing given the fall in the value of the pound.	2 marks
- includes evidence that does not clearly show that the UK’s trade performance has been disappointing given the fall in the value of the pound - no explanation of how this data is evidence that the UK’s trade performance has been disappointing given the fall in the value of the pound.	1 mark

Relevant issues include:

- explanation of relevant terms/phrases such as ‘fall in the value of the pound’, ‘disappointing trade performance’
- explaining that a fall in the exchange rate should make the UK more internationally competitive, increasing exports, decreasing imports and reducing the trade deficit
- the balance of total trade is in deficit throughout the whole of the period from November 2015 to November 2016, indicating the value of exports has not overtaken the value of imports
- the total trade deficit ranges from £0.3bn in December 2015 to £5.3bn in September 2016, indicating either a falling value of exports or rising value of imports
- the total trade deficit ends larger than it started. In November 2015, the deficit was £2.5bn whereas in November 2016 it was £4.8bn
- the goods balance is in deficit throughout the whole period from November 2015 to November 2016 indicating the value of exports of goods has not overtaken the value of imports of goods
- the goods deficits range from £8bn in December 2015 to £13.8bn in September 2016
- the deficit in goods ends larger than it started. In November 2015, the deficit in goods was £9.5bn whereas in November 2016 it was £12.1bn
- the balance in services did not improve over the whole period. It started at £8bn in November 2015 and ended at £8bn in November 2016.

Note: Accept figures that are within a range of + or - £0.5bn.

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

Section B

Essay 1

Total for this essay: 40 marks

- | | |
|---|---|
| 0 | 9 |
|---|---|
- Explain how expenditure-switching policies can be used to reduce a deficit on a country's balance of trade in goods and services.*

[15 marks]**Relevant issues include:**

- definitions/explanations: expenditure-switching policies, trade, trade deficit, balance of trade
- explaining the difference between expenditure-switching policies and expenditure-reducing policies
- how expenditure-switching policies cause a shift in consumption away from imports and towards domestic consumption and exports
- reasons for wishing to reduce a trade deficit
- explaining expenditure-switching policies linked to protectionism in terms of:
 - tariffs
 - quotas
 - non-tariff barriers
 - export subsidies
- explaining expenditure-switching policies in terms of exchange rate manipulation in terms of:
 - direct government intervention in terms of buying and selling currency
 - indirect intervention in terms of manipulation of interest rates
- explaining expenditure-switching policies in terms of supply-side policies and making domestic goods and services more competitive
- the relative effects on the volume and value of imports and exports
- the impact on net trade.

Use the levels mark scheme on page 16 to award students marks for this question.**MAXIMUM FOR QUESTION 09: 15 MARKS**

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 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 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 – 7136/2 – JUNE 2018

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 currency, explain how a floating exchange rate may help to correct a trade surplus.

[9 marks]

Level of response	An answer that:	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

A demand and supply diagram is expected showing a rise in demand and/or a fall in supply of the currency. Axes vary on the Y axes of this diagram. Accept anything suitable that indicates the exchange rate but not “price” on its own.

Relevant issues include:

- definitions/explanations: exchange rate, floating exchange rate, correcting a trade surplus
- explaining how a trade surplus puts upward pressure on the exchange rate
- describing effects on the supply and demand for the currency
- describing an appreciation of the currency leading to a rise in export prices and a fall in the price of imports and explaining the subsequent impact on the volume and/or value of exports and imports
- considering the elasticity of demand for imports and exports and the (inverse) J curve effect
- linking the falling value of exports and/or rising value of imports to a reduction in the trade surplus.

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

Section B

Essay 1

Total for this essay: 40 marks

0	9
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 Explain why the value of a currency may fall in a floating exchange rate system.
[15 marks]**Relevant issues include:**

- definitions/explanations: exchange rate, floating exchange rate, depreciation, the role of the FOREX market
- giving examples of depreciation (such as a numerical example)
- explaining that the value of a currency is determined by the demand for and supply of the currency
- explaining why a fall in demand for or increase in supply of currency will lead to a fall in the equilibrium exchange rate
- identifying and explaining reasons why the demand for currency may fall such as:
 - a fall in exports
 - a fall in inward FDI
 - a fall in tourism
 - a fall in the interest rate causing a reduction in hot money flows into the country
 - speculation
- identifying and explaining reasons why the supply of a currency may increase such as:
 - a rise in imports
 - a rise in FDI going abroad
 - a rise in tourism to another country
 - a fall in interest rates leading to a rise in hot money flows out of a country
 - speculation
- explaining government intervention which may occur if the floating exchange rate is not a “free” float.

The use of relevant diagrams, such as a diagram showing the supply of and demand for currencies, 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 09: 15 MARKS

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

1 0 Assess the view that floating exchange rates are always better than fixed exchange rates.
[25 marks]

Areas for discussion include:

- definitions/explanations: exchange rates, floating exchange rate, fixed exchange rate, exchange rate systems
- explaining the possible ways in which 'better' can be assessed by linking this to the macroeconomic objectives
- how floating exchange rates work and the factors that may cause supply and demand of currency to change
- linking floating exchange rates to FOREX
- explaining the possible advantages of being on a free-floating exchange rate system (or the disadvantages of being in a fixed system) in terms of:
 - automatic correction/stabilisation
 - allowing monetary policy freedom, for example interest rate manipulation
 - reduced needs for currency reserves and government intervention
 - speculation may be reduced
 - depreciation may improve injections leading to benefits of growth and employment
- explaining the possible advantages of being in a fixed exchange rate system (or the disadvantages of being in a floating system) in terms of:
 - avoiding sudden fluctuations which may alter costs and imports/exports
 - encouraging confidence and investment
 - encouraging trade
 - possibly avoiding transaction costs if fixed in a monetary union
- the nature of a fixed system, whether it is in a monetary union or not
- considering real-life examples and the fact that very few nations actually work on a truly fixed system
- whether currencies do actually correct or stabilise trade
- the possible trade-offs that can occur, for example a depreciation may improve short-run growth at the expense of inflation
- that speculation is more prevalent in a floating rate system although it may become more serious in a fixed rate system when it becomes obvious that the currency is over or undervalued (the one-way option problem).
- considering managed floats rather than truly 'fixed' systems
- considering real-life examples such as: the Bretton Woods system, the ERM, Danish Krona fixed to the euro and attempts by some other countries, particularly in Africa, to fix their currencies to the US\$ or the euro.

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 2025

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]**Areas for discussion include:**

- definitions/explanations: exchange rates, exchange rate systems, macroeconomic performance
- explanation of how a government or central bank can intervene to manage a currency
- explanation of the differences between a freely floating, managed and/or fixed exchange rates
- explanation of why and how the advantages and disadvantages of a fixed exchange rate compare to a managed exchange rate
- explanation of why and how the advantages and disadvantages of a floating exchange rate compare to a managed exchange rate
- analysis and evaluation of the benefits of intervening to manage an exchange rate, such as:
 - increasing currency stability
 - stability is more likely to lead to inward FDI
 - flexibility to adjust to changes in the economic climate or responding to shocks
 - being able to be used to help achieve any of the macroeconomic objectives
 - encouraging trade due to predictability
 - preventing prolonged overvaluation or undervaluation
- analysis and evaluation of the drawbacks of intervening to manage an exchange rate, such as:
 - foreign reserves may be costly to maintain
 - trade-offs and policy conflict
 - government failure, for example policy myopia or the distortion of markets
 - opening up the currency to speculative attacks
 - possible limitations of using other monetary policy tools such as interest rates
- analysis and evaluation of the extent to which self-correction of balance of payments disequilibria works for countries with a freely floating exchange rate
- explanation of Norway’s reliance on oil exports, and how the changing world demand for oil may impact their currency in the future
- explanation and significance of how the Norway’s trade is heavily linked to the European Union
- discussing the relative strengths of Norway’s economy in terms of standards of living, GDP per capita or environmental and social aspects
- reference to other countries’ experiences of intervening to manage their exchange rate, such as China, Turkey or Argentina
- an overall assessment of whether an economy is likely to perform better with a managed exchange rate rather than a freely floating exchange rate.

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 04: 25 MARKS

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

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]**Areas for discussion include:**

- definitions/explanations: cost of living, standard of living, rise in the value of the pound, exchange rate
- explaining the possible causes of a rise in the value of the pound
- explaining the cost of living in terms of the change in CPI/RPI
- explaining how a sustained rise in the value of the pound may affect the cost of living:
 - by reducing import costs (such as raw materials)
 - by leading to improved purchasing power (such as cheaper foreign holidays)
- explaining how a sustained rise in the value of the pound may affect the standard of living:
 - due to the impact on incomes and employment
 - due to the impact on consumption possibilities
 - due to the impact of the consumption of merit/demerit goods
 - due to the impact on education/health due to changing patterns of consumption
 - due to domestic job losses leading to lower disposable income
- considering the impact depends upon different stakeholder groups (for example those on fixed incomes may be more impacted)
- considering that the appreciation of the currency may be self-correcting eventually
- considering the possible subjective nature of living standards
- considering that due to the volatile nature of exchange rates, firms may not pass on benefits depending on the elasticities of demand
- considering the overall benefits of exchange rate changes may be offset by changes in other macroeconomic objectives.

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 2017

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]

Areas for discussion include:

- definitions/explanations: economic development, market-based strategies, interventionist strategies
- differences and links between economic growth and economic development
- examples of market-based strategies such as privatisation, deregulation, liberalisation of foreign trade, removing restrictions on international investment
- examples of interventionist strategies such as government spending on infrastructure, protectionist policies and government spending on health and education
- the pros and cons of market-based approaches to achieving development
- the pros and cons of interventionist approaches to achieving development
- difficulties in measuring development in terms of economic/human development
- the potential barriers that may hinder India's development
- analysis of the impact of development on formal employment/informal employment
- the progression from the primary sector to secondary sector employment
- whether growth and development are sustainable
- economic/social/political freedom arguments
- costs of development and/or growth and their impact on living standards
- the effectiveness of policies that might stimulate development
- protectionism as an aid to development
- the role of investment (domestic and foreign direct)
- key industries in development.

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 2018

1 0 Evaluate the view that MNCs play a positive role in the development of LEDCs. **[25 marks]**

Areas for discussion include:

- definitions/explanations: economic development, MNCs, LEDCs
- positive roles of MNCs in developing nations such as the effects on:
 - employment and job creation
 - economic growth (short-run and long-run)
 - the trade balance (eg increase exports)
 - productivity and international competitiveness
 - infrastructure
 - investment and positive multiplier effects
 - development of human capital
 - knowledge and technological transfer
 - standards of living
- potential negative roles of MNCs in developing nations such as the effects on:
 - the environment
 - the exploitation of workers
 - the destruction of culture
 - the indigenous industries being unable to compete
 - the unfair political influence which MNCs may possess
 - possible tax avoidance
 - the repatriation of profits which is negative on GNP
- explaining the main differences between LEDCs and MEDCs
- examples of MNCs and countries in which they have set up
- the issue that job creation may be limited due to the capital-intensive nature of the FDI and filling management roles from the source nation
- that the role depends upon the objectives of the MNC and that initial positive effects may change over time
- what may happen if the MNC had not been involved in the economy. Would domestic firms have fared better?
- the individual government's ability to control the power of the MNCs may determine whether, on balance, they have a positive impact on development.

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 2022

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]**Areas for discussion include:**

- definitions/explanations: foreign direct investment (FDI), living standards
- explaining how living standards can be measured in terms of monetary measures such as GDP per capita
- explaining how living standards can be measured in terms of qualitative factors such as education, health, inequality, the environment, human development and sustainability
- alternative measures of living standards such as the Human Development Index (HDI)
- explaining the benefits of FDI on living standards in terms of:
 - employment
 - incomes and consumption possibilities
 - economic growth and GDP per capita
 - multiplier/accelerator arguments
 - human development/skills progression
 - potential improvements in infrastructure created by MNCs
 - possible health implications of increased formal, regular employment
 - generating more government tax revenue which may be spent on merit/public goods without creating debt
 - crowding in arguments
- explaining the drawbacks of FDI on living standards in terms of:
 - exploitation of workers by MNCs
 - damages to the environment caused by MNCs
 - possible inflationary pressures causing the cost of living to rise
 - ‘footloose’ industries causing instability in employment for example
 - repatriation of profits acting as a leakage from the circular flow
- considering that governments may not benefit from rising tax revenues as they may have been forced to offer tax breaks
- how global shocks, such as the pandemic, may lead to changes in investment beyond the control of the domestic government
- the alternatives to attracting FDI to improve living standards such as aid and the possible problems of tied aid
- other possible alternatives such as government spending and the potential problems of rising debt
- other possible alternatives such as the promotion of free trade or protectionism and the potential problems of each method
- whether the government should intervene at all or if the free market would provide better solutions
- the possible inequalities caused by FDI and the possible regional differences
- issues such as corruption affecting the distribution of the benefits of FDI.

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 04: 25 MARKS

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

- 1 4** Assess the view that economic development in LEDCs is best achieved through interventionist strategies.

[25 marks]

Areas for discussion include:

- definitions/explanations: economic development, interventionist strategies, LEDCs
- explanation of the main differences between economic growth and economic development
- explanation of the links between economic growth and economic development
- analysis and evaluation of possible interventionist strategies such as:
 - investment in infrastructure
 - provision of education and healthcare
 - industrial policy
 - nationalisation
 - public-private partnerships
 - regulatory reforms
 - monetary policy and fiscal measures, such as subsidies and grants
 - methods of attracting FDI
 - protectionism
- analysis and evaluation of alternative strategies that could be classed as free-market approaches, such as deregulation, trade liberalisation, tax reforms, labour market flexibility or the establishment of special economic zones (SEZs)
- considering aid versus trade arguments
- explanation of how membership of trading blocs such as ASEAN or AfCFTA may affect trade and development
- explanation of the role of organisations such as the United Nations, World Bank or IMF and considering their effectiveness
- analysis and evaluation of the role of multinational corporations in creating economic development or the role of NGOs, charities or faith-based organisations
- discussing the difficulties faced by LEDCs in achieving economic development
- explanation of possible trade-offs when trying to achieve economic development
- discussing government finances, national debt or opportunity cost
- considering different countries' experiences of economic development
- analysis and evaluation of inequality within nations or regional issues
- an overall assessment of whether economic development in LEDCs is best achieved through interventionist strategies.

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 14: 25 MARKS

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

0 8

Extract F (lines 7–8) states: ‘Economists said the data reinforced the view that the slump in South Korea’s trade-reliant economy would continue beyond this year’.

Using the data in the extracts and your knowledge of economics, evaluate policies which could be used to boost South Korea’s exports and increase its trade surplus.

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

- definitions/explanations: policies, trade surplus, economic growth
- explaining the trade surplus in terms of the value of exports and imports
- explaining how a trade surplus could add to aggregate demand (AD)
- linking net trade to injections to the circular flow
- linking net trade to the multiplier effect
- explaining policies which may be used to boost a trade surplus such as:
 - supply-side policies (R+D, education, infrastructure)
 - exchange rate manipulation
 - protectionism
 - expenditure-reducing policies (although this isn’t really the emphasis of the context)
 - ending the trade war with Japan
- explaining the drawbacks of each method and limitations such as:
 - supply-side policies (time lags/expense)
 - exchange rate manipulation (misallocating resources)
 - protectionism (retaliation)
 - expenditure-reducing policies (damaging other macroeconomic objectives)
- explaining the effects of external shocks on trade
- explaining how global shocks, such as a pandemic, may lead to unavoidable disruption of trade
- considering the effects of a trade surplus on output, employment and investment
- considering the capital and financial accounts and their potential impacts on the economy
- considering how long-run economic growth can be created by a trade surplus
- considering possible trade-offs with other macroeconomic goals
- considering the possible effects on exchange rates in the long run
- considering the extent to which South Korea can manipulate its trade outcomes in a globalised world.

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 08: 25 MARKS