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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Theme 4: A Global Perspective

Edexcel A Level Economics A · Theme 4

124 questions · 1368 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.

	QUESTION	SOURCE	MARKS	PAGE
4.1.1	**GLOBALISATION**		4 Qs · 87 marks	**5**
1.	**Q6(c)**	A Level Paper 2 June 2018	12	**6**
2.	**Q1(d)**	A Level Paper 3 June 2018	25	**11**
3.	**Q8**	A Level Paper 2 June 2022	25	**19**
4.	**Q8**	A Level Paper 2 June 2024	25	**23**
4.1.2	**SPECIALISATION AND TRADE**		4 Qs · 43 marks	**27**
5.	**Q5(b)**	A Level Paper 2 June 2024	1	**28**
6.	**Q1**	A Level Paper 2 June 2018	5	**29**
7.	**Q2(c)**	A Level Paper 3 June 2022	12	**31**
8.	**Q1(e)**	A Level Paper 3 June 2024	25	**37**
4.1.4	**TERMS OF TRADE**		5 Qs · 15 marks	**44**
9.	**Q4(b)**	A Level Paper 2 June 2025	1	**45**
10.	**Q4(a)**	A Level Paper 2 June 2025	2	**46**
11.	**Q4(c)**	A Level Paper 2 June 2025	2	**47**
12.	**Q2(a)**	A Level Paper 3 June 2018	5	**48**
13.	**Q4**	A Level Paper 2 June 2025	5	**53**
4.1.5	**TRADING BLOCS AND THE WTO**		7 Qs · 106 marks	**55**
14.	**Q1(a)**	A Level Paper 2 June 2018	1	**56**
15.	**Q6(a)**	A Level Paper 2 June 2023	5	**57**
16.	**Q6(d)**	A Level Paper 2 October 2020	10	**61**
17.	**Q6(e)**	A Level Paper 2 October 2020	15	**67**
18.	**Q7**	A Level Paper 2 June 2019	25	**74**
19.	**Q2(e)**	A Level Paper 3 June 2024	25	**78**
20.	**Q1(e)**	A Level Paper 3 June 2025	25	**88**
4.1.6	**RESTRICTIONS ON FREE TRADE**		4 Qs · 67 marks	**92**
21.	**Q5**	A Level Paper 2 June 2024	5	**93**
22.	**Q6(d)**	A Level Paper 2 November 2021	12	**95**
23.	**Q7**	A Level Paper 2 June 2017	25	**101**
24.	**Q7**	A Level Paper 2 June 2022	25	**105**
4.1.7	**BALANCE OF PAYMENTS**		7 Qs · 41 marks	**109**
25.	**Q3(c)**	A Level Paper 2 June 2018	1	**110**
26.	**Q2(a)**	A Level Paper 2 June 2025	1	**111**
27.	**Q3(a)**	A Level Paper 2 June 2018	2	**112**

	QUESTION	SOURCE	MARKS	PAGE
28.	**Q3(b)**	A Level Paper 2 June 2018	2	**113**
29.	**Q3**	A Level Paper 2 June 2018	5	**114**
30.	**Q2**	A Level Paper 2 June 2025	5	**116**
31.	**Q7**	A Level Paper 2 June 2024	25	**118**
4.1.8	**EXCHANGE RATES**		12 Qs · 103 marks	**122**
32.	**Q3(b)**	A Level Paper 2 October 2020	1	**123**
33.	**Q3(a)**	A Level Paper 2 November 2021	1	**124**
34.	**Q6(a)**	A Level Paper 2 June 2017	5	**125**
35.	**Q1(a)**	A Level Paper 3 June 2017	5	**128**
36.	**Q1(a)**	A Level Paper 3 October 2020	5	**133**
37.	**Q3**	A Level Paper 2 November 2021	5	**137**
38.	**Q2(a)**	A Level Paper 3 June 2024	5	**139**
39.	**Q6(b)**	A Level Paper 2 June 2019	8	**143**
40.	**Q1(b)**	A Level Paper 3 October 2020	8	**148**
41.	**Q6(c)**	A Level Paper 2 June 2017	10	**153**
42.	**Q8**	A Level Paper 2 June 2018	25	**158**
43.	**Q1(d)**	A Level Paper 3 June 2022	25	**162**
4.1.9	**INTERNATIONAL COMPETITIVENESS**		7 Qs · 85 marks	**169**
44.	**Q3(c)**	A Level Paper 2 June 2019	1	**170**
45.	**Q3(a)**	A Level Paper 2 June 2019	2	**171**
46.	**Q3(b)**	A Level Paper 2 June 2019	2	**172**
47.	**Q3**	A Level Paper 2 June 2019	5	**173**
48.	**Q2(d)**	A Level Paper 3 June 2017	25	**175**
49.	**Q2(d)**	A Level Paper 3 October 2020	25	**182**
50.	**Q7**	A Level Paper 2 June 2023	25	**188**
4.2.1	**ABSOLUTE AND RELATIVE POVERTY**		3 Qs · 38 marks	**192**
51.	**Q6(a)**	A Level Paper 2 June 2018	5	**193**
52.	**Q6(b)**	A Level Paper 2 June 2018	8	**196**
53.	**Q2(d)**	A Level Paper 3 June 2025	25	**202**
4.2.2	**INEQUALITY**		13 Qs · 122 marks	**206**
54.	**Q4(b)**	A Level Paper 2 June 2017	1	**207**
55.	**Q5(c)**	A Level Paper 2 June 2019	1	**208**
56.	**Q5(a)**	A Level Paper 2 June 2019	2	**209**
57.	**Q5(b)**	A Level Paper 2 June 2019	2	**210**
58.	**Q4**	A Level Paper 2 June 2017	5	**211**
59.	**Q5**	A Level Paper 2 June 2019	5	**213**
60.	**Q6(a)**	A Level Paper 2 June 2022	5	**215**
61.	**Q1(b)**	A Level Paper 3 June 2019	8	**219**
62.	**Q6(b)**	A Level Paper 2 June 2022	8	**224**
63.	**Q6(d)**	A Level Paper 2 June 2018	10	**229**

	QUESTION	SOURCE	MARKS	PAGE
64.	**Q8**	A Level Paper 2 October 2020	25	**234**
65.	**Q1(d)**	A Level Paper 3 June 2023	25	**238**
66.	**Q1(d)**	A Level Paper 3 June 2024	25	**244**
4.3.1	**MEASURES OF DEVELOPMENT**		3 Qs · 14 marks	**251**
67.	**Q5(a)**	A Level Paper 2 June 2017	1	**252**
68.	**Q5**	A Level Paper 2 June 2017	5	**253**
69.	**Q2(b)**	A Level Paper 3 June 2025	8	**257**
4.3.2	**FACTORS INFLUENCING GROWTH AND DEVELOPMENT**		16 Qs · 256 marks	**259**
70.	**Q2(a)**	A Level Paper 3 June 2019	5	**260**
71.	**Q2(b)**	A Level Paper 3 June 2019	8	**264**
72.	**Q6(b)**	A Level Paper 2 November 2021	8	**269**
73.	**Q2(b)**	A Level Paper 3 June 2022	8	**274**
74.	**Q6(b)**	A Level Paper 2 June 2023	8	**279**
75.	**Q2(b)**	A Level Paper 3 June 2024	8	**284**
76.	**Q1(c)**	A Level Paper 3 June 2017	12	**289**
77.	**Q6(c)**	A Level Paper 2 October 2020	12	**296**
78.	**Q2(c)**	A Level Paper 3 June 2024	12	**302**
79.	**Q1(e)**	A Level Paper 3 June 2017	25	**308**
80.	**Q2(d)**	A Level Paper 3 June 2018	25	**316**
81.	**Q2(d)**	A Level Paper 3 June 2019	25	**324**
82.	**Q2(e)**	A Level Paper 3 June 2019	25	**331**
83.	**Q2(d)**	A Level Paper 3 June 2024	25	**338**
84.	**Q8**	A Level Paper 2 June 2025	25	**345**
85.	**Q2(e)**	A Level Paper 3 June 2025	25	**351**
4.3.3	**STRATEGIES INFLUENCING GROWTH AND DEVELOPMENT**		17 Qs · 222 marks	**355**
86.	**Q3**	A Level Paper 2 October 2020	5	**356**
87.	**Q6(a)**	A Level Paper 2 October 2020	5	**357**
88.	**Q6(a)**	A Level Paper 2 November 2021	5	**361**
89.	**Q2(a)**	A Level Paper 3 June 2022	5	**365**
90.	**Q2(b)**	A Level Paper 3 June 2018	8	**369**
91.	**Q6(b)**	A Level Paper 2 October 2020	8	**375**
92.	**Q6(c)**	A Level Paper 2 November 2021	10	**380**
93.	**Q6(d)**	A Level Paper 2 June 2023	10	**386**
94.	**Q2(c)**	A Level Paper 3 June 2018	12	**392**
95.	**Q2(c)**	A Level Paper 3 June 2019	12	**399**
96.	**Q6(c)**	A Level Paper 2 June 2023	12	**405**
97.	**Q6(e)**	A Level Paper 2 November 2021	15	**411**
98.	**Q6(e)**	A Level Paper 2 June 2023	15	**418**
99.	**Q1(d)**	A Level Paper 3 June 2017	25	**425**
100.	**Q2(e)**	A Level Paper 3 June 2018	25	**433**

	QUESTION	SOURCE	MARKS	PAGE
101.	**Q2(d)**	A Level Paper 3 June 2022	25	**441**
102.	**Q2(e)**	A Level Paper 3 June 2022	25	**448**
4.4.1	**ROLE OF FINANCIAL MARKETS**		13 Qs · 51 marks	**455**
103.	**Q5(b)**	A Level Paper 2 June 2018	1	**456**
104.	**Q1(a)**	A Level Paper 2 June 2019	1	**457**
105.	**Q3(b)**	A Level Paper 2 June 2024	1	**458**
106.	**Q5(a)**	A Level Paper 2 June 2018	2	**459**
107.	**Q5(c)**	A Level Paper 2 June 2018	2	**460**
108.	**Q1(b)**	A Level Paper 2 June 2019	2	**461**
109.	**Q1(c)**	A Level Paper 2 June 2019	2	**462**
110.	**Q5**	A Level Paper 2 June 2018	5	**463**
111.	**Q1**	A Level Paper 2 June 2019	5	**465**
112.	**Q6(a)**	A Level Paper 2 June 2019	5	**467**
113.	**Q5**	A Level Paper 2 June 2022	5	**471**
114.	**Q2(a)**	A Level Paper 3 June 2023	5	**473**
115.	**Q6(e)**	A Level Paper 2 June 2018	15	**477**
4.4.2	**MARKET FAILURE IN THE FINANCIAL SECTOR**		3 Qs · 31 marks	**483**
116.	**Q5(b)**	A Level Paper 2 June 2022	1	**484**
117.	**Q3**	A Level Paper 2 June 2024	5	**485**
118.	**Q2(d)**	A Level Paper 3 June 2023	25	**487**
4.4.3	**ROLE OF CENTRAL BANKS**		1 Q · 15 marks	**494**
119.	**Q6(e)**	A Level Paper 2 June 2019	15	**495**
4.5.2	**TAXATION**		3 Qs · 22 marks	**502**
120.	**Q6(a)**	A Level Paper 2 June 2024	5	**503**
121.	**Q6(a)**	A Level Paper 2 June 2025	5	**510**
122.	**Q6(d)**	A Level Paper 2 June 2022	12	**511**
4.5.3	**PUBLIC SECTOR FINANCES**		1 Q · 25 marks	**517**
123.	**Q2(e)**	A Level Paper 3 June 2017	25	**518**
4.5.4	**MACROECONOMIC POLICIES IN A GLOBAL CONTEXT**		1 Q · 25 marks	**525**
124.	**Q8**	A Level Paper 2 November 2021	25	**526**

QUESTIONS

124 questions · 1368 marks · 19 sub-topics

SUB-TOPIC 4.1.1

GLOBALISATION

Sub-topic 4.1.1 · 4 questions · 87 marks · lowest tariff first

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

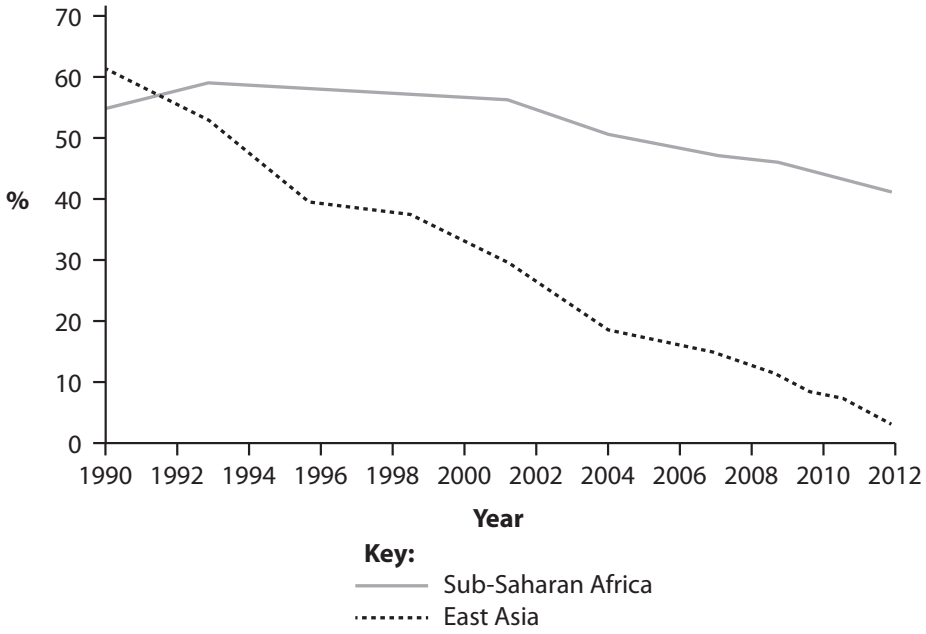
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US$1.90-a-day 2011 PPP)



(Source: https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

Extract A

Lessons from globalisation

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

(Source: adapted from https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism)

Extract B

Tackling inequality

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.

These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution.

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.

(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

(c) With reference to Extract A, discuss **two** macroeconomic policies, apart from protectionism, that a government could use to reduce the negative effects of globalisation.

(12)

SECTION A

Read Figures 1 to 3 and the following extracts (A, B and C) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

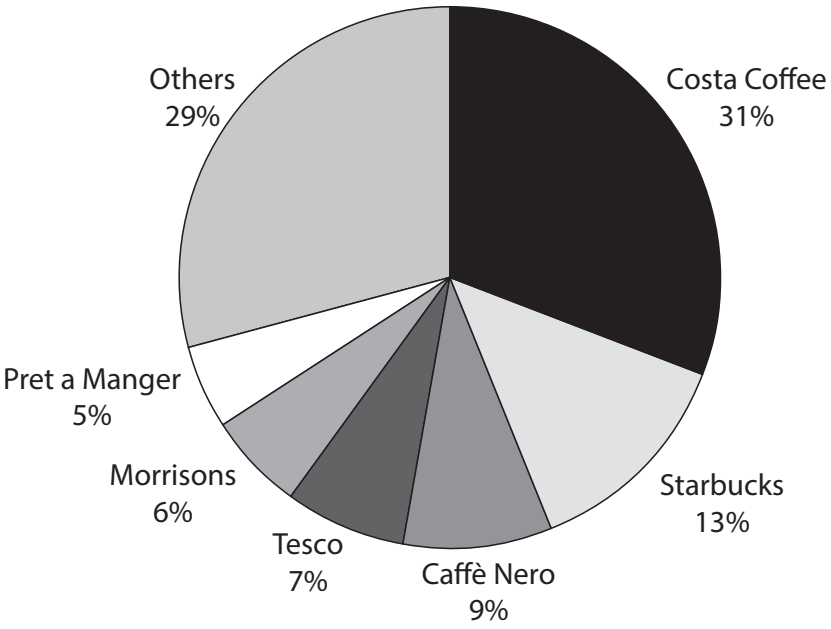
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

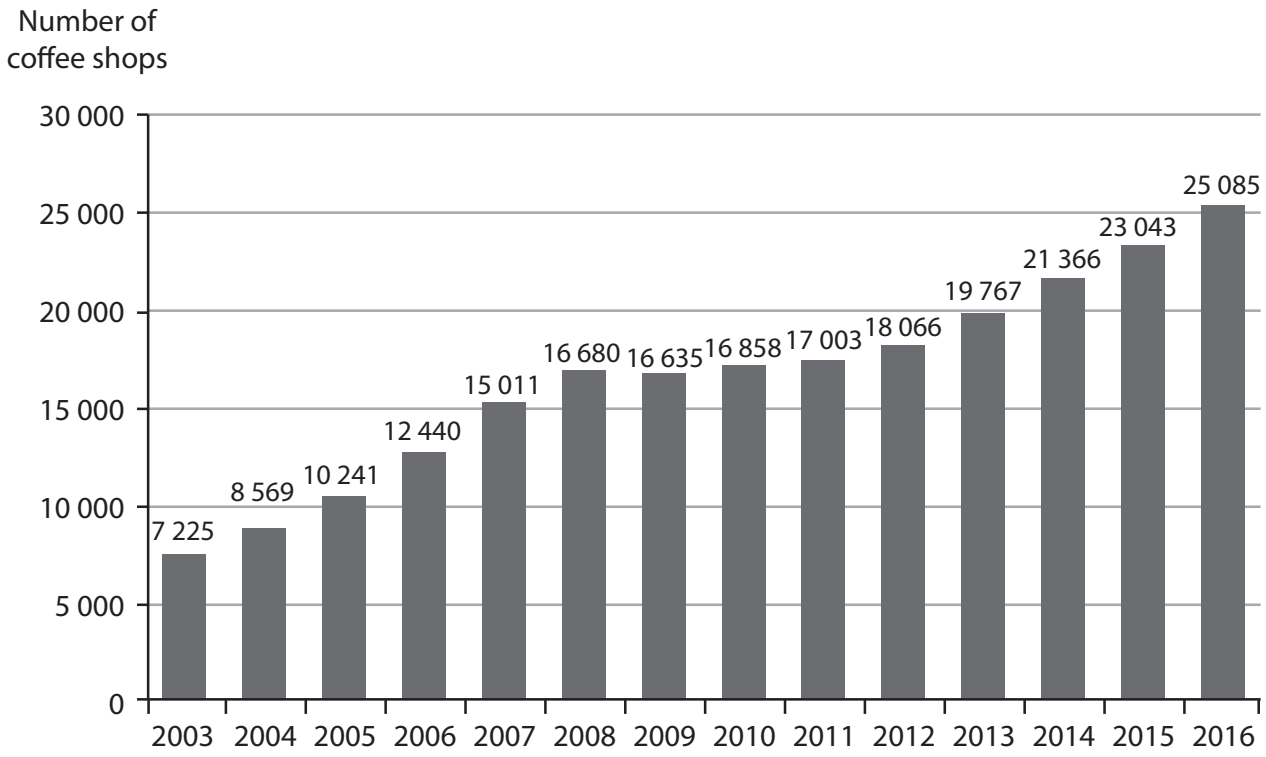
Branded coffee shops

Figure 1: Market share of UK branded coffee shops, 2015, percentages



(Source: http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/)

Figure 2: Number of Starbucks coffee shops worldwide, 2003–2016



(Source: https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/)

Figure 3: Price comparison in selected London coffee retailers, February 2017

Coffee style	Starbucks	Costa Coffee	Caffè Nero	Greggs	McDonald's
Espresso Double	£2.00	£2.00	£1.70	£1.65	£0.99
Latte Medium	£2.60	£2.50	£2.50	£1.80	£1.79
Latte Large	£2.80	£2.70	£2.80	£2.10	£2.09

(Source: data collected from coffee shops in Holborn, London on 25 February 2017)

Extract A

Starbucks in Britain – a loss-making business?

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said expansion in China will secure its future for "decades to come" and announced plans to more than double the number of shops in China to 5 000 by 2021.

However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million – despite opening its first coffee shop in the UK in 1998. It now has 849 UK outlets. The main reason why Starbucks has reported persistent losses in the UK is not due to a lack of demand for its coffee, but to minimise its tax bill. It is claimed that some of Starbucks' revenue earned in the UK is transferred to its Dutch subsidiary, which is charged lower rates of tax.

Starbucks is not finding life as easy in Britain as in the USA. It faces competition from home-grown chains such as Costa and Caffè Nero. Accusations of tax avoidance have also damaged Starbucks' sales to the benefit of its competitors. A survey found that a third less people rated Starbucks as their preferred coffee shop than they did before the tax-avoidance allegations were first published.

These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London.

(Sources: adapted from *The Economist* 14 February 2015 http://www.economist.com/news/business-and-finance/21643271-tax and Starbucks company report 2016 and http://s21.q4cdn.com/369030626/files/doc_financials/2015/Starbucks-Fiscal-2015_Financial-Highlights.pdf)

Extract B

Tax on disposable coffee cups?

Two and a half billion disposable cups are thrown away every year in the UK, that is, seven million every day. Only one in 400 is recycled. The UK Environment Minister has suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The 5 pence a bag charge has led to an 85% reduction in the number of bags being given out since October 2015. It is estimated that introducing a tax on disposable coffee cups would cut usage by two billion every year. One environment spokesperson, Kate Parminter, said: "We've seen how dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is clearly time to extend it to coffee cups. Most people purchase a tea or coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the environmental impact."

In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: "My initial reaction is charging 5p or 10p for the cup will not work. It will not encourage people to take their own cups in if a coffee goes up from £2.60 to £2.65. I suspect a more technological answer is what we need – either the composition of the disposable cups being changed so they're more easily recyclable, or changing the technology in the recycling."

Disposable coffee cups contain a plastic coating inside the cups which prevent them from becoming soggy, making them difficult to recycle. There are just two specialist facilities in the UK that have the required equipment to separate plastic from paper for recycling. Almost no recycled paper is used in the production of disposable cups, meaning that some 43 000 trees must be cut down annually to keep up with the demand. CO_2 emissions of around 83 000 tonnes are generated every year for their production.

(Sources: adapted from http://www.independent.co.uk/news/uk/politics/disposable-coffee-cups-could-be-taxed-like-plastic-bags-environment-minister-says-a6938126.html 05/09/16 and https://www.cchdaily.co.uk/lib-dems-call-5p-plastic-bag-tax-coffee-cups)

Extract C

German city of Freiburg takes action on cutting the use of disposable coffee cups

The 'Freiburg cup', made from dishwasher-proof plastic, can be reused hundreds of times. Cups are issued with a one-euro deposit, and can be returned to any of the participating coffee shops in the German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés and bakeries that have signed up to the scheme before being reused. 56 coffee retailers have signed up, and 10 000 cups are being used.

One of the main obstacles facing a wider-reaching scheme, however, is the number of café chains in Germany that are unwilling to use unbranded multi-use cups, particularly Starbucks and McDonald's. Starbucks already offers a discounted coffee for customers with a multi-use cup, but only if it is bearing the unmistakable Starbucks logo.

(Source: adapted from http://www.dw.com/en/germanys-love-for-coffee-to-go-leaves-environmental-groups-demanding-action/a-36689719)

Q) 1 (d) Evaluate the microeconomic and macroeconomic factors that may influence Starbucks' decision whether to expand in a particular country.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

8 With global economic growth slowing and inequality rising, the case against globalisation is strengthening. But there are also many benefits to globalisation. Global trade and international trade agreements allow countries to focus on their strengths and share expertise, as well as reducing risk through diversification.
(Source: adapted from https://www.ft.com/content/7b365844-9b75-11ea-adb1-529f96d8a00b)

Q) Evaluate the likely impact of globalisation on the global economy.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

8 In 2020, exports as a share of world GDP were 12% higher than in 2000, almost twice as high as 50 years ago.
(Source adapted from: https://www.dhl.com/content/dam/dhl/global/dhl-spotlight/documents/pdf/2021-gci-update-report.pdf)

Q) Evaluate the possible factors contributing to globalisation.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.1.2

SPECIALISATION AND TRADE

Sub-topic 4.1.2 · 4 questions · 43 marks · lowest tariff first

5 In March 2018 the US imposed a tariff of 25% on steel imports from the UK.

(Source: adapted from https://www.reuters.com/business/us-uk-announce-plans-formal-talks-metals-tariffs-wednesday-sources-2022-01-19/)

(b) Which **one** of the following is likely to give the US a comparative advantage in steel production?

An increase in:

(1)

- ☒ **A** corporation tax in the US
- ☒ **B** economic growth in the US
- ☒ **C** the productivity of US steel workers
- ☒ **D** the wages of US steel workers

(Total for Question 5(b) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The trade deal known as the Comprehensive Economic and Trade Agreement (CETA) is designed to eliminate or reduce trade barriers between the European Union (EU) and Canada. It is estimated that it will increase trade by 20% and boost EU GDP by 12 billion euros.

(Source: http://www.theguardian.com/business/2016/oct/30/eu-canada-sign-ceta-free-trade-deal-trudeau-juncker)

(a) Which **one** of the following is most likely to decrease as a result of CETA?

(1)

☒ **A** Economic growth in EU countries

☒ **B** Exports from EU countries to Canada

☒ **C** Imports from Canada to EU countries

☒ **D** Tariffs on European exports to Canada

(b) With reference to the theory of comparative advantage, explain how CETA may increase the GDP of both the EU and Canada.

(4)

(Total for Question 1 = 5 marks)

SECTION B

Read Figure 2 and the following extracts (D to G) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

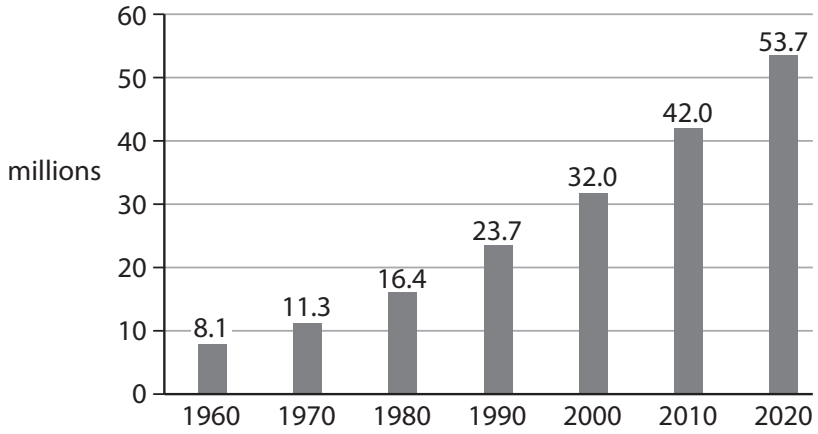
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Sub-Saharan Africa – growth and development

Figure 2: Kenya population, millions, 1960 to 2020



(Source: adapted from Population, total - Kenya | Data (worldbank.org))

Extract D

Growth and development in Africa: 'Africa has a massive opportunity as a low-cost provider of services'

The outlook for Africa's economies is not as simple as the Lewis model of growth and development implies: do more manufacturing or stay poor. Many countries are expanding into areas that economists are starting to call 'industries without smoking chimneys'. Some, such as flower-exports, may not be classified as manufactured goods in export statistics. But the process of producing flowers looks a lot like factory work and demands many of the same management skills. These industries also deliver many of the benefits of normal manufacturing, including many well-paid jobs, and greater opportunities.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/many-of-africas-economies-are-doing-well)

Extract E

The demography of Kenya – 'Demography will shape Africa's future'

Falling birth rates, when accompanied by rising literacy, can help kick-start growth. In Kenya 39% of the population is below the age of 15, falling from 43% in 2009. The labour force (15–64 years) is 57% and is the fastest growing population group. 6% of the population is over the age of 60. The number of children per family has fallen sharply, from 8.1 children in 1978 to 4.6 children in 2008, and it is projected to possibly reach 2.4 children by 2050.

In the 1970s little more than half of children in sub-Saharan Africa were enrolled in primary school. That share has shot up to almost 100%. The statistic is slightly misleading, since the percentage of children regularly attending schools is nearer 60%.

Why does Kenya's population continue to rise rapidly, while family size declines? There are two reasons. First, due to high fertility in previous decades, there are many more families in Kenya today. So even though families are smaller, the total number of children continues to grow. Second, Kenyans are living longer, with better healthcare – for example, polio was eradicated in 2014. Life expectancy is projected to increase from 54 years today to 68 years by 2050.

28% of Kenya is urbanised, and is becoming rapidly more so. By the 2030s it is expected that 36% of Kenyans will live in towns or cities rather than the poorer rural areas. Rich countries are urban countries. No country has ever reached high income levels with low urbanisation. Large urban centres have two distinct economic advantages. First, as more people interact, there is more scope for innovation. Young people need jobs, but they also create jobs. Kenya has an educated workforce and a dynamic service industry, which typically has lower barriers of entry than agriculture or manufacturing, and provides opportunities for young entrepreneurs. Second, larger groups of population living in close proximity allow for economies of scale.

In light of these facts, Kenya's future pattern of population growth can be a force of good. A large urbanising and well-educated population tends to generate a strong middle class and vibrant private sector. Economic development may be easier to achieve and sustain – though it is not guaranteed.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050 and https://kenya.unfpa.org/sites/default/files/pub-pdf/state_of_kenya_population_report_2020.pdf and https://www.worldbank.org/en/news/opinion/2010/04/28/demographic-transition-growth-kenya)

Extract F

Kenya has an absolute advantage in cut flowers

In the UK, 80% of cut flowers come via the Netherlands, although a significant proportion come from Kenya. Some Kenyan flowers come straight to the UK on direct flights from Nairobi, where entire terminals at certain airports are dedicated to flights exporting flowers.

Kenya flower production has three major advantages over the Netherlands: areas of high altitude with cool nights, which many flowers benefit from, proximity to the equator for maximum hours of sunlight, and cheaper labour. This means an end to seasonal production and the beginning of a 365-day-a-year absolute advantage. The Netherlands has cost advantages in machinery and transport equipment, not flowers.

Cut flowers are now Kenya's second largest export after tea, contributing around 1% of the country's GDP. They are also one of the country's largest sources of employment, with over 100 000 people working directly in the flower industry and an estimated two million indirectly.

(Source: adapted from: https://www.economist.com/middle-east-and-africa/2021/02/11/kenyas-floral-exports-are-blooming-once-more)

Extract G

Changes in interest rates in sub-Saharan Africa

When Robert Matsiko was a young man his grain-milling business in eastern Africa was destroyed by fire. Now, after building it back up from the ashes, he is being hurt by high interest rates. To buy a new machine he must borrow from a bank at an annual rate of 22%. 'You fear to do that,' Mr Matsiko says. Many other entrepreneurs feel the same, which stops their businesses from growing, although very small firms can get help from microfinance schemes.

Kenya's central bank rate has fallen from over 20% to 7% in the last decade, but the rates charged to small businesses and individuals are much higher than the central bank interest rate. In sub-Saharan Africa, the gap between saving and borrowing rates is higher than anywhere else. The average bank lends at 6.8% above the central bank interest rate. Mobile banking, credit-information sharing and innovation have helped to bring borrowing costs down. But until birth rates fall, interest rates will stay relatively high, because families with many children cannot afford to save.

(Source: adapted from https://www.economist.com/finance-and-economics/2020/05/21/why-interest-rates-are-so-high-in-africa)

(c) Using the example of cut flowers (Extract F), discuss how the concept of absolute advantage may lead to growth in Kenya. Use numerical or diagrammatic analysis in your answer.

(12)

SECTION A

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

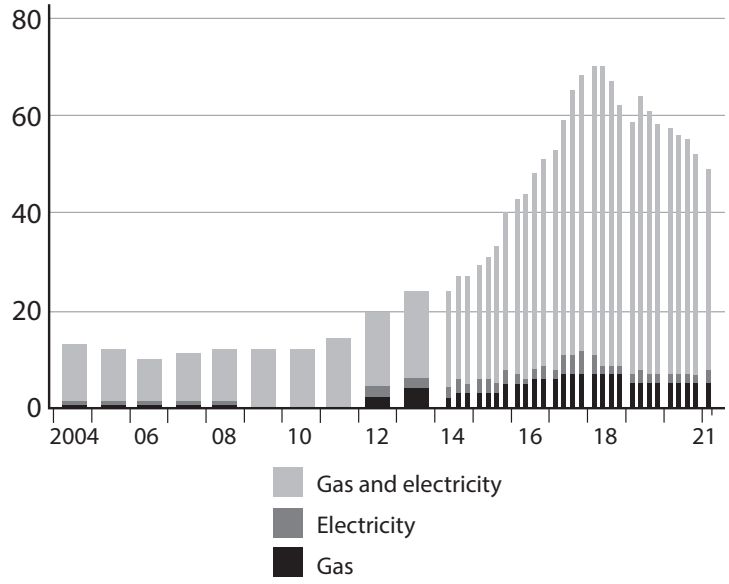
Question 1

The energy market

Figure 1: UK wholesale gas prices per therm, 2021, in pence



Figure 2: Number of firms supplying gas and electricity in the UK, 2004–2021



Extract A

Rising gas prices

UK consumers are some of the biggest users of gas. 85% of homes use gas central heating, and gas generates a third of the country's electricity. North Sea gas is running out – and as Britain has replaced coal-fired energy production with wind power in order to reduce carbon emissions, it has become dependent on gas imports.

Almost all UK businesses face significant rises in fuel costs over the next few months, and there is no substitute for energy, at least in the short run – an almost perfect example of price inelastic demand.

(Source: adapted from https://www.theecoexperts.co.uk/blog/reasons-for-uk-gas-price-increase)

Extract B

The UK gas market is broken

During the past decade the government has allowed new entrants into the retail energy market with business models that left them ill-prepared to achieve long term business growth. Now the UK must choose between letting its energy market collapse and offering large subsidies for energy retailers.

The problem began in the 1980s and 1990s, when privatisation created an oligopolistic energy market dominated by the "Big Six", which paid their shareholders high dividends and their bosses excessive salaries. The government responded to anger over high energy bills with further liberalisation. Some of the new entrants were innovative, such as Bulb, which offered consumption-tracking apps, and Octopus, which discouraged consumption when demand was high with dynamic pricing. But most were under-capitalised and produced no energy, merely buying it on global wholesale markets and selling it on. Some paid little attention to ensuring continuity of supply or forward buying of gas.

The constraints on energy retailers worsened in 2017 with the closure of a big gas-storage facility, which left the UK able to store just 2% of its annual demand. Other big gas importing countries, by contrast, can store 20%–30%. The risks rose further in 2019, when the government capped consumer prices in response to continued complaints about high energy bills.

The perfect storm came in the summer of 2021. As economies opened up, global demand for energy rose. Gas supply in Russia, a big producer, was disrupted, and unusually calm weather reduced UK wind turbine energy production to 11% of capacity. In August Ofgem, the industry regulator, said that from October the firms would be able to raise prices for households by 54%. But since then the wholesale price of gas paid by UK energy firms has risen by more than 70%. The result is that UK energy firms are tied into contracts to supply gas to households at far less than they must pay to get it.

(Source: adapted from https://www.economist.com/britain/britains-gas-market-is-broken/)

Extract C

The gender pay gap in the oil and gas industry

Despite best efforts to try to attract more women into the oil and gas industry, females are still hugely under-represented in science, technology, engineering and maths careers, whether school leavers, graduates or experienced workers. Women hold under 25% of careers in these areas, and typically hold more non-technical roles, which can attract lower salaries than technical disciplines.

There is an even smaller female representation in the offshore workforce (3.6%) e.g. working on rigs in the North Sea, an area that pays higher salaries than onshore work. Despite continued efforts there is still a lack of female applications. Only 5% of the applications to the technical apprentice programme were female, of which half withdrew their applications at the first stage of the recruitment process.

There is also a low representation of females in senior leadership roles within the oil and gas industry, especially in technical positions. Women also generally take up part-time positions which are typically lower paid. This has resulted in the oil and gas industry having an average gap in hourly pay of 25%.

In the majority of developed countries, women have made substantial progress in the labour market since the 1970s, with both wages and labour force participation increasing relative to that for men. Notwithstanding these large improvements, women still earn less than 'comparable' men in all developed countries and, since the 2000s, progress for women in the labour market seems to have slowed.

(Source: adapted from https://www.harbourenergy.com/media/2a2nmavb/chr-18311-01-gender-pay-gap-2020-v6-final.pdf and https://ftp.iza.org/dp10975.pdf)

Q) 1 (e) Evaluate the microeconomic and macroeconomic advantages for a country specialising in energy production using gas.

(25)

(Total for this part = 25 marks)

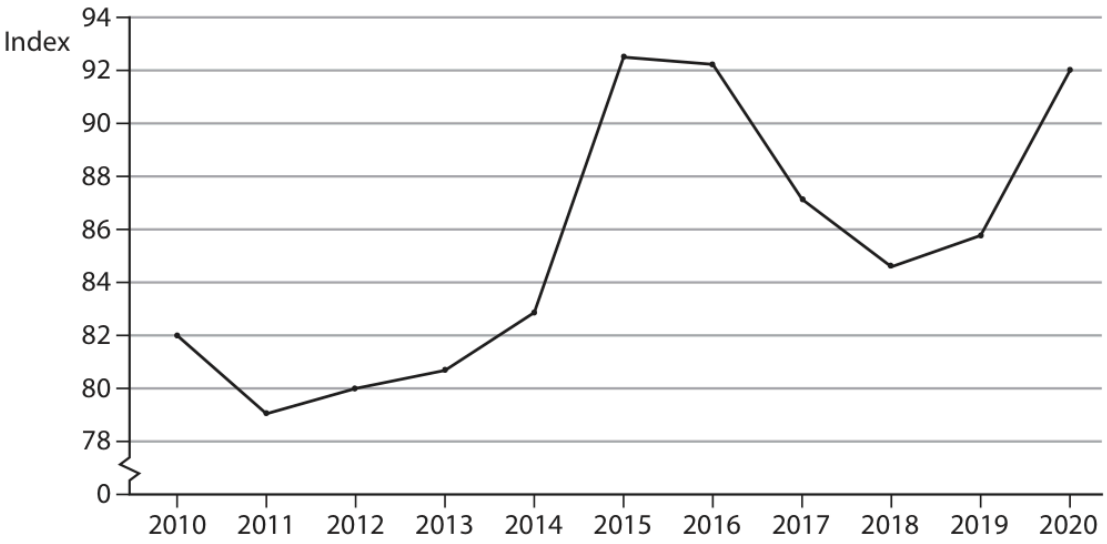
Continue on separate paper if required.

SUB-TOPIC 4.1.4

TERMS OF TRADE

Sub-topic 4.1.4 · 5 questions · 15 marks · lowest tariff first

4 China terms of trade index (base year 2000 = 100), 2010–2020.



(Source adapted from: https://data.worldbank.org/indicator/TT.PRI.MRCH.XD.WD?end=2020&locations=CN&start=2000)

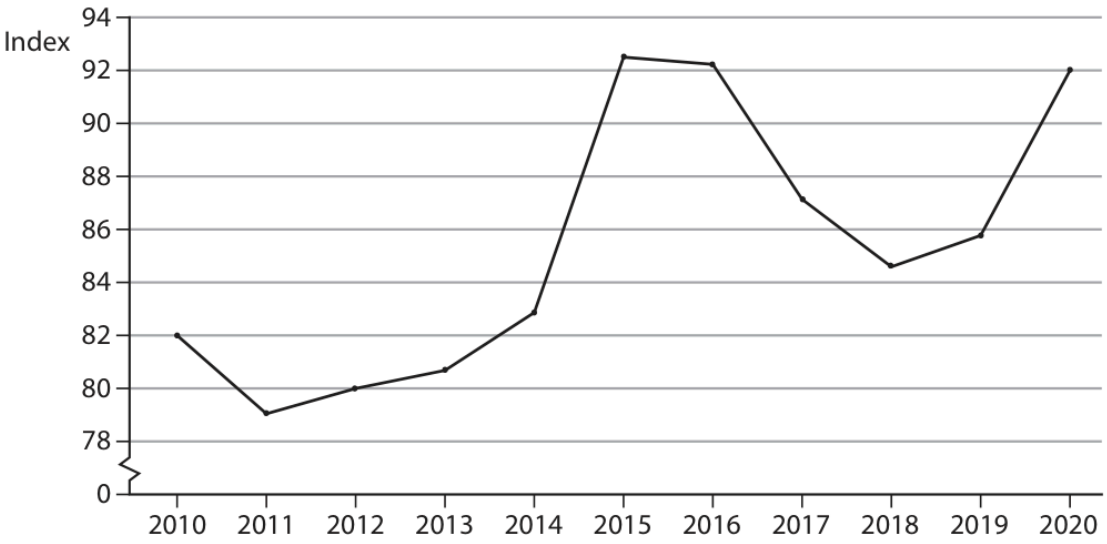
(b) Which **one** of the following is the percentage change in China's terms of trade between 2012 and 2020, to the nearest whole number?

(1)

- ☒ **A** 12%
- ☒ **B** 13%
- ☒ **C** 15%
- ☒ **D** 92%

(Total for Question 4(b) = 1 mark)

4 China terms of trade index (base year 2000 = 100), 2010–2020.



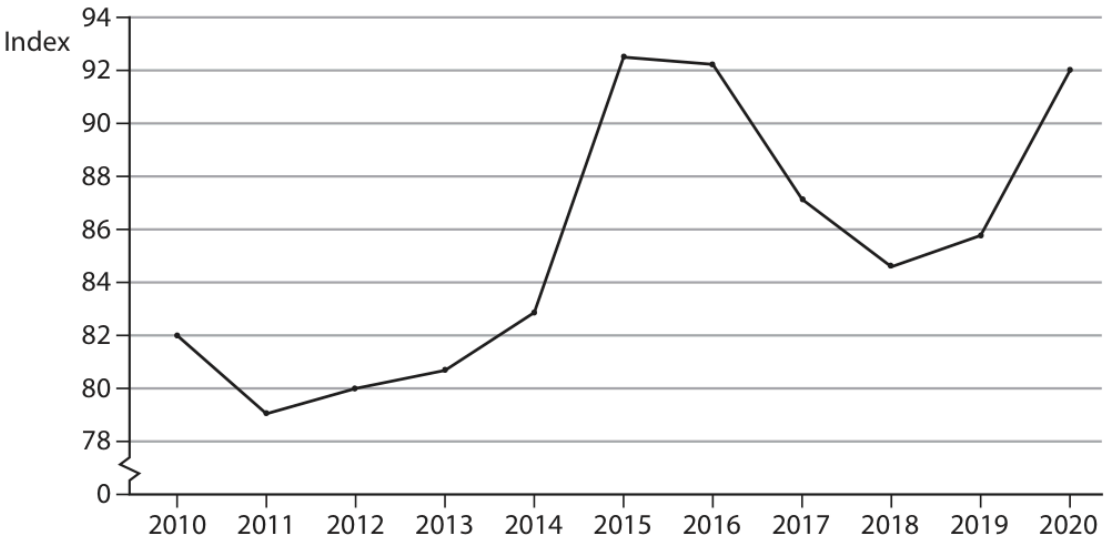
(Source adapted from: https://data.worldbank.org/indicator/TT.PRI.MRCH.XD.WD?end=2020&locations=CN&start=2000)

(a) Explain what is meant by 'terms of trade'.

(2)

(Total for Question 4(a) = 2 marks)

4 China terms of trade index (base year 2000 = 100), 2010–2020.



(Source adapted from: https://data.worldbank.org/indicator/TT.PRI.MRCH.XD.WD?end=2020&locations=CN&start=2000)

(c) Explain the likely impact of the change in China's terms of trade from 2012 to 2020 on China's current account. Assume that demand for China's exports and imports is price elastic.

(2)

(Total for Question 4(c) = 2 marks)

SECTION B

Read Figures 4 and 5 and the following extracts (D and E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

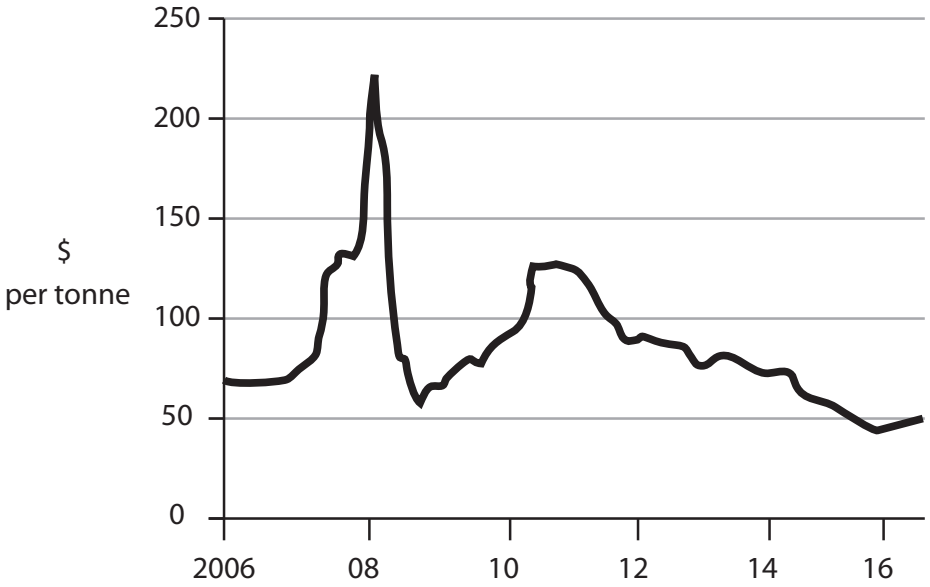
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

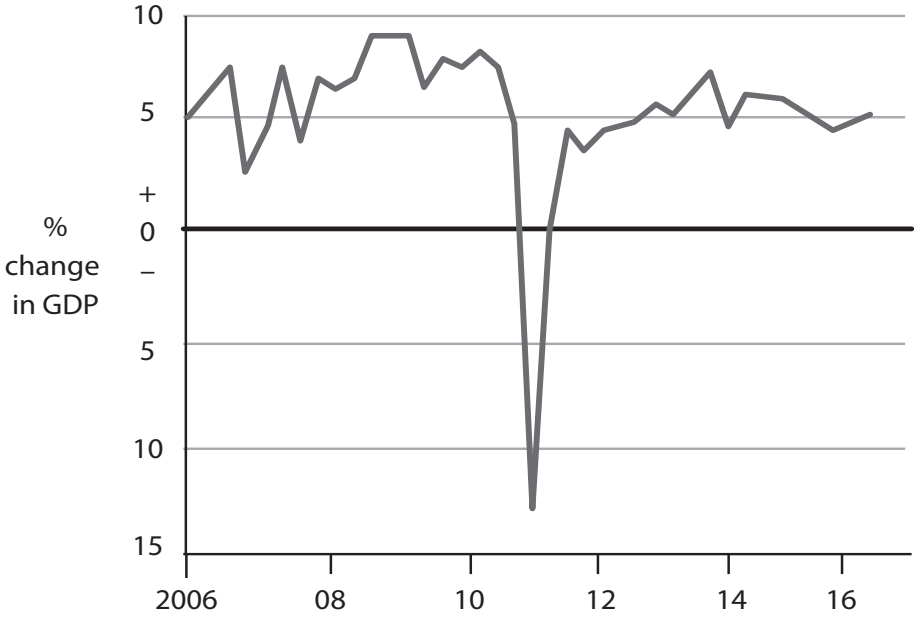
Indonesia

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Extract D

Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

Indonesia receives US$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US$14.37) a month. The World Bank has approved US$800 million in infrastructure loans to Indonesia, with another US$950 million as conditional loans. The Asian Development Bank has committed itself to lending US$2 billion. In December Japan's development agency lent Indonesia US$535 million to construct two power stations.

(Sources: adapted from http://country.eiu.com/Indonesia and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

Extract E

Indonesia's economic policies as commodity prices collapse

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US$50 per tonne, against US$125 in 2011.

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly.

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP.

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones.

The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target.

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports. In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment. Indonesia has plans for 65 dams, 16 of which are already under construction. In 2015 work started on the Keureuto Dam, designed to boost agricultural productivity in Aceh. Recently fields

were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

(Sources: adapted from http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

2 (a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer.

(8)

(c) Discuss the benefits of aid to Indonesia.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

(25)

OR

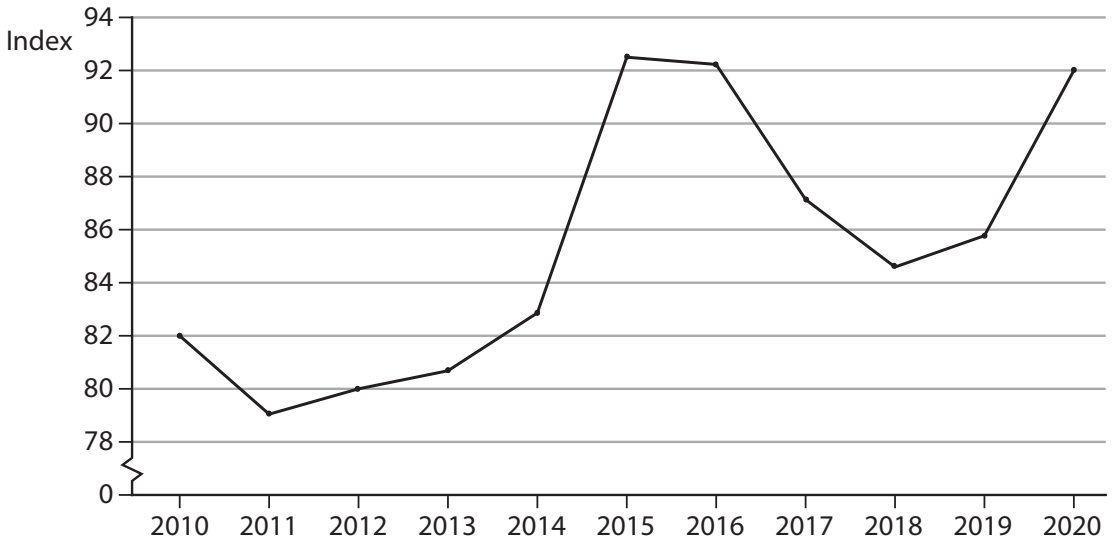
(e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

(25)

(a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

4 China terms of trade index (base year 2000 = 100), 2010–2020.



(Source adapted from: https://data.worldbank.org/indicator/TT.PRI.MRCH.XD.WD?end=2020&locations=CN&start=2000)

(a) Explain what is meant by 'terms of trade'.

(2)

(b) Which **one** of the following is the percentage change in China's terms of trade between 2012 and 2020, to the nearest whole number?

(1)

- ☐ **A** 12%
- ☐ **B** 13%
- ☐ **C** 15%
- ☐ **D** 92%

(c) Explain the likely impact of the change in China's terms of trade from 2012 to 2020 on China's current account. Assume that demand for China's exports and imports is price elastic.

(2)

(Total for Question 4 = 5 marks)

SUB-TOPIC 4.1.5

TRADING BLOCS AND THE WTO

Sub-topic 4.1.5 · 7 questions · 106 marks · lowest tariff first

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The trade deal known as the Comprehensive Economic and Trade Agreement (CETA) is designed to eliminate or reduce trade barriers between the European Union (EU) and Canada. It is estimated that it will increase trade by 20% and boost EU GDP by 12 billion euros.

(Source: http://www.theguardian.com/business/2016/oct/30/eu-canada-sign-ceta-free-trade-deal-trudeau-juncker)

(a) Which **one** of the following is most likely to decrease as a result of CETA?

(1)

☒ **A** Economic growth in EU countries

☒ **B** Exports from EU countries to Canada

☒ **C** Imports from Canada to EU countries

☒ **D** Tariffs on European exports to Canada

(Total for Question 1(a) = 1 mark)

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

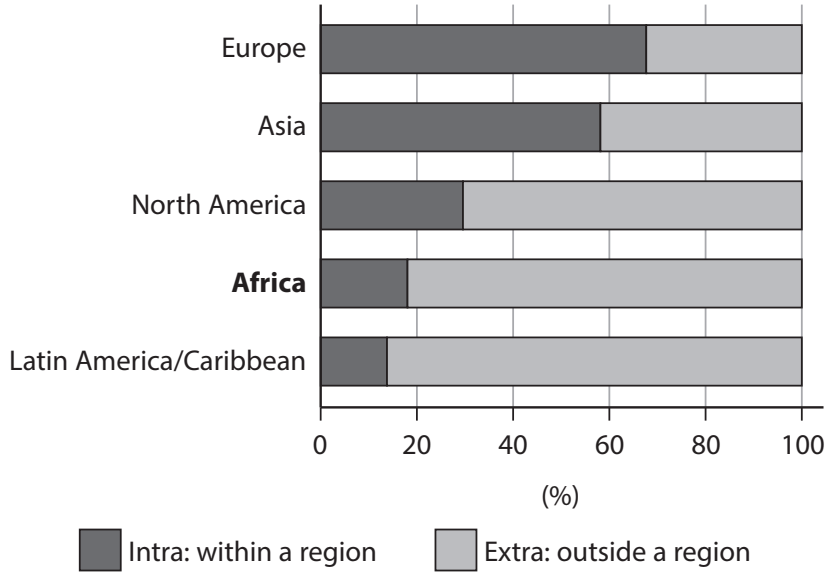
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and development in Africa

Figure 1: Intra- and extra-regional exports as a percentage of total exports, 2020



(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract A: Why it costs so much to move goods around Africa

Lorries carrying, among other things, cobalt from Congo, copper from Zambia and tea from Malawi queued for miles as they waited to cross the Limpopo river into South Africa. Many were there for days. Some drivers bribe their way to the front; 1 000 rand (£49) is the going rate. Others cannot afford to.

African politicians say they want to end such delays. The African Continental Free Trade Area (AfCFTA) regional trade agreement, so far agreed by 41 of Africa's 55 countries, could boost the region's economies by making it easier to trade between themselves. In 2020 just 18% of exports were to other African countries (see Figure 1), lower than the equivalent in North America (30%), Asia (58%) or Europe (68%). More trade within the region could lead to more jobs, higher wages and less poverty.

The AfCFTA pledges to improve trade in two ways. The first is by reducing tariffs. This could boost intra-African trade by 15% to 25%, says the IMF. The second is to reduce non-tariff barriers which could cause a 50% rise in intra-African trade.

Poor infrastructure is a major barrier to trade. Africa's land area is bigger than China, India, the United States and much of Europe combined. Yet its railway network is not very much bigger than France's and Germany's put together. Many lines were built by colonial companies to link mines to ports, rather than countries to one another. Newer Chinese-built railways across African borders are under-used, either because they struggle to compete on price with road transport or because they lack additional services such as storage yards.

Ports are small and slow. Cargo waits for more than two weeks on average, compared to less than a week in Asia, Europe and Latin America. Handling costs are around 50% higher than in other parts of the world.

Nearly 90% of transport of goods goes by road, of which there are not enough. Road quality is poor. Just 800 000 km of the total of 2.8 million km in sub-Saharan Africa are paved.

The IMF estimates that if the quality of Africa's infrastructure were brought up to the global average this would increase intra-African trade by 7%. However, even bigger gains could be made by improving how trade flows. The key problem is a lack of information. In much of the world large firms can buy space on trains or lorries as they need it. But in Africa, where markets for this do not exist, firms such as miners have to sign long-term contracts with larger transport firms in which they agree to pay for capacity, whether they use it all or not.

(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract B: Economic reform in Angola

When the new president, João Lourenço, took power in the southern African country of Angola in 2017, he pledged to reform the economy. This is a challenging task. The oil industry accounts for nearly all of Angola's exports and two-thirds of government revenues. The government is heavily involved in oil production along with significant foreign direct investment from international firms such as Chevron and Total. Declining production and falling oil prices brought about a collapse in GDP and rapidly rising debts to China and the IMF.

To reduce the cost of debt repayments, improve the country's fiscal position, and support a steadily declining debt-to-GDP ratio, the government of Angola has opted for debt relief. Together with a complete stop on debt repayments for the next three years, Angola will gain additional cash flow of $6.9 billion in 2020–22. This will help bring Angola's total annual borrowing to a much more manageable level of around 8.7% of GDP. With improved finances the government will have more money to spend supporting the economy and providing vital public services to its citizens, over 17 million of whom still live in absolute poverty.

The IMF, which has since 2018 agreed to lend $4.5 billion to Angola, is also encouraged by the country's fiscal policies. The finance minister, Vera Daves de Sousa, wants the state oil firm to sell shares to the public and for over one hundred state firms to be privatised. There have been delays – just 34 sales have taken place so far. But, she says, private firms must be the 'main driver' of growth and the economy must diversify away from oil.

Since 2019 Angola has ended government intervention in the foreign exchange market and moved towards a floating exchange rate. This led to a rapid depreciation in the kwanza (the Angolan currency) before stabilising after a few months.

(Sources: adapted from https://www.economist.com/middle-east-and-africa/2021/02/20/joao-lourencos-reforms-in-angola-are-pleasing-the-imf, https://www.cabri-sbo.org/en/blog/2021/country-spotlight-angolas-commitment-to-prudent-and-proactive-public-debt-management, and https://www.focus-economics.com/countries/angola/news/special/kwanza-dives-to-all-time-low-as-central-bank-floats-the-currency)

6 (a) With reference to Extract A, explain what is meant by a 'regional trade agreement' (Extract A, line 7).

(5)

SECTION B

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and Development Issues in Africa

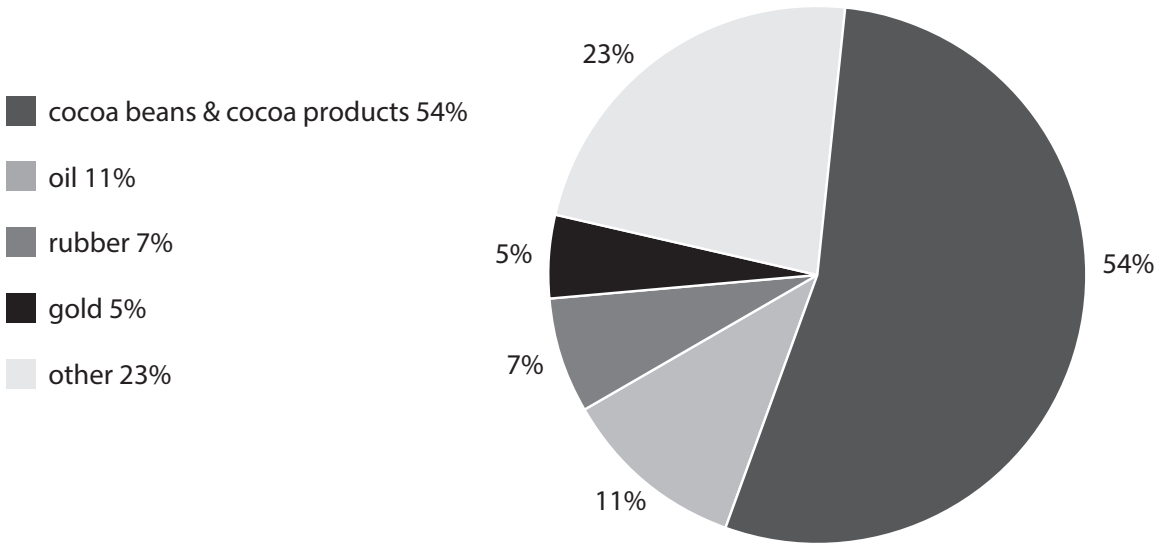
Figure 1: The Fairtrade scheme in the cocoa industry. How the additional revenue is spent by cocoa farmers.



Improving business administration and infrastructure	44%
Investing in farm equipment, training and funding	45%
Supporting social services for the community	10%
Other	1%

(Source: https://www.fairtrade.org.uk/~/media/FairtradeUK/What%20is%20Fairtrade/Documents/Policy%20and%20Research%20documents/Monitoring%20reports/Fairtrade%20Monitoring%20Report_9thEdition%202016.pdf)

Figure 2: Ivory Coast exports – relative share of main products (%), 2016



(Source: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/civ/all/show/2016/)

Extract A

Cheap cocoa is costing farmers dear

The median annual income of cocoa farmers in the west African country, Ivory Coast, is just US$2 600. Research suggests that an annual income of US$6 133 is needed for this country's farmers to have a decent, living income. This situation is even worse for farmers who are not part of a Fairtrade scheme.

World cocoa prices fell by more than a third in 2017. Cocoa farmers have to accept all the risk from price volatility, putting a significant strain on their fragile incomes. On the other hand, cocoa processors and chocolate manufacturers are able to adapt or even make high profit and consumers continue to enjoy their chocolate.

This is still happening despite considerable investment in agriculture to build a sustainable cocoa sector. The focus has been on raising productivity and diversifying crops. The average cocoa farm in the Ivory Coast produces only around half of the output that could be achieved with training and resources such as fertilisers, equipment and replanting. If farmers diversify into other crops, livestock or non-farm activities, they lower the risk they face of fluctuating world cocoa prices.

Even tripling farm output would not provide the average cocoa farmer with a living income. Diversification alone will not always make farms more profitable. If we want farmers to earn a living income, we must also be willing to pay farmers more.

(Source adapted from: https://www.fairtrade.org.uk/Media-Centre/Blog/2018/October/Cheap-cocoa-is-costing-farmers-dear)

Extract B

Sub-Saharan Africa is becoming more integrated

After two years of negotiations, representatives of a large number of African countries signed the African Continental Free Trade Agreement (AfCFTA) in Kigali on March 21, 2018. This created a trading bloc of 1.2 billion people with a combined gross domestic product of more than US$2 trillion. The agreement committed countries to removing tariffs on 90% of goods and to liberalise services.

This can be seen as a sign of rapid and steady regional integration. Sub-Saharan Africa in particular is much more integrated today than in the past. The level of integration in sub-Saharan Africa is now similar to that in the world's other developing and emerging market economies.

However, the two largest African economies, Nigeria and South Africa, refused to sign the agreement. Nigeria's manufacturers and trade unions are concerned about the potential negative impacts of becoming more open to imports from other African countries with lower labour costs.

Greater interdependence can expose small economies to their partners' recessions. After nearly 20 years of strong economic activity, sub-Saharan Africa experienced the downside of integration in 2015. The collapse in commodity prices and the slowdown in economic activity in Nigeria and South Africa contributed to sub-Saharan African growth slowing sharply. Since 2017 growth has begun to recover. The recovery is mixed, though, and it is unclear to what extent the slow recovery of the larger economies is still affecting the rest of sub-Saharan Africa.

(Source adapted from: https://www.imf.org/ and https://www.pulse.ng/)

6 (a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

(5)

(b) Examine **two** ways, apart from Fairtrade schemes, in which cocoa farmers could boost their incomes despite the falling price of cocoa.

(8)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports. Refer to Figure 2 in your answer.

(12)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

(10)

(e) Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

(15)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

(10)

SECTION B

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and Development Issues in Africa

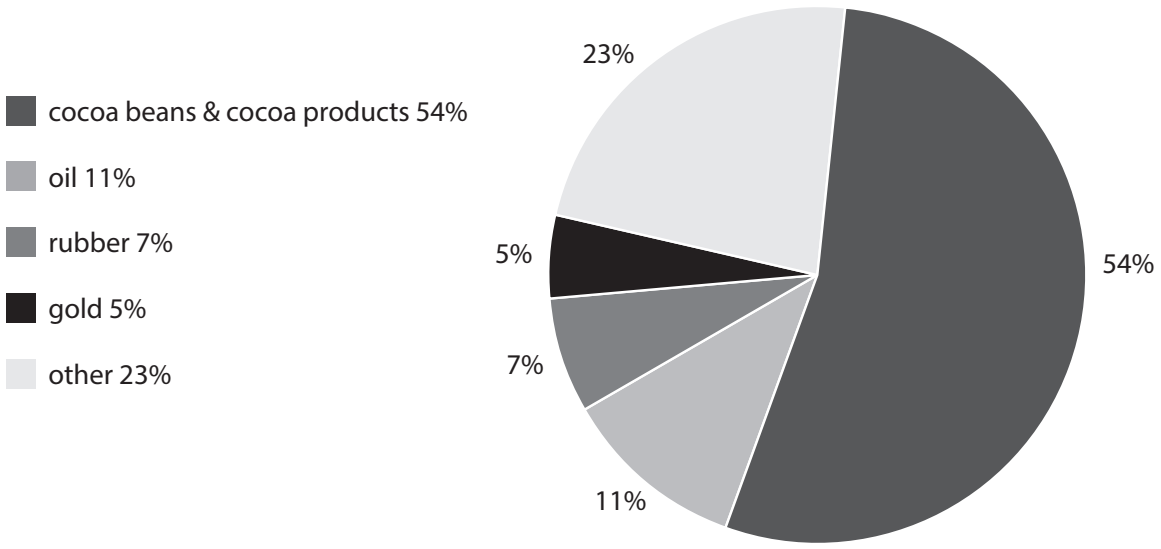
Figure 1: The Fairtrade scheme in the cocoa industry. How the additional revenue is spent by cocoa farmers.



Improving business administration and infrastructure	44%
Investing in farm equipment, training and funding	45%
Supporting social services for the community	10%
Other	1%

(Source: https://www.fairtrade.org.uk/~/media/FairtradeUK/What%20is%20Fairtrade/Documents/Policy%20and%20Research%20documents/Monitoring%20reports/Fairtrade%20Monitoring%20Report_9thEdition%202016.pdf)

Figure 2: Ivory Coast exports – relative share of main products (%), 2016



(Source: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/civ/all/show/2016/)

Extract A

Cheap cocoa is costing farmers dear

The median annual income of cocoa farmers in the west African country, Ivory Coast, is just US$2 600. Research suggests that an annual income of US$6 133 is needed for this country's farmers to have a decent, living income. This situation is even worse for farmers who are not part of a Fairtrade scheme.

World cocoa prices fell by more than a third in 2017. Cocoa farmers have to accept all the risk from price volatility, putting a significant strain on their fragile incomes. On the other hand, cocoa processors and chocolate manufacturers are able to adapt or even make high profit and consumers continue to enjoy their chocolate.

This is still happening despite considerable investment in agriculture to build a sustainable cocoa sector. The focus has been on raising productivity and diversifying crops. The average cocoa farm in the Ivory Coast produces only around half of the output that could be achieved with training and resources such as fertilisers, equipment and replanting. If farmers diversify into other crops, livestock or non-farm activities, they lower the risk they face of fluctuating world cocoa prices.

Even tripling farm output would not provide the average cocoa farmer with a living income. Diversification alone will not always make farms more profitable. If we want farmers to earn a living income, we must also be willing to pay farmers more.

(Source adapted from: https://www.fairtrade.org.uk/Media-Centre/Blog/2018/October/Cheap-cocoa-is-costing-farmers-dear)

Extract B

Sub-Saharan Africa is becoming more integrated

After two years of negotiations, representatives of a large number of African countries signed the African Continental Free Trade Agreement (AfCFTA) in Kigali on March 21, 2018. This created a trading bloc of 1.2 billion people with a combined gross domestic product of more than US$2 trillion. The agreement committed countries to removing tariffs on 90% of goods and to liberalise services.

This can be seen as a sign of rapid and steady regional integration. Sub-Saharan Africa in particular is much more integrated today than in the past. The level of integration in sub-Saharan Africa is now similar to that in the world's other developing and emerging market economies.

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Greater interdependence can expose small economies to their partners' recessions. After nearly 20 years of strong economic activity, sub-Saharan Africa experienced the downside of integration in 2015. The collapse in commodity prices and the slowdown in economic activity in Nigeria and South Africa contributed to sub-Saharan African growth slowing sharply. Since 2017 growth has begun to recover. The recovery is mixed, though, and it is unclear to what extent the slow recovery of the larger economies is still affecting the rest of sub-Saharan Africa.

(Source adapted from: https://www.imf.org/ and https://www.pulse.ng/)

6 (a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

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(b) Examine **two** ways, apart from Fairtrade schemes, in which cocoa farmers could boost their incomes despite the falling price of cocoa.

(8)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports. Refer to Figure 2 in your answer.

(12)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

(10)

(e) Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

(15)

(e) Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

7 Three of Africa's main trading blocs have agreed to form the Tripartite Free Trade Agreement (TFTA). This will create one of the world's largest free trade areas, stretching across 26 countries with a combined GDP of around £1 trillion.
(Source: https://uk.reuters.com/article/uk-africa-trade/mega-african-trade-bloc-paves-way-for-continental-commerce-idUKKBN0OR28M20150611)

Q) Evaluate the effects of the growth of trading blocs such as the TFTA on global trading patterns.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

Section B

Read Figure 3 and the extracts (D to F) before answering Question 2.

Answer ALL Questions 2 (a) to 2 (c), and EITHER Questions 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Ghana – cocoa and chocolate production

Figure 3: World's largest cocoa growers and chocolate producers

Cocoa growers	Chocolate producers
Ivory Coast 46%	Germany 17%
Ghana 18%	Belgium 11%
Indonesia 14%	Italy 7.4%
Nigeria 7%	US 7.2%

(Source: adapted from International Cocoa Association www.icco.org December 2021 and The Telegraph.co.uk accessed 24/2/22)

Extract D

From a managed to a floating exchange rate

Ghana's currency, the cedi, has depreciated significantly against major currencies, especially the US dollar (US$), since the adoption of the floating exchange rate system in 1992. From 1983 to 1992 it operated a managed exchange rate. Since the liberalisation of the foreign exchange market there have substantial swings and on average the cedi has depreciated 98% against the US dollar. The cedi to US dollar rate has been very volatile recently, causing macroeconomic instability and limiting economic growth.

(Source adapted from: https://www.theigc.org/project/on-the-causes-and-effect-of-exchange-rate-volatility-on-economic-growth-evidence-from-ghana/ and https://www.scirp.org/journal/paperinformation.aspx?paperid=95492)

Extract E

There is a lot of money in chocolate but the growers of cocoa see very little of it.

In 2020 the chocolate retail industry was worth £78 billion, but Ghana – the world's second largest cocoa producer – earned just over £1 billion. Cocoa farmers in Ghana now make roughly $1 a day (this often includes being subsidised by the Ghanaian government). This is a familiar pattern for many African countries where the economy is still shaped by a colonial relationship in which they export commodities to be processed elsewhere.

Ghana currently processes about 30% of its cocoa crop into chocolate, meaning that the exports can earn high prices. Despite plans for expanding the domestic chocolate industry there are still many obstacles in the way. The equipment to make chocolate is very expensive and there is neither a local sugar nor dairy industry. Imported milk and sugar would increase the cost of production significantly, with the added problem that foreign currency would be needed. Producing chocolate requires consistent refrigeration, and the high cost of the equipment to achieve that is a major obstacle for entrepreneurs without substantial funds. There is an inconsistent supply of energy in rural parts of Ghana. An alternative, making teas and wines using cocoa, can make 20 times more revenue than the raw beans, but they do not have the mass market appeal and high profits of chocolate.

Access to funds is a big problem and one farmer, Nana Aduna, says that high interest rates on bank loans are an issue for start-up businesses and at the moment he cannot afford to borrow money. "You cannot grow a business when you have to service interest rates of 18%–20% or even more," he says.

But the government has pledged to address these structural issues, using supply side policies. The Trade and Industry Minister announced that industrialisation is the focus of government policy. "It only makes sense that the most important commodity in our country, which is cocoa… should become the target for a major programme of industrialisation," he says.

The 'One District One Factory' programme aims to kickstart industrialisation by providing the infrastructure for Ghana's farms, by establishing processing plants in some of the big cocoa-growing areas. It has become easier for the private sector to invest in food processing, and there is a big tax rebate available to processing companies that set up in the country's enterprise zones – designated areas to encourage economic activity – in a bid to help them export.

(Source: adapted from https://www.newsbreak.com/news/2201853748349/ghana-s-farmers-eye-sweet-success-from-chocolate and https://www.indepthnews.net/index.php/the-world/africa/4495-ghana-starts-with-cocoa-to-end-neocolonial-trading-ties and https://www.brookings.edu/blog/africa-in-focus/2020/09/03/pathways-to-structural-transformation-of-the-ghanaian-economy-and-some-roadblocks/ and https://www.ghanaweb.com/GhanaHomePage/business/Speculators-driving-interbank-retail-FX-rates-gap-1468375)

Extract F

A new trade bloc for Africa

The African Continental Free Trade Agreement (AfCFTA) has been signed by all 55 member states of the African Union, including Ghana, Nigeria, and South Africa. This brings together 1.2 billion people with a combined gross domestic product (GDP) of more than $2 trillion as of 2023.

The agreement commits countries to removing tariffs on 90% of goods, with other goods to be phased in later.

The agreement also liberalises services and aims to tackle non-tariff barriers which reduce trade between African countries, such as long delays at the borders.

(Source adapted from: https://www.aljazeera.com/economy/2018/3/20/african-continental-free-trade-area-what-you-need-to-know)

Q) 2 (e) Evaluate the microeconomic and macroeconomic effects of Ghana joining the African Continental Free Trade Agreement (Extract F).

(25)

(Total for this part = 25 marks)

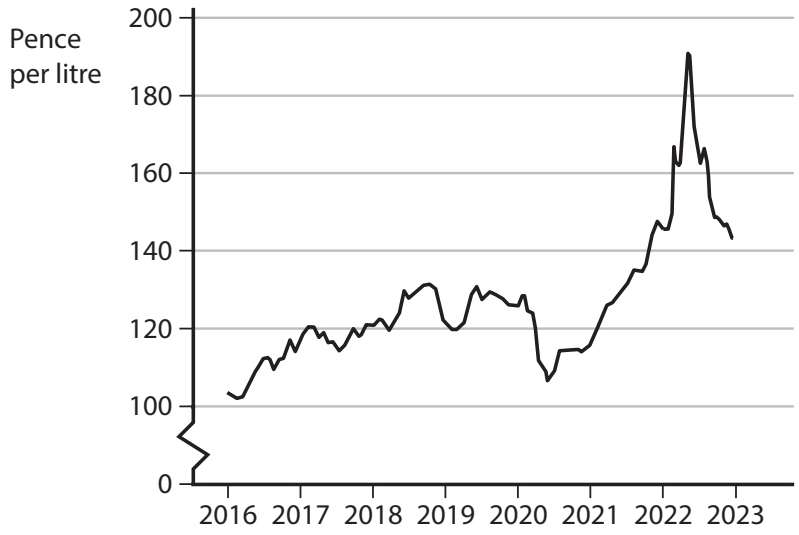
Continue on separate paper if required.

Sources for use with SECTION A

Read Figures 1 and 2 and the following Extracts A, B, C and D before answering Question 1.

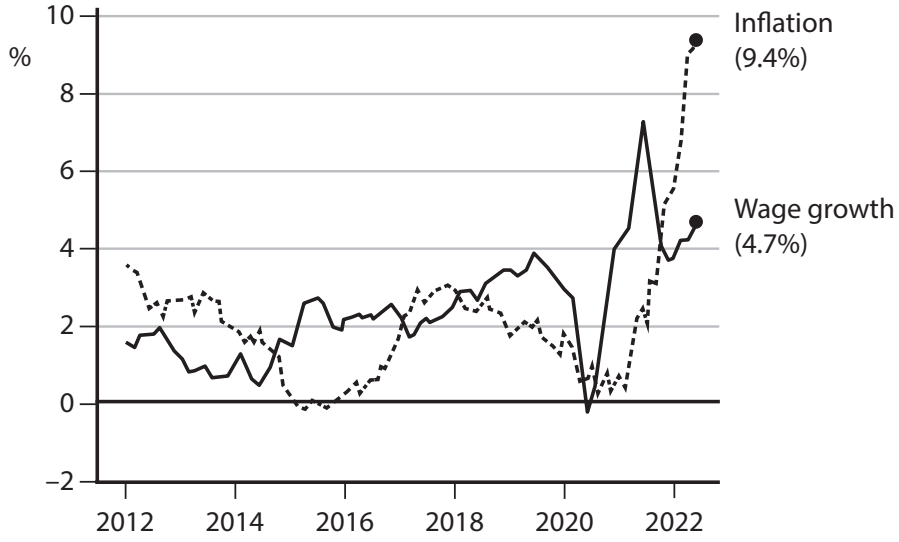
The cost of living in the UK

Figure 1: The price per litre of unleaded petrol in the UK, in pence, 2016–2023



(Source adapted from: RAC)

Figure 2: UK inflation, as measured by CPI, and wage growth (excluding bonuses), 3-month averages, 2012–2022



(Source adapted from: ONS)

Extract A

Supermarket restrictions on multibuy deals and advertising

Government rules limiting the location of unhealthy foods in shops began in 2022. Less healthy products are no longer promoted in key locations, such as checkouts, store entrances, aisle ends and their online equivalents. Rules banning multibuy deals on foods and drinks high in fat, salt or sugar (HFSS) – including buy one get one free (BOGOF), '3 for 2', and restrictions on free refills for soft drinks – were due in October 2023. The restrictions banning HFSS adverts on TV before 9pm and paid-for adverts online were set for January 2024.

(Source adapted from: https://www.gov.uk/government/news/government-delays-restrictions-on-multibuy-deals-and-advertising-on-tv-and-online)

Extract B

Supermarket pay in 2023

Supermarkets have been increasing their hourly pay rates and most now pay significantly more than the National Minimum Wage, which was set at £10.42 in April 2023.

Tesco made its biggest ever investment in employee pay in 2023, spending £230 million to finance an increase in its basic hourly rate of pay, to £11.02 per hour, rising to £11.95 in London.

The pay increase is the latest boost in employment benefits as supermarkets continue to compete for in-store workers, with Sainsbury's and Asda both increasing pay to above £11 per hour in July 2023, while Aldi pays £11.40 an hour.

Supermarkets have found themselves facing criticism over pay that did not rise in line with inflation. Some workers are taking industrial action, such as strikes, working closely with trade unions.

(Source adapted from: https://www.grocerygazette.co.uk/2023/02/22/supermarket-pay-rate-2023/)

Extract C

Supermarket petrol pricing

In 2023 David Potts, the boss of Morrisons, admitted that supermarkets increased profits at the petrol pumps as he was questioned in a parliamentary committee alongside executives from Tesco, Sainsbury's and Asda who denied they were making more profit from keeping petrol prices high.

A Competition and Markets Authority (CMA) report indicates that supermarkets' profits have doubled to 8% on fuel since 2017. It is expected to recommend that supermarkets must share local fuel prices on a comparison website in order to increase transparency and help bring down prices – a strategy tried successfully in Northern Ireland. All the supermarkets said they would welcome such a move.

In 2023, the RAC motoring group said that a price checker would be welcome but blamed high prices on the domination of petrol retailing in the UK by a few large supermarkets. "When the wholesale price of diesel fell this spring, we saw average retailer margin reach 22p a litre which was more than three times the long-term margin of 7p. This cannot be allowed to continue when households are having to contend with a cost of living crisis," an RAC spokesperson said.

At the committee, one politician, Jane Hunt, said: "In 1978 there were many more supermarkets. Now there are very few…are you in fact a cartel?"

(Source adapted from: https://www.theguardian.com/business/2023/jun/27/morrisons-boss-admits-supermarket-chains-have-hiked-profits-on-petrol)

Extract D

EU trade relations with the UK

The Trade and Cooperation Agreement 2021 between the EU and the UK means that there are no tariffs or quotas on goods moving between the EU and UK, provided those goods meet the 'rules of origin' of a good, based on where the products or materials used in their production come from. They prevent goods manufactured in outside countries being transported through the UK (or the EU) to avoid paying tariffs.

To benefit from the zero tariff, businesses must show the origin of their goods. A product qualifies as 'originating' if it is 'wholly obtained' in the UK and EU or has been substantially transformed in one or both markets. That is why UK businesses that re-export goods from outside countries with little or no further processing, may still face tariffs when trading with EU member states.

'Rules of origin' can be time consuming and complex. Some businesses cannot or do not wish to claim zero tariff because of the excessive administrative costs to firms.

(Source adapted from: https://commonslibrary.parliament.uk/new-customs-rules-for-trade-with-the-eu/)

Q) 1 (e) Evaluate the microeconomic and macroeconomic effects of a regional trade agreement between the UK and the EU.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.1.6

RESTRICTIONS ON FREE TRADE

Sub-topic 4.1.6 · 4 questions · 67 marks · lowest tariff first

5 In March 2018 the US imposed a tariff of 25% on steel imports from the UK.

(Source: adapted from https://www.reuters.com/business/us-uk-announce-plans-formal-talks-metals-tariffs-wednesday-sources-2022-01-19/)

(a) Explain the likely impact of this tariff on the steel market in the US.

(4)

(b) Which **one** of the following is likely to give the US a comparative advantage in steel production?

An increase in:

(1)

- ☒ **A** corporation tax in the US
- ☒ **B** economic growth in the US
- ☒ **C** the productivity of US steel workers
- ☒ **D** the wages of US steel workers

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION B

Read Figures 1, 2, and 3 and extracts A and B before answering Question 6.

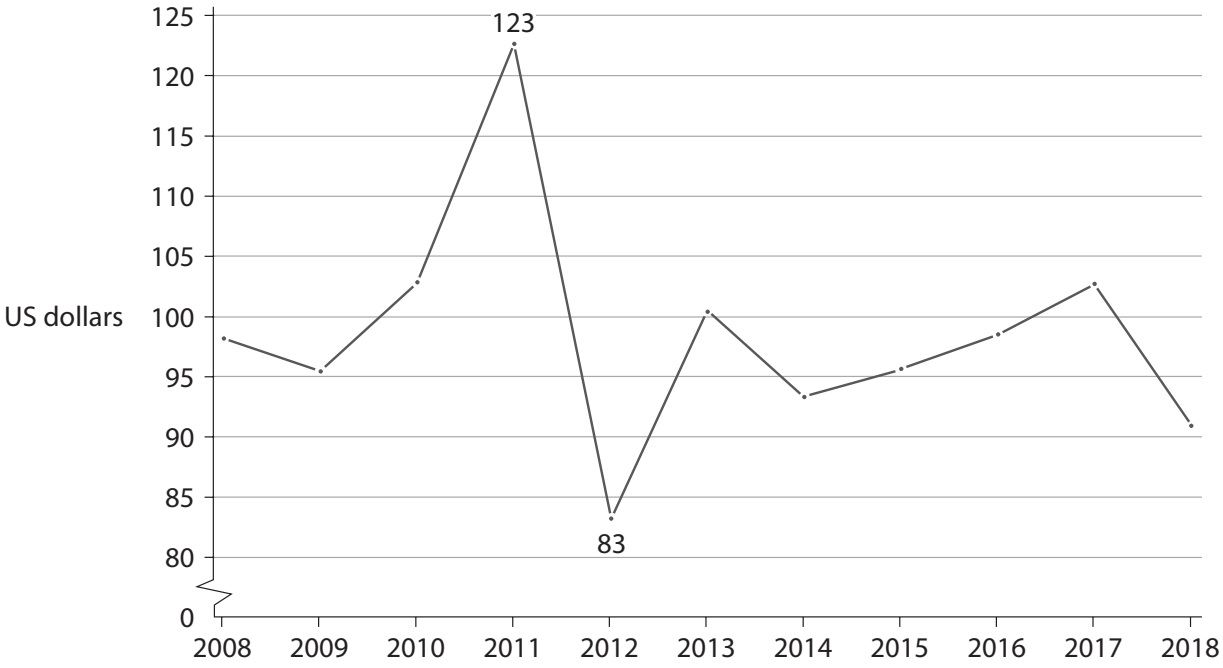
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

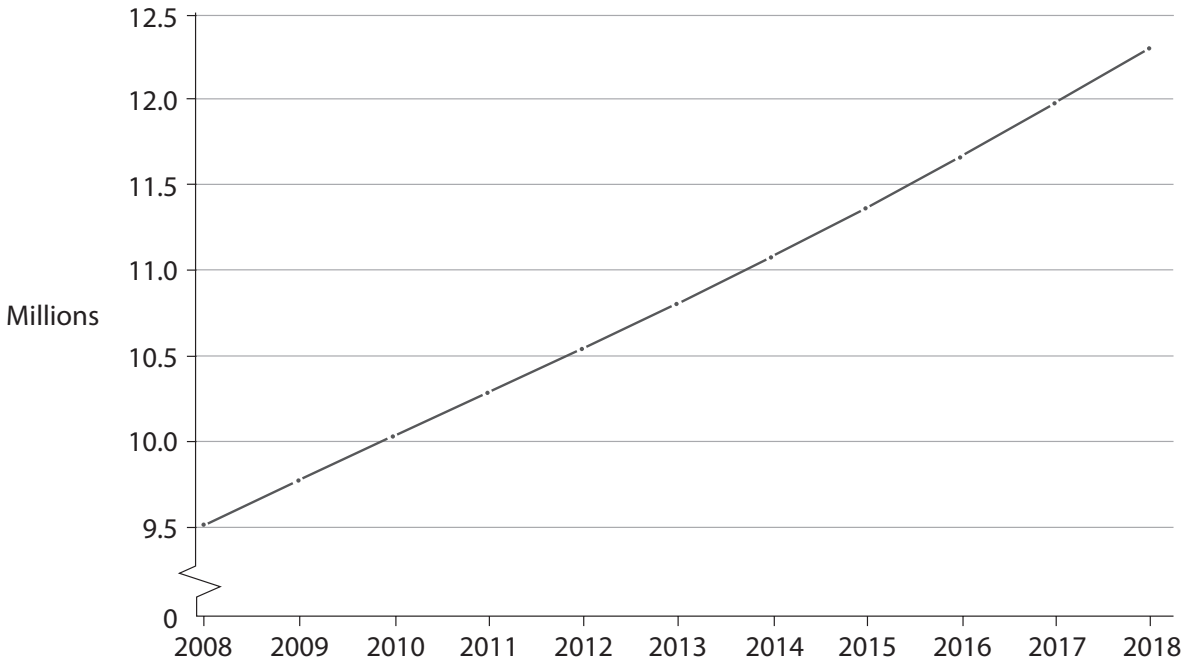
Trade and aid in Rwanda

Figure 1: Aid funding received by Rwanda (per capita, US dollars), 2008 to 2018



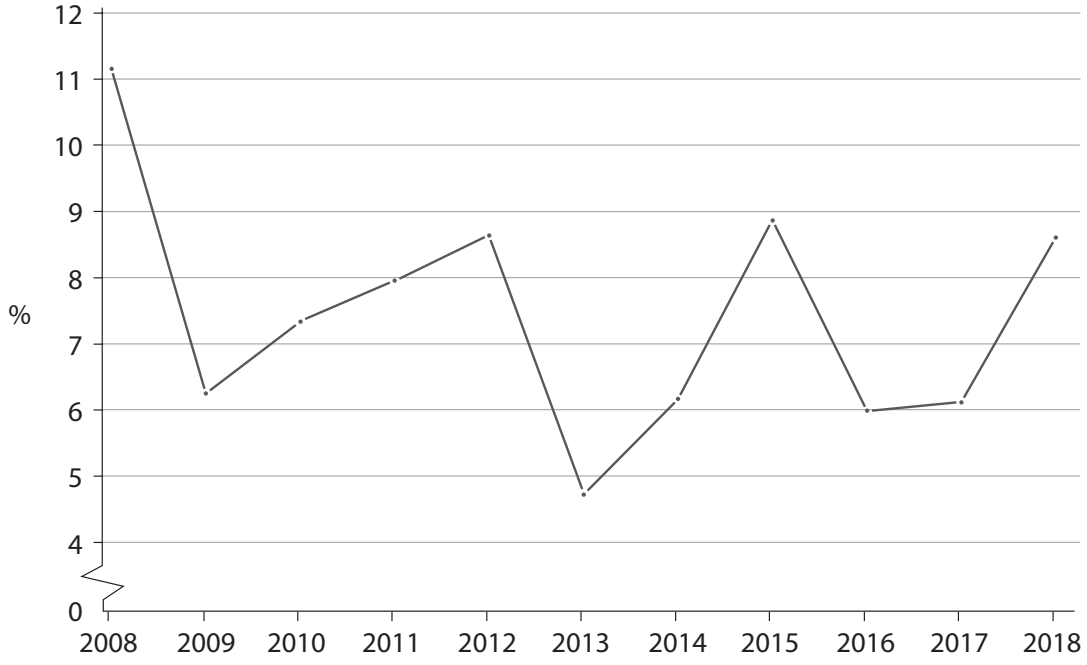
(Source adapted from: data.worldbank.org)

Figure 2: Population of Rwanda (millions), 2008 to 2018



(Source adapted from: https://tradingeconomics.com/rwanda/population)

Figure 3: Rwanda real GDP annual percentage growth rate, 2008 to 2018



(Source adapted from: African Development Bank Statistics accessed April 2020)

Extract A

Rwandan tariffs on imports of used clothing

In a market in Kigali, Rwanda's capital, an auction is under way. Sellers offer crumpled T-shirts and faded jeans; traders argue over the best picks. Everything is second-hand. A Tommy Hilfiger shirt sells for 5 000 Rwandan francs ($5.82); a plain one for a tenth of that. Afterwards, a trader sorts through the purchases he will resell in his home village. The logos hint at their previous lives: Kent State University, a rotary club in Pennsylvania, Number One Dad.

These auctions were once twice as busy, but in 2016 Rwanda's government increased import tariffs on a kilo of used clothes from $0.20 to $2.50. Now many traders struggle to make a profit. The traders are not the only ones who are unhappy. Exporters in the US claim the tariffs are costing jobs there. In March, the US President warned that he would suspend Rwanda's tariff-free access to US markets for its clothing exports after 60 days if it did not remove the tariff.

Globally, about $4 billion of used clothes crossed borders in 2016. The share from China and South Korea is growing, but 70% still come from Europe and North America. Many go to Asia and eastern Europe, but Africa remains the largest market. The trade enables poor people to afford clothes and creates retail jobs. However, governments worry that the trade undercuts their own clothing manufacturers.

Second-hand imports of clothing now dominate African markets. Researchers at the Overseas Development Institute, a British think-tank, estimate that Tanzania imports 540 million used items of clothing and 180 million new ones each year, while producing fewer than 20 million itself. African manufacturing is weak for many reasons, from ineffective privatisations to collapsing infrastructure. But second-hand clothing imports are a major factor: it is estimated that they accounted for half of the fall in employment in the African clothing industry between 1981 and 2000.

For example, a clothing factory in Kigali is operating at only 40% of capacity and employs 600 workers, down from 1 100 in the 1990s. It is hard to compete, says Ritesh Patel, its manager, when a used imported T-shirt sells for the price of a bottle of water. Instead, the company specialises in uniforms for police, soldiers and security guards, which cannot be bought second-hand.

The threatened suspension of tariff-free access to the US market would hurt Rwanda, but not very much. Last year Rwanda sold just $1.5 million of clothing to the US. Nor, with about 12 million people, is Rwanda a big market for US exports.

(Source adapted from: https://www.economist.com/finance-and-economics/2018/05/31/rwanda-refuses-to-remove-tariffs-on-imports-of-used-clothing)

Extract B

Development in Rwanda

Rwanda's strong economic growth has been accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on policies to encourage industrialisation and poverty reduction initiatives have contributed to significant improvements in access to services and human development indicators. Absolute poverty declined from 59% to 39% of the population between 2001 and 2014 but was almost stagnant between 2014 and 2017. The official inequality measure, the Gini index, declined from 0.52 in 2006 to 0.43 in 2017.

(Source adapted from: https://www.worldbank.org/en/country/rwanda/overview)

(d) Discuss the likely impact on Rwandan consumers and clothing manufacturers of the increase in the tariff on imports of second-hand clothes. Use an appropriate diagram to support your answer.

(12)

Q) 7 Since the global financial crisis of 2008 there have been over 5 700 increases in tariffs, quotas and administrative controls on international trade. Evaluate the likely effects of an increase in protectionism on the economy of a developing country of your choice.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

7 Both China and the United States have been gradually increasing the tariffs imposed on each other's exports as their trade dispute continues. The IMF estimated that the trade dispute between China and the United States would reduce global GDP growth by 0.8 percentage points by the end of 2020.
(Source: adapted from https://www.theguardian.com/business/2019/oct/15/imf-recession-world-growth-forecast-central-banks)

Q) Evaluate the likely impact of an increase in protectionism on the global economy.

(25)

(Total for this part = 25 marks)

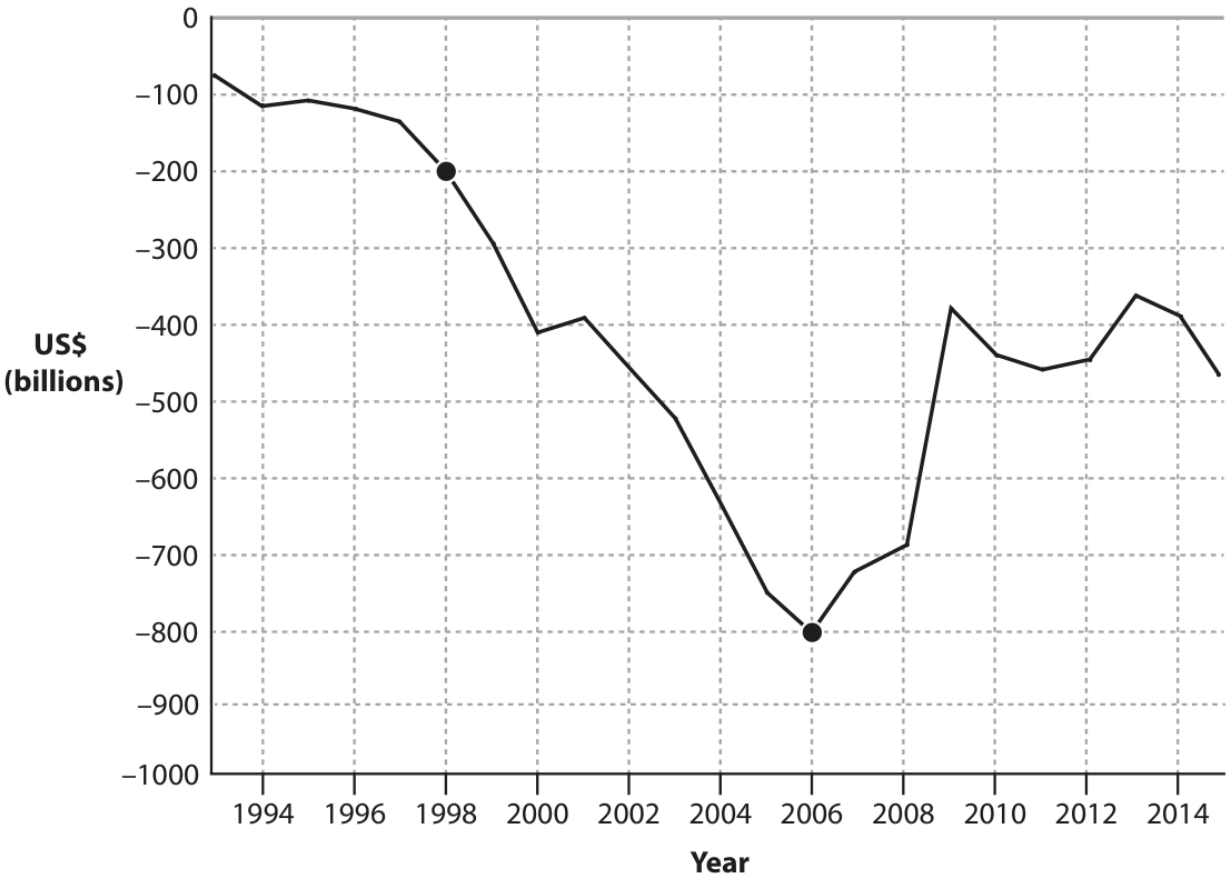
Continue on separate paper if required.

SUB-TOPIC 4.1.7

BALANCE OF PAYMENTS

Sub-topic 4.1.7 · 7 questions · 41 marks · lowest tariff first

3 United States current account of the balance of payments, 1993–2015



(Source: http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993)

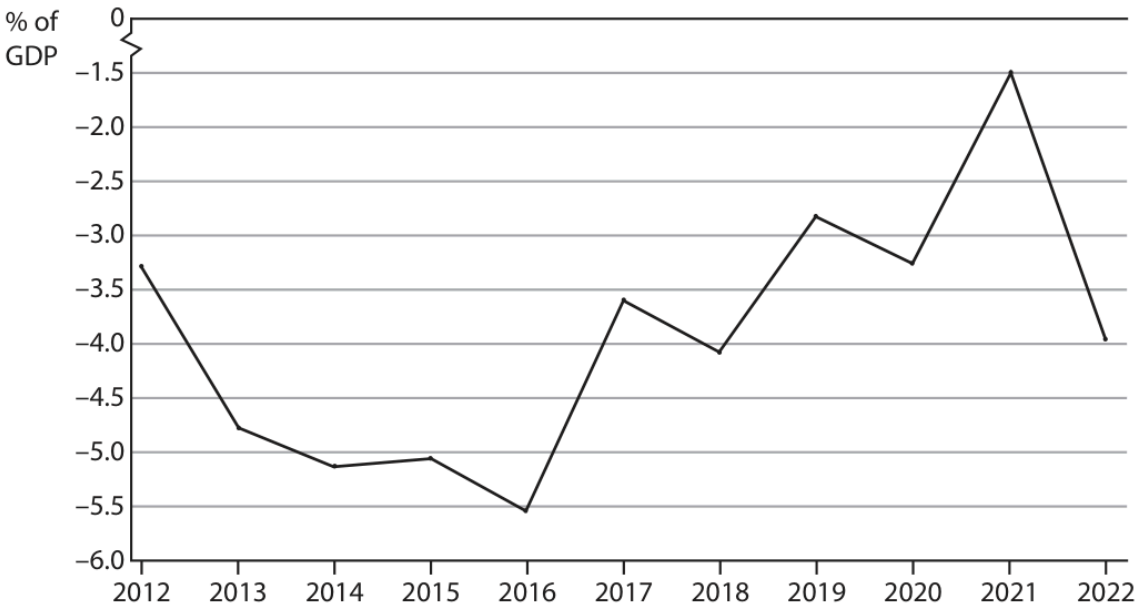
(c) Using the chart on page 6, which **one** of the following may be inferred about the United States balance of payments?

(1)

- ☒ **A** The current account deficit decreased between 2001 and 2006
- ☒ **B** The current account surplus increased between 2001 and 2006
- ☒ **C** There was a current account deficit for the entire period shown
- ☒ **D** There was a current account surplus for the entire period shown

(Total for Question 3(c) = 1 mark)

2 UK current account of the balance of payments, percentage of GDP, 2012–2022.



(Source adapted from: https://data.worldbank.org/indicator/BN.CAB.XOKA.GD.ZS?end=2022&locations=GB&start=2012)

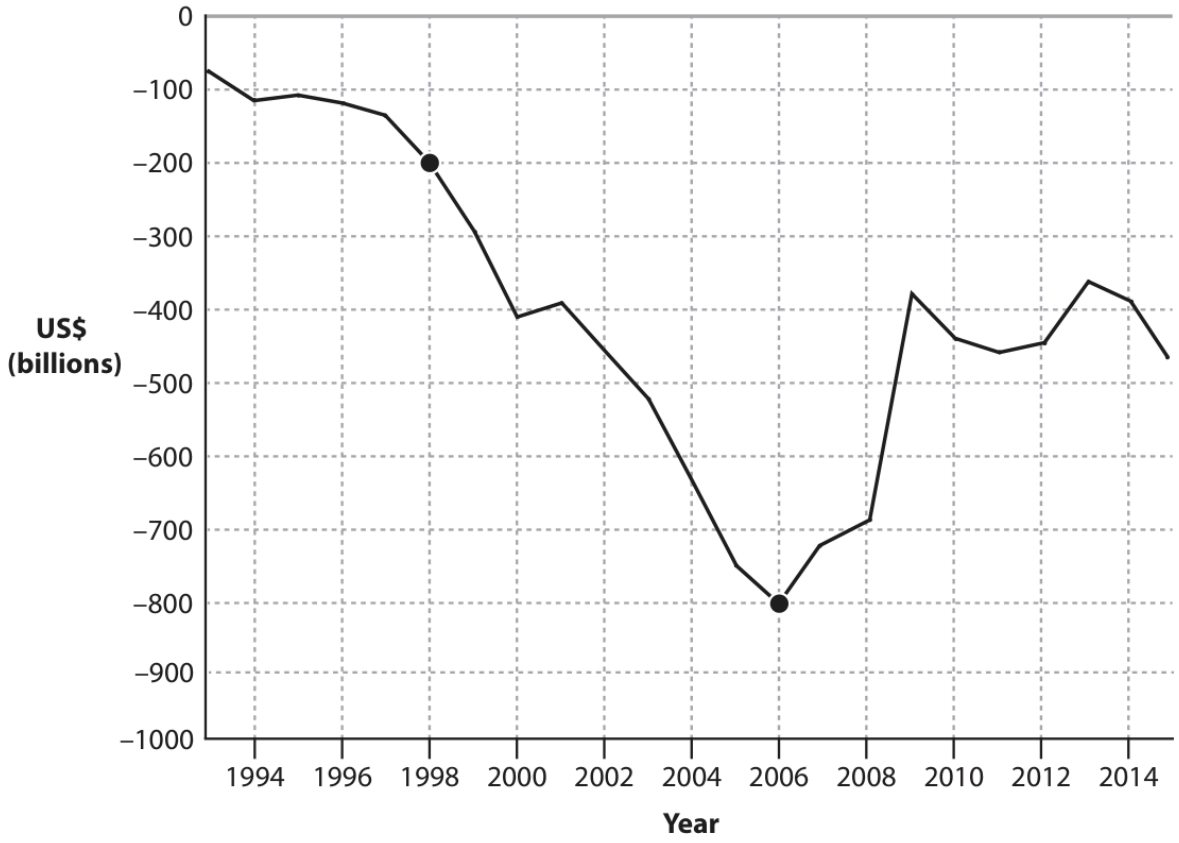
(a) With reference to the chart above, which **one** of the following is correct?

(1)

- ☒ **A** The current account was in surplus during the entire period shown
- ☒ **B** The deficit on the current account was smallest in 2021
- ☒ **C** The UK Government's fiscal deficit was largest in 2016
- ☒ **D** The value of exports was greater than the value of imports in 2012

(Total for Question 2(a) = 1 mark)

3 United States current account of the balance of payments, 1993–2015



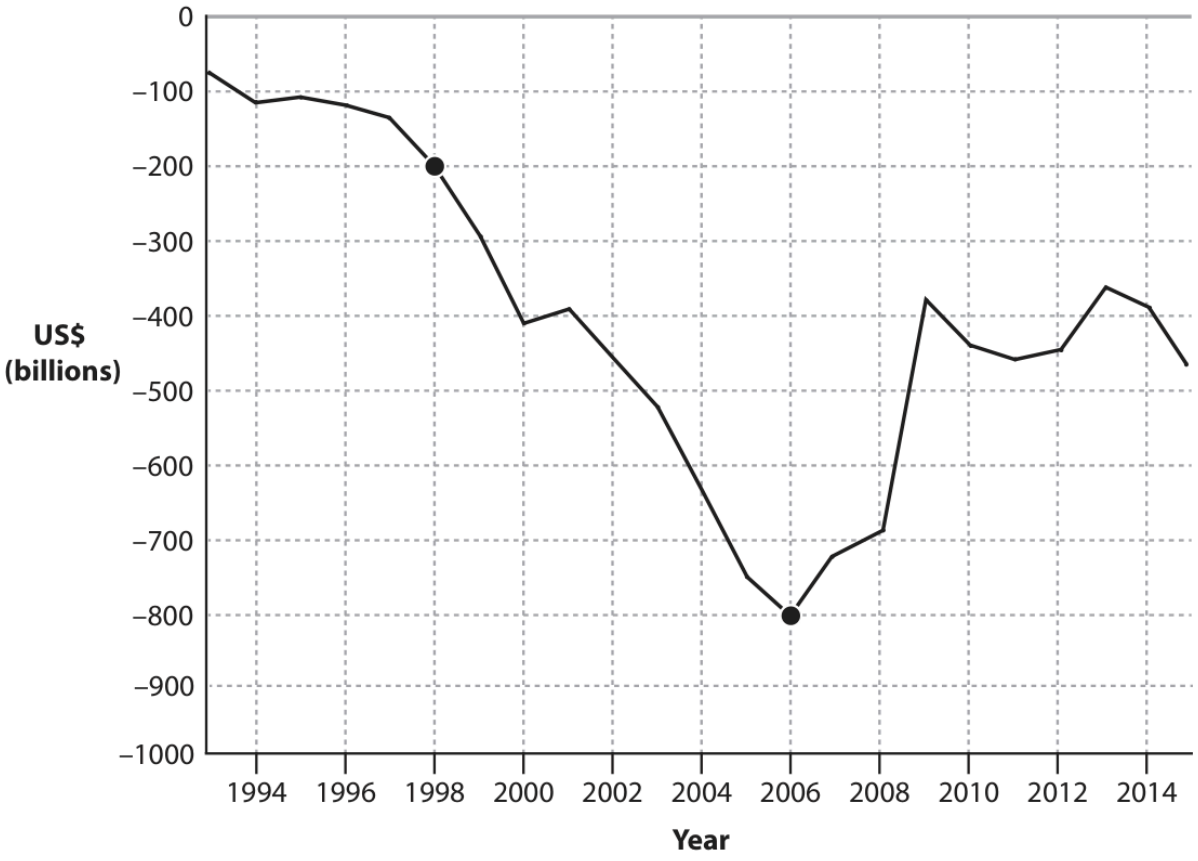
(Source: http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993)

(a) Calculate the percentage change in the United States current account deficit on the balance of payments between 1998 and 2006.

(2)

(Total for Question 3(a) = 2 marks)

3 United States current account of the balance of payments, 1993–2015



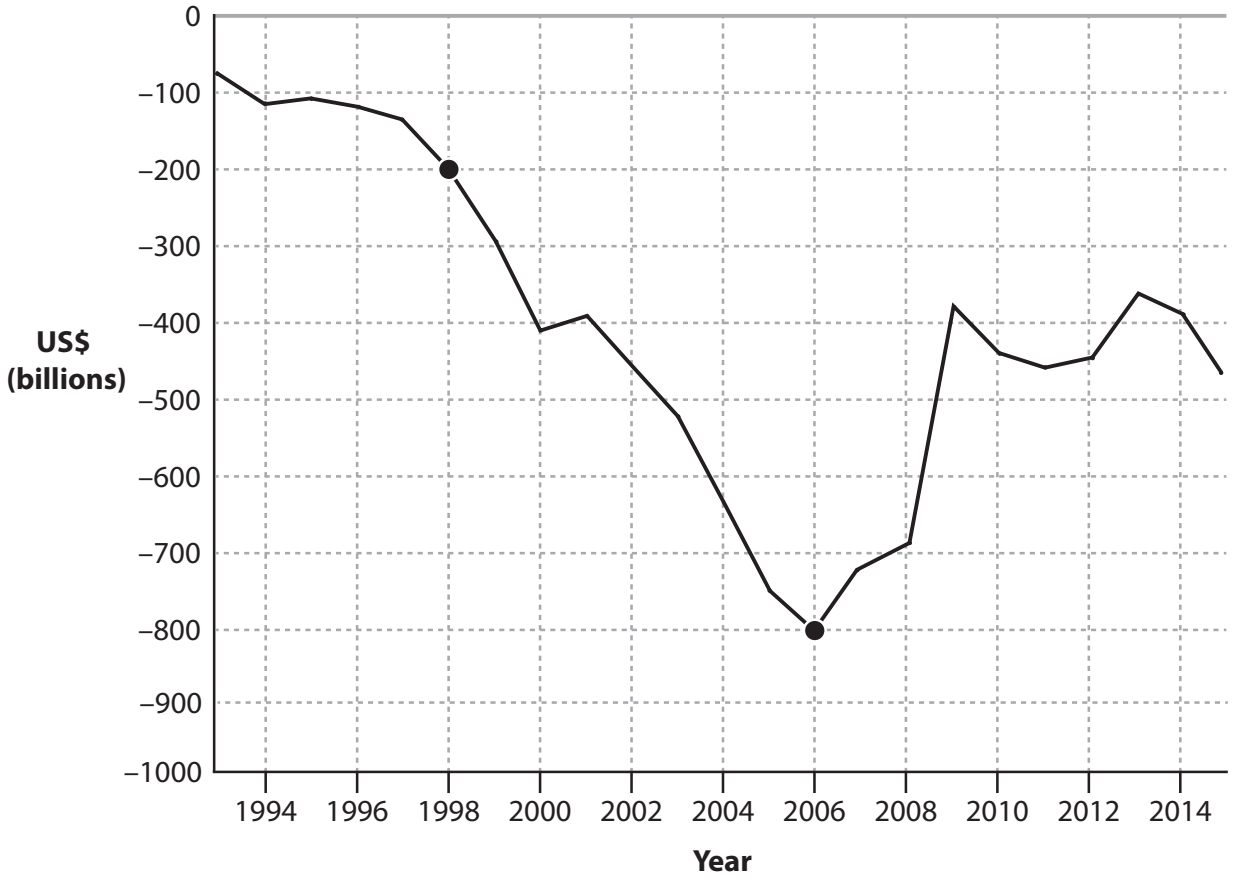
(Source: http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993)

(b) Explain the term 'current account of the balance of payments'.

(2)

(Total for Question 3(b) = 2 marks)

3 United States current account of the balance of payments, 1993–2015



(Source: http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993)

(a) Calculate the percentage change in the United States current account deficit on the balance of payments between 1998 and 2006.

(2)

(b) Explain the term 'current account of the balance of payments'.

(2)

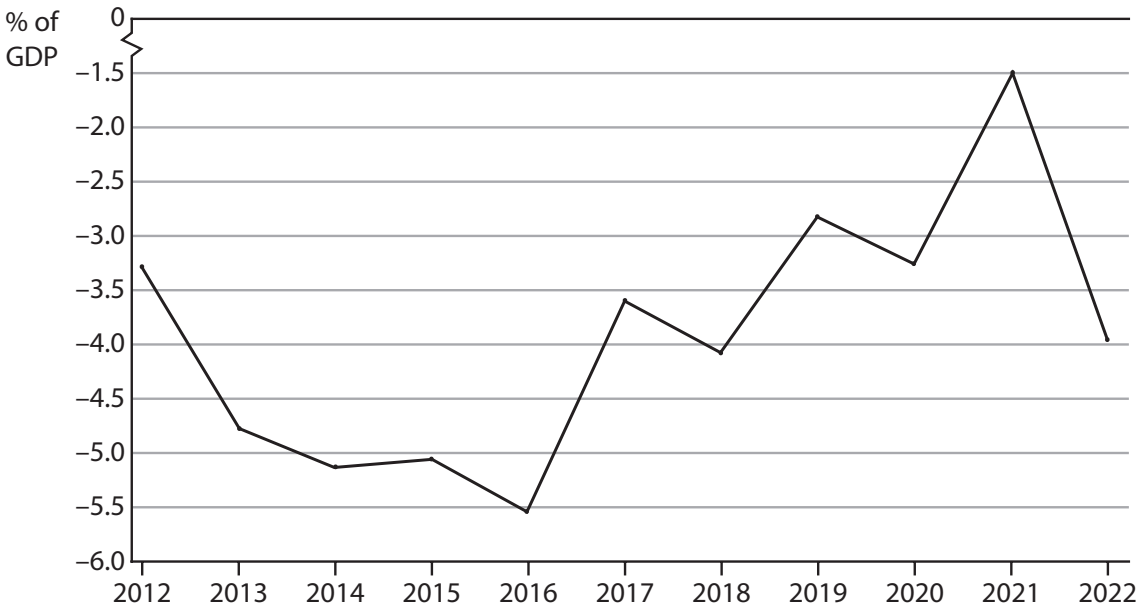
(c) Using the chart on page 6, which **one** of the following may be inferred about the United States balance of payments?

(1)

- ☒ **A** The current account deficit decreased between 2001 and 2006
- ☒ **B** The current account surplus increased between 2001 and 2006
- ☒ **C** There was a current account deficit for the entire period shown
- ☒ **D** There was a current account surplus for the entire period shown

(Total for Question 3 = 5 marks)

2 UK current account of the balance of payments, percentage of GDP, 2012–2022.



(Source adapted from: https://data.worldbank.org/indicator/BN.CAB.XOKA.GD.ZS?end=2022&locations=GB&start=2012)

(a) With reference to the chart above, which **one** of the following is correct?

(1)

- ☒ **A** The current account was in surplus during the entire period shown
- ☒ **B** The deficit on the current account was smallest in 2021
- ☒ **C** The UK Government's fiscal deficit was largest in 2016
- ☒ **D** The value of exports was greater than the value of imports in 2012

(b) With reference to the chart on the previous page, explain **one** likely reason for the change in the UK current account deficit from 2016 to 2021.

(4)

(Total for Question 2 = 5 marks)

7 In 2021 Brazil's current account deficit on the balance of payments was US$46.12 billion. The Central Bank of Brazil intervened to sell its own currency, the real, on September 23rd 2022. This was the first time it has intervened in foreign currency markets since December 2021. (Source adapted from: https://www.statista.com/statistics and https://www.centralbanking.com/central-banks/reserves/foreign-exchange/7953193/brazil-makes-first-fx-intervention-of-the-year)

Q) Evaluate macroeconomic policies that could be used to reduce a current account deficit. Refer to a country of your choice in your answer.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.1.8

EXCHANGE RATES

Sub-topic 4.1.8 · 12 questions · 103 marks · lowest tariff first

3 In 2018, the International Monetary Fund (IMF) lent Argentina $57 billion as part of a bailout package to help prevent the country's government defaulting on its debts. This financial crisis also caused significant capital flight out of Argentina's economy.

(Source adapted from: https://www.ft.com/content/737b48bc-c1c9-11e8-95b1-d36dfef1b89a)

(b) Which **one** of the following is most likely to happen to Argentina's currency value as a result of capital flight, assuming it is operating with a floating exchange rate system?

(1)

- ☒ **A** Appreciation
- ☒ **B** Depreciation
- ☒ **C** Devaluation
- ☒ **D** Revaluation

(Total for Question 3(b) = 1 mark)

3 British pound to US dollar exchange rate (value of one pound in dollars), June 2017 to June 2019.



(Source adapted from: https://www.xe.com/currencycharts/?from=GBP&to=USD&view=2Y)

(a) Which **one** of the following has been the overall change in the British pound to US dollar exchange rate from 1st January 2018 to 1st January 2019?

(1)

- ☒ **A** Appreciation
- ☒ **B** Depreciation
- ☒ **C** Devaluation
- ☒ **D** Revaluation

(Total for Question 3(a) = 1 mark)

SECTION B

Read Figures 1 and 2 and extract (A) before answering Question 6.

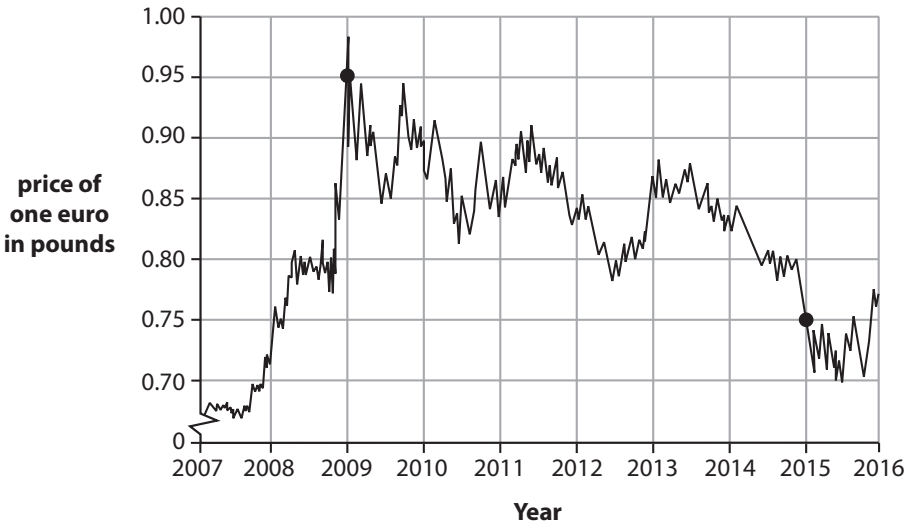
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

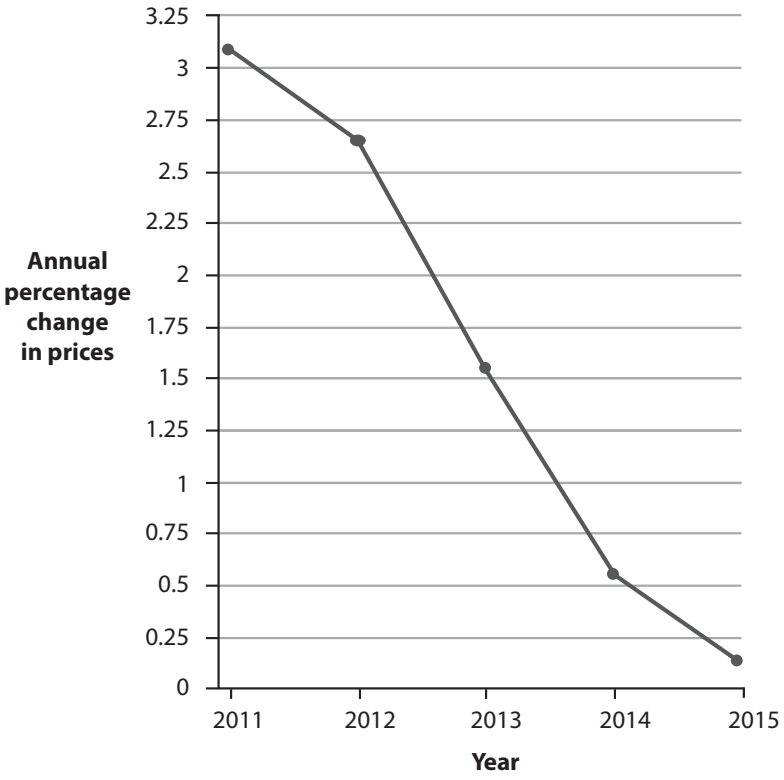
The Eurozone economy

Figure 1: Exchange rate of the euro (€) to the British pound (£)



(Source: https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-gbp.en.html#)

Figure 2: Eurozone inflation rate as measured by the Consumer Prices Index (CPI)



(Source: adapted from http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/download.aspx)

Extract A

European Central Bank disappoints markets with weaker than expected stimulus

Mario Draghi, president of the European Central Bank (ECB), surprised financial markets in November 2015 with a less ambitious package of monetary stimulus than many had anticipated.

The ECB cut its base interest rate by 0.1% to minus 0.3% in order to encourage private banks to lend funds to companies and households rather than deposit them at the central bank. The central bank agreed to extend its €60 billion (£45 billion) monthly bond-buying quantitative easing (QE) programme for a further six months. The ECB's €1.1 trillion QE scheme had originally been due to end in September 2016.

"We are doing more because it works," Mr Draghi said. Yet the ECB did not increase the size of its monthly asset purchases and also disappointed those expecting that it would cut interest rates more aggressively.

The euro rose almost 3% against the dollar to $1.08 after the announcement. Italian and Spanish bond yields both jumped by 0.27% to 1.62% and 1.72% respectively.

The ECB's economists reduced their inflation forecasts for the next two years. They now predict consumer prices in the Eurozone rising by just 1% in 2016 and 1.6% in 2017 – still below the central bank's ceiling of 2%. In November 2015, the inflation rate was just 0.1% and core inflation, excluding volatile items such as fuel and food, dropped to 0.9%.

Mr Draghi stressed again that monetary policy alone could not restore the Eurozone to economic health. He called for looser fiscal policy among member states to support aggregate demand and more rapid implementation of supply-side reforms. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively," he said.

(Source: http://www.independent.co.uk/news/business/news/ecb-disappoints-traders-with-weaker-than-expected-stimulus-a6759786.html, 4th December 2015)

(a) With reference to Figure 1, calculate the percentage change in the value of the euro in pounds from the start of 2009 to the start of 2015.

(5)

SECTION A

Read Figures 1 to 3 and the following extracts (A and B) before answering Question 1.

Answer ALL questions 1(a) to 1(c), and EITHER Question 1(d) or 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Chile

Figure 1: Copper prices, US dollars per tonne, 2007–2015



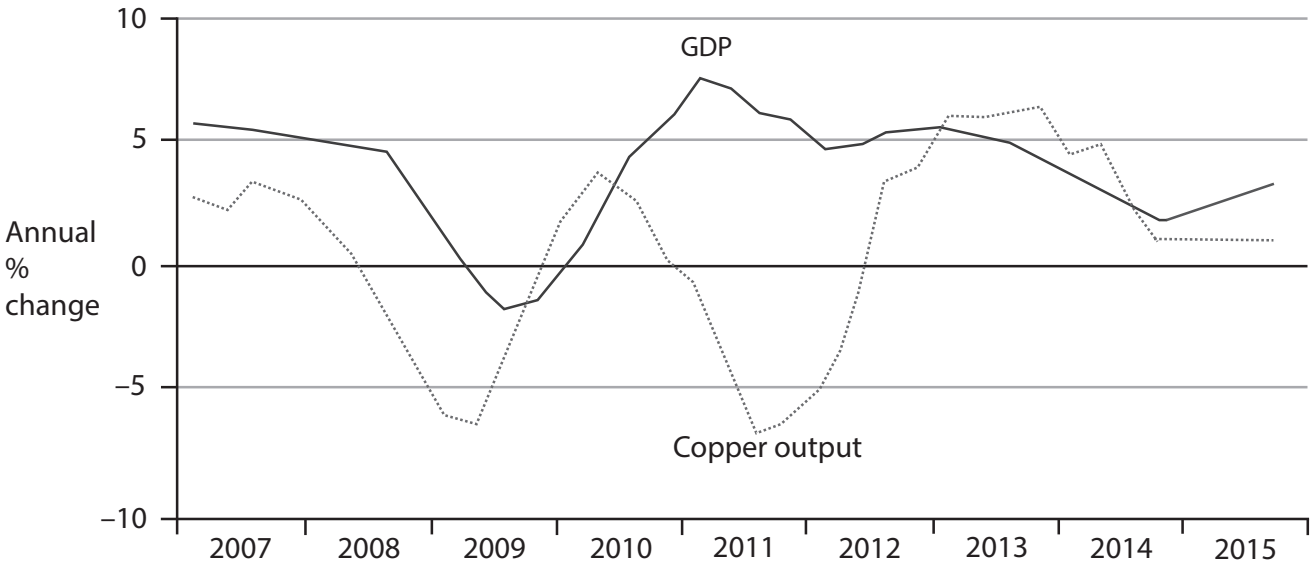
(Source: adapted from http://www.indexmundi.com/commodities/?commodity=copper&months=120)

Figure 2: US dollar per 100 Chile pesos exchange rate, 2007–2015



(Source: https://www.google.co.uk/finance?q=CLPUSD&ei=OGEvVun-AoulU6awjugF)

Figure 3: Chile: copper output and real GDP growth, 2007–2015



(Source: adapted from FT.com sources below)

Extract A

Chile's economic outlook brightens

Chile has been hit hard by a worldwide fall in commodity prices since 2011. Copper accounts for 20% of Chile's GDP and 60% of its exports; one third of the world's copper is produced by Chile. China purchased 40% of the world's copper, so a slowdown in China combined with increased global over-supply has meant copper prices have collapsed (see Figure 1). Chilean government income from copper exports had reached $11.5 billion a year before copper prices fell, but now tax revenues from this source have fallen drastically. Growing numbers of copper mines struggle to break even at current prices.

Chile's GDP is now growing, helped by a weak currency that has boosted export industries outside the mining sector, such as its successful wine and salmon industries. There are strengths in tourism and high-tech products. Public services are good in Chile, and poverty rates have been falling fast. On top of this, a large and diversified financial sector with high domestic savings provides a useful safety net, given high levels of corporate debt and the government's need to finance a fiscal deficit of 3% of GDP.

Chile's economy is often regarded as the best run in the region. This is attributed to the credibility of its financial institutions, relatively low levels of national debt (about 15% of GDP) and its free-trade model, which is unrestricted by government interventionism that has distorted the economies of countries such as Argentina and Venezuela. "Chile is an example of how credible institutions can smooth the economic cycle and make adjustments less traumatic," said Mr Valdés, the minister of finance in Chile, pointing to its widely respected and independent central bank and a well-established fiscal rule that give officials the freedom to implement counter-cyclical policies.

However, there are worries that without enough spare capacity in the economy, expansionary fiscal and monetary policies could end up increasing inflation rather than economic growth. Meanwhile monetary policy is restricted by inflation that has reached 5%, well outside the central bank's 2–4% target range, fuelled by a weaker exchange rate. Crucially, investment remains low because of uncertainty over the outcome of the Prime Minister's reforms, which are aimed at reducing inequality. A recent rise in corporation tax from 20% to 25% and labour market reforms that strengthen the power of trade unions may have a negative effect on business confidence.

Despite a "mildly contractionary" budget, Valdés insisted that the government would continue with costly reforms. Increased taxes on those on higher incomes are considered by the government to be necessary to sustain economic development in Chile. "We do want to change society, while recognising all the good things that have been done in the past 25 years," said Mr Valdés, referring to an average growth rate of 5.3% over the past three decades, but under 2% in 2015. There is broad consensus that investment in education is the key to unlocking Chile's growth potential.

(Sources: adapted from http://www.ft.com/cms/s/0/89926ce8-df96-11e4-a6c400144feab7de html#axzz3pCnzT3PC FT 20 April 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 all by Benedict Mander)

Extract B

Chile's copper mining on a downward track

There was a time when investing in Chilean mining meant guaranteed success. After 1990, when military rule was replaced by an elected government, market reforms and restored relations with the US and UK meant foreign companies were keen to exploit vast copper reserves. The existence of large copper reserves in a stable country with a business-friendly government is rare, making Chile much more attractive to investors than countries such as Zambia.

By mid-2015, however, the copper price hit a six-year low. Chilean mines are becoming less productive. After 20 years of heavy digging, the ore is lower grade, and much further down. The deeper pits take longer to mine, and use more fuel. Wages are high, and trade unions are powerful. A mining truck driver earns $70 000 a year, $10 000 more than the US equivalent. Many mining projects that were planned are being postponed, and investors are looking to Peru; even the US copper mining industry is becoming more competitive.

Energy supply is also a worry as Chile produces virtually no fossil fuels and relies on imported coal and liquid natural gas to power its mines. Energy costs account for 18% of the cost of copper production.

Water supply is also becoming a major problem. Farmers and communities accuse mining companies of causing water shortages to keep their operations running. A prolonged drought has not helped. Mining firms are turning to desalination plants or using untreated seawater. However pumping water 200 kilometres from the Pacific Ocean to the copper mines is costly.

Chile's environmentalist movement has forced the government to tighten regulations. In 2001, it took 236 days to get an environmental impact assessment of a new mine approved. By 2013, this had increased to 506 days.

(Source: adapted from http://www.ft.com/cms/s/0/ea060ef4-6ae2-11e5-8171-ba1968cf791a.html#axzz3p20if45k Gideon Long September 27, 2015)

(a) With reference to Figure 2, explain **one** likely reason for the change in the Chile peso exchange rate between 2013 and 2015.

(5)

SECTION A

Read Figures 1 and 2 and the following extracts (A, B and C) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Turkey – an emerging economy

Figure 1: Turkey's central bank lending rate, percent, 2013–2018

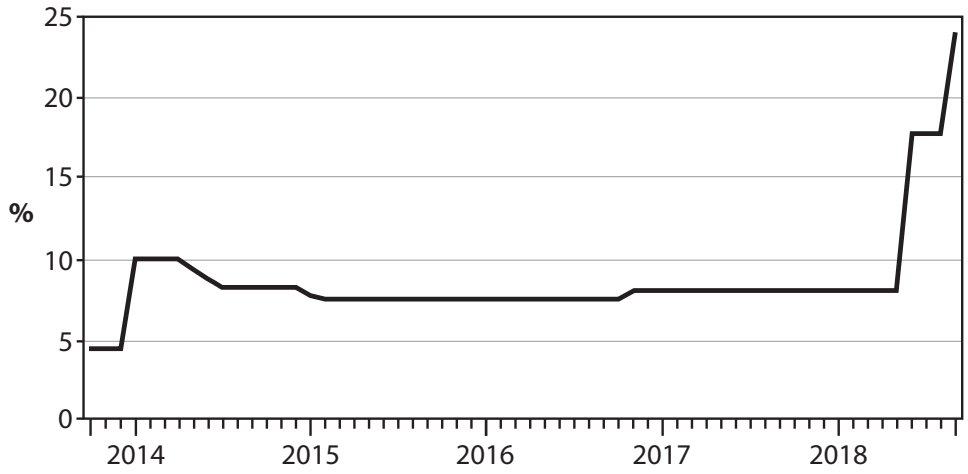
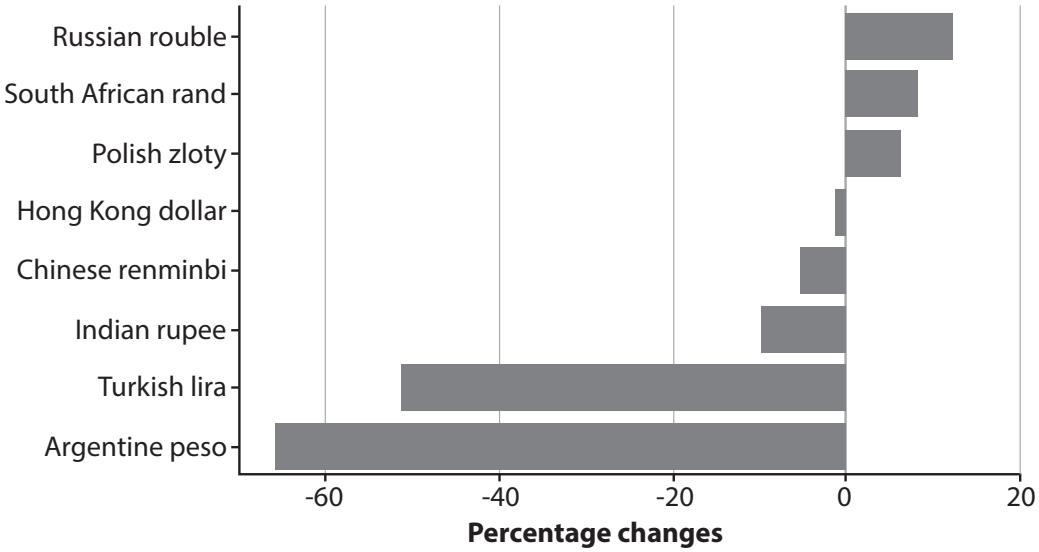


Figure 2: Selected emerging economy exchange rates, percentage change against the US dollar: January 2018 compared to January 2016.



(Source adapted from: FT.com)

Extract A

Can Turkey's central bank avoid another rate rise?

At an annual rate of 25%, Turkey's inflation is alarming. However, it may have peaked. This may be a turning point for the economically struggling country, whose currency (the Turkish lira) has lost nearly a third of its value against the US dollar in 2018. The central bank may be able to avoid tightening monetary policy further, as a severe economic adjustment is already well under way. Turkey is highly indebted in foreign currency. The Turkish government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks. The financial market faces difficulties in trying to restore foreign investors' confidence.

Consumer prices increased by 2.7% in October 2018, a much lower rate than the 6.3% recorded in September 2018. The lira has stabilised, having risen 16% since the central bank raised interest rates by 6.25 percentage points. However, the government wants lower borrowing costs to fuel credit growth and economic expansion. Timothy Ash at a London investment bank says at this point it's "illogical" to raise interest rates again in Turkey. That's because Turkey's economy is already experiencing a severe slowdown.

In the long term Turkey's economic growth is expected to be above that of other emerging markets such as Brazil, Russia and China. Turkey's private sector is resilient. Between 2018–50 we expect Turkey to grow by an annual average of 3.1%. Brazil is expected to grow by an annual average of 2.1%, Russia by 1.6% and China by 2.8%. GDP growth will nevertheless be well below that recorded in 2004–07 and 2010–15. Average growth in GDP per head will be substantially lower, mainly reflecting the expected rise in the total population.

(Source adapted from: https://ftalphaville.ft.com/2018/11/06/1541508141000/Can-Turkey-s-central-bank-avoid-another-rate-hike-/. 6 Nov 2018 Colby Smith
and one sentence The president wants lower borrowing costs to fuel credit growth and economic expansion from https://www.theguardian.com/world/2018/aug/07/turkey-urged-to-announce-emergency-interest-rate-hike Larry Elliott 7/8/18 and
http://country.eiu.com/article.aspx?articleid=157174199&Country=Turkey&topic=Economy&subtopic=Long-term+outlook&subsubtopic=Summary)

Extract B

Turkey aims to bin the plastic bag

You get a free plastic bag whenever you go to a shop, even if it is just to buy a loaf of bread or a chocolate bar. In Turkey, plastic bags are everywhere, with millions being thrown away, and their use is causing a growing environmental problem.

In Istanbul, the country's biggest city with about 12 million people, around 10 000 tonnes of waste are being collected every day. Plastic bags and other plastic waste make up 950 tonnes, or almost 10%, of the total waste.

The Turkish government said it was looking at ways to discourage the consumption of single-use plastic bags. One possible step currently under review is a ban of the black bags that are said to contain carcinogens. Another is that the state may raise taxes on plastic products, which could lead to supermarkets charging consumers for the bags. In Corlu, a town north-west of Istanbul, a local environmental group distributed 20 000 canvas bags to shoppers in one month. In some parts of Turkey, plastic bags are completely banned, with heavy fines for both firms and consumers who use them.

(Source adapted from: tseibert@thenational.ae https://www.thenational.ae/world/europe/turkey-aims-to-bin-the-plastic-bag-1.530059 accessed 11/11/18)

Extract C

Istanbul's third airport set to be the busiest in the world

Istanbul's third airport is being constructed over an area of 76.5 million square metres, to the north of Istanbul. When complete, the new airport will have six runways and have an annual passenger capacity of up to 200 million people, making it potentially the world's busiest airport. "This airport is going to be the most important hub between Asia and Europe," said one business leader.

The airport design includes high vaulted ceilings and spacious, modern and efficient design – and its tulip-shaped air traffic control tower won the 2016 International Architecture Award. It uses mobile applications and artificial intelligence for customers, is energy efficient and has a high-tech security system. The site employs 36 000 people and is estimated to cost the equivalent of £10 billion. However, the rush to meet the deadline set by the Turkish government is a major cause of accidents on the construction site, according to the construction workers' union.

(Source adapted from: https://www.lonelyplanet.com/news/2018/08/08/istanbuls-huge-new-airport/ and https://www.voanews.com/a/istanbul-to-unveil-new-airport-seeks-to-be-world-s-biggest/4632308.html)

1 (a) Explain how the Turkish central bank intervenes in the currency market to prevent 'excessive appreciation or depreciation of the Turkish lira' (Extract A, lines 7–8).

(5)

3 British pound to US dollar exchange rate (value of one pound in dollars), June 2017 to June 2019.



(Source adapted from: https://www.xe.com/currencycharts/?from=GBP&to=USD&view=2Y)

(a) Which **one** of the following has been the overall change in the British pound to US dollar exchange rate from 1st January 2018 to 1st January 2019?

(1)

- ☒ **A** Appreciation
- ☒ **B** Depreciation
- ☒ **C** Devaluation
- ☒ **D** Revaluation

(b) Explain the likely impact of the change in the exchange rate of the pound shown in the graph from 1st January 2018 to 1st January 2019 on the UK current account of the balance of payments.

(4)

(Total for Question 3 = 5 marks)

Section B

Read Figure 3 and the extracts (D to F) before answering Question 2.

Answer ALL Questions 2 (a) to 2 (c), and EITHER Questions 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Ghana – cocoa and chocolate production

Figure 3: World's largest cocoa growers and chocolate producers

Cocoa growers	Chocolate producers
Ivory Coast 46%	Germany 17%
Ghana 18%	Belgium 11%
Indonesia 14%	Italy 7.4%
Nigeria 7%	US 7.2%

(Source: adapted from International Cocoa Association www.icco.org December 2021 and The Telegraph.co.uk accessed 24/2/22)

Extract D

From a managed to a floating exchange rate

Ghana's currency, the cedi, has depreciated significantly against major currencies, especially the US dollar (US$), since the adoption of the floating exchange rate system in 1992. From 1983 to 1992 it operated a managed exchange rate. Since the liberalisation of the foreign exchange market there have substantial swings and on average the cedi has depreciated 98% against the US dollar. The cedi to US dollar rate has been very volatile recently, causing macroeconomic instability and limiting economic growth. 5

(Source adapted from: https://www.theigc.org/project/on-the-causes-and-effect-of-exchange-rate-volatility-on-economic-growth-evidence-from-ghana/ and https://www.scirp.org/journal/paperinformation.aspx?paperid=95492)

Extract E

There is a lot of money in chocolate but the growers of cocoa see very little of it.

In 2020 the chocolate retail industry was worth £78 billion, but Ghana – the world's second largest cocoa producer – earned just over £1 billion. Cocoa farmers in Ghana now make roughly $1 a day (this often includes being subsidised by the Ghanaian government). This is a familiar pattern for many African countries where the economy is still shaped by a colonial relationship in which they export commodities to be processed elsewhere.

Ghana currently processes about 30% of its cocoa crop into chocolate, meaning that the exports can earn high prices. Despite plans for expanding the domestic chocolate industry there are still many obstacles in the way. The equipment to make chocolate is very expensive and there is neither a local sugar nor dairy industry. Imported milk and sugar would increase the cost of production significantly, with the added problem that foreign currency would be needed. Producing chocolate requires consistent refrigeration, and the high cost of the equipment to achieve that is a major obstacle for entrepreneurs without substantial funds. There is an inconsistent supply of energy in rural parts of Ghana. An alternative, making teas and wines using cocoa, can make 20 times more revenue than the raw beans, but they do not have the mass market appeal and high profits of chocolate.

Access to funds is a big problem and one farmer, Nana Aduna, says that high interest rates on bank loans are an issue for start-up businesses and at the moment he cannot afford to borrow money. "You cannot grow a business when you have to service interest rates of 18%–20% or even more," he says.

But the government has pledged to address these structural issues, using supply side policies. The Trade and Industry Minister announced that industrialisation is the focus of government policy. "It only makes sense that the most important commodity in our country, which is cocoa… should become the target for a major programme of industrialisation," he says.

The 'One District One Factory' programme aims to kickstart industrialisation by providing the infrastructure for Ghana's farms, by establishing processing plants in some of the big cocoa-growing areas. It has become easier for the private sector to invest in food processing, and there is a big tax rebate available to processing companies that set up in the country's enterprise zones – designated areas to encourage economic activity – in a bid to help them export.

(Source: adapted from https://www.newsbreak.com/news/2201853748349/ghana-s-farmers-eye-sweet-success-from-chocolate and https://www.indepthnews.net/index.php/the-world/africa/4495-ghana-starts-with-cocoa-to-end-neocolonial-trading-ties and https://www.brookings.edu/blog/africa-in-focus/2020/09/03/pathways-to-structural-transformation-of-the-ghanaian-economy-and-some-roadblocks/ and https://www.ghanaweb.com/GhanaHomePage/business/Speculators-driving-interbank-retail-FX-rates-gap-1468375)

Extract F

A new trade bloc for Africa

The African Continental Free Trade Agreement (AfCFTA) has been signed by all 55 member states of the African Union, including Ghana, Nigeria, and South Africa. This brings together 1.2 billion people with a combined gross domestic product (GDP) of more than $2 trillion as of 2023. 5

The agreement commits countries to removing tariffs on 90% of goods, with other goods to be phased in later.

The agreement also liberalises services and aims to tackle non-tariff barriers which reduce trade between African countries, such as long delays at the borders.

(Source adapted from: https://www.aljazeera.com/economy/2018/3/20/african-continental-free-trade-area-what-you-need-to-know)

(a) Explain **one** reason why a country might operate a managed exchange rate.
Refer to Extract D in your answer.

(5)

SECTION B

Read Figure 1 and the following extracts (A to C) before answering Question 6.

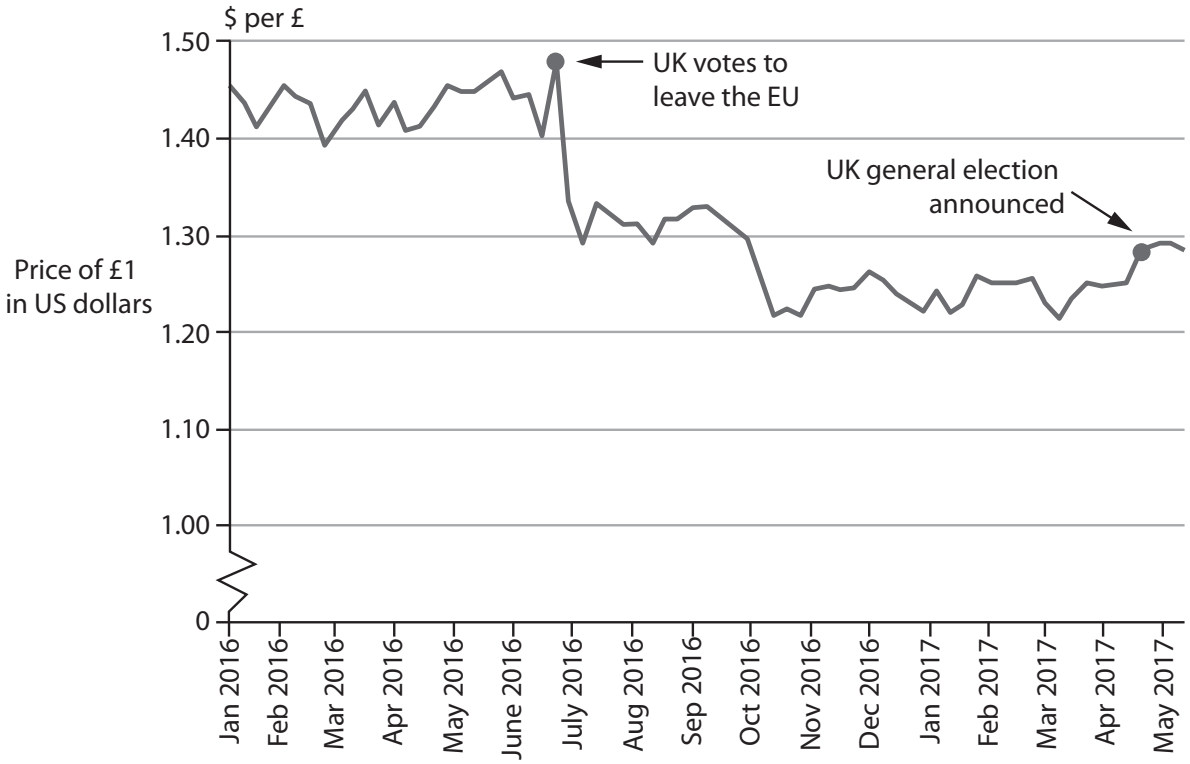
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The UK economy since the financial crisis

Figure 1: Pound sterling to US$ exchange rate, 2016-17



(Source: adapted from https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract A

UK companies use forward currency market

The Norfolk-based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency fluctuations. The pound's post-Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

(Source: adapted from 'UK companies use pound strength to hedge forex risk' by Roger Blitz, Markets, © FT.com, 16 May 2017. https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract B

Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find £116 billion of funding to ensure that taxpayers will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed £65 billion of taxpayer bailouts during the 2008 Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in 2017 and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

"Just like when other businesses fail, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently," said Cunliffe.

(Source: adapted from 'Bank of England tells lenders to find £116bn to help prevent bailouts', by Jill Treanor, 02 October 2017, Copyright The Guardian News and Media Ltd https://www.theguardian.com/business/2017/oct/02/bank-of-england-bailouts-rbs-lloyds and 'Lloyds bank bailout repaid in full, Philip Hammond claims', by Jill Treanor, Larry Elliott, 21 April 2017, Copyright Guardian News & Media Ltd 2017 https://www.theguardian.com/business/2017/apr/21/lloyds-bank-bailout-repaid-in-full-philip-hammond-claims)

Extract C

Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth £11.4 billion by the end of 2018 as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady level, even during an economic downturn. In 2017 the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to 0.5% and also forecast a further increase to 1% by the end of 2017.

The move is not intended to directly reduce consumer demand for credit, which in 2017 grew by 10.3% on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975.

(Source: adapted from 'Bank of England tells lenders to increase capital buffers by £11.4bn' by Caroline Binham, Gemma Tetlow and Martin Arnold © Financial Times 2017 https://www.ft.com/content/9bc99294-5b1b-11e7-9bc8-8055f264aa8b)

6 (a) With reference to Extract A, explain the role of forward markets in currencies.

(5)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10)

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12)

(e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.

(15)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8)

SECTION A

Read Figures 1 and 2 and the following extracts (A, B and C) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Turkey – an emerging economy

Figure 1: Turkey's central bank lending rate, percent, 2013–2018

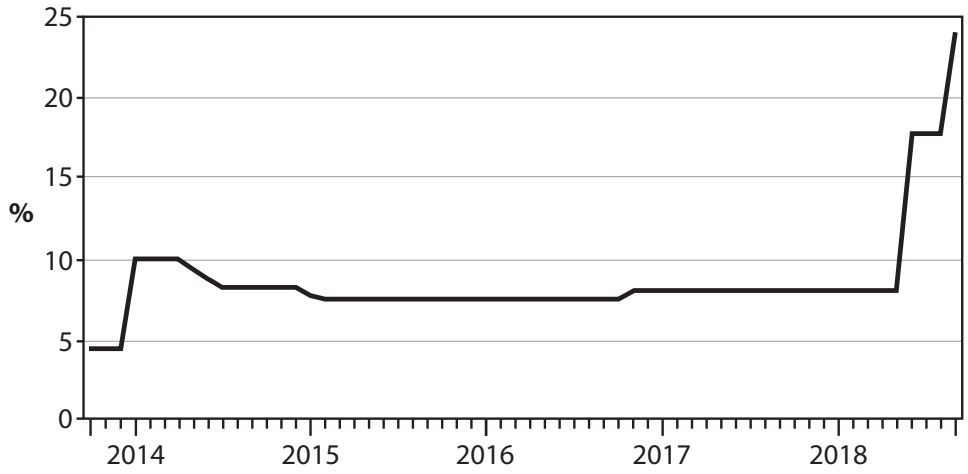
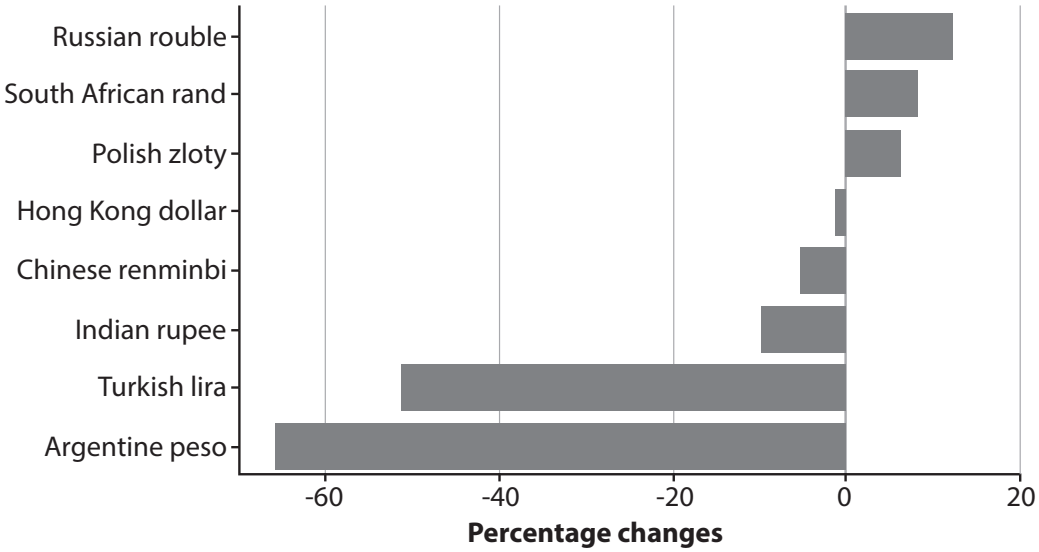


Figure 2: Selected emerging economy exchange rates, percentage change against the US dollar: January 2018 compared to January 2016.



(Source adapted from: FT.com)

Extract A

Can Turkey's central bank avoid another rate rise?

At an annual rate of 25%, Turkey's inflation is alarming. However, it may have peaked. This may be a turning point for the economically struggling country, whose currency (the Turkish lira) has lost nearly a third of its value against the US dollar in 2018. The central bank may be able to avoid tightening monetary policy further, as a severe economic adjustment is already well under way. Turkey is highly indebted in foreign currency. The Turkish government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks. The financial market faces difficulties in trying to restore foreign investors' confidence.

Consumer prices increased by 2.7% in October 2018, a much lower rate than the 6.3% recorded in September 2018. The lira has stabilised, having risen 16% since the central bank raised interest rates by 6.25 percentage points. However, the government wants lower borrowing costs to fuel credit growth and economic expansion. Timothy Ash at a London investment bank says at this point it's "illogical" to raise interest rates again in Turkey. That's because Turkey's economy is already experiencing a severe slowdown.

In the long term Turkey's economic growth is expected to be above that of other emerging markets such as Brazil, Russia and China. Turkey's private sector is resilient. Between 2018–50 we expect Turkey to grow by an annual average of 3.1%. Brazil is expected to grow by an annual average of 2.1%, Russia by 1.6% and China by 2.8%. GDP growth will nevertheless be well below that recorded in 2004–07 and 2010–15. Average growth in GDP per head will be substantially lower, mainly reflecting the expected rise in the total population.

(Source adapted from: https://ftalphaville.ft.com/2018/11/06/1541508141000/Can-Turkey-s-central-bank-avoid-another-rate-hike-/. 6 Nov 2018 Colby Smith
and one sentence The president wants lower borrowing costs to fuel credit growth and economic expansion from https://www.theguardian.com/world/2018/aug/07/turkey-urged-to-announce-emergency-interest-rate-hike Larry Elliott 7/8/18 and
http://country.eiu.com/article.aspx?articleid=157174199&Country=Turkey&topic=Economy&subtopic=Long-term+outlook&subsubtopic=Summary)

Extract B

Turkey aims to bin the plastic bag

You get a free plastic bag whenever you go to a shop, even if it is just to buy a loaf of bread or a chocolate bar. In Turkey, plastic bags are everywhere, with millions being thrown away, and their use is causing a growing environmental problem.

In Istanbul, the country's biggest city with about 12 million people, around 10 000 tonnes of waste are being collected every day. Plastic bags and other plastic waste make up 950 tonnes, or almost 10%, of the total waste.

The Turkish government said it was looking at ways to discourage the consumption of single-use plastic bags. One possible step currently under review is a ban of the black bags that are said to contain carcinogens. Another is that the state may raise taxes on plastic products, which could lead to supermarkets charging consumers for the bags. In Corlu, a town north-west of Istanbul, a local environmental group distributed 20 000 canvas bags to shoppers in one month. In some parts of Turkey, plastic bags are completely banned, with heavy fines for both firms and consumers who use them.

(Source adapted from: tseibert@thenational.ae
https://www.thenational.ae/world/europe/turkey-aims-to-bin-the-plastic-bag-1.530059 accessed 11/11/18)

Extract C

Istanbul's third airport set to be the busiest in the world

Istanbul's third airport is being constructed over an area of 76.5 million square metres, to the north of Istanbul. When complete, the new airport will have six runways and have an annual passenger capacity of up to 200 million people, making it potentially the world's busiest airport. "This airport is going to be the most important hub between Asia and Europe," said one business leader.

The airport design includes high vaulted ceilings and spacious, modern and efficient design – and its tulip-shaped air traffic control tower won the 2016 International Architecture Award. It uses mobile applications and artificial intelligence for customers, is energy efficient and has a high-tech security system. The site employs 36 000 people and is estimated to cost the equivalent of £10 billion. However, the rush to meet the deadline set by the Turkish government is a major cause of accidents on the construction site, according to the construction workers' union.

(Source adapted from: https://www.lonelyplanet.com/news/2018/08/08/istanbuls-huge-new-airport/ and
https://www.voanews.com/a/istanbul-to-unveil-new-airport-seeks-to-be-world-s-biggest/4632308.html)

(b) Examine **two** reasons why the Turkish government may want to avoid a significant fall in the exchange rate of the Turkish lira.

(8)

SECTION B

Read Figures 1 and 2 and extract (A) before answering Question 6.

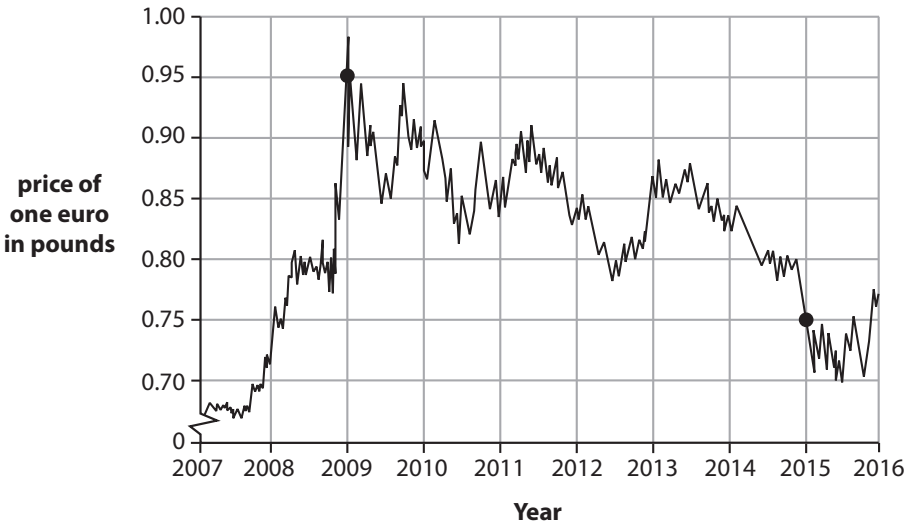
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

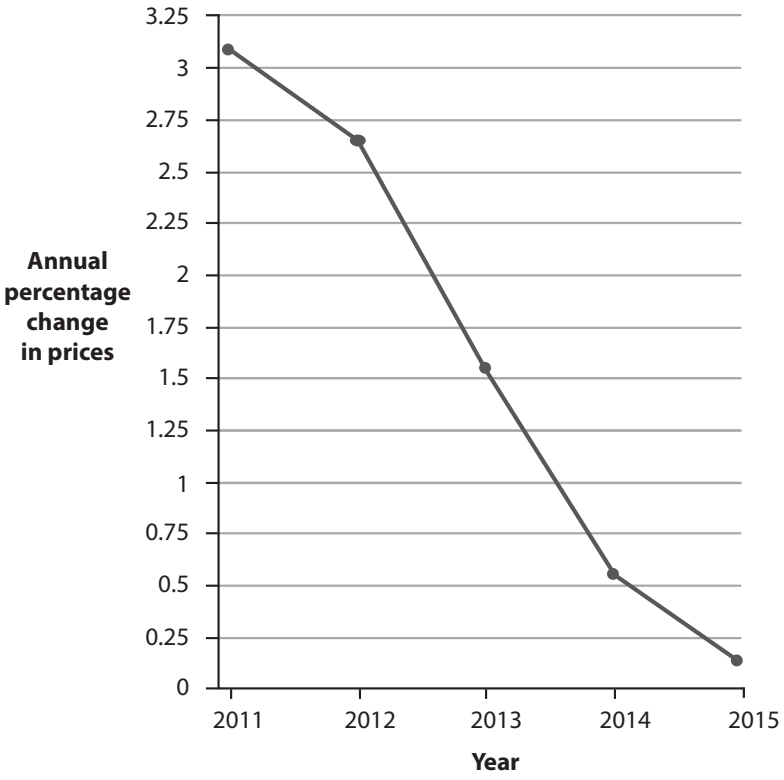
The Eurozone economy

Figure 1: Exchange rate of the euro (€) to the British pound (£)



(Source: https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-gbp.en.html#)

Figure 2: Eurozone inflation rate as measured by the Consumer Prices Index (CPI)



(Source: adapted from http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/download.aspx)

Extract A

European Central Bank disappoints markets with weaker than expected stimulus

Mario Draghi, president of the European Central Bank (ECB), surprised financial markets in November 2015 with a less ambitious package of monetary stimulus than many had anticipated.

The ECB cut its base interest rate by 0.1% to minus 0.3% in order to encourage private banks to lend funds to companies and households rather than deposit them at the central bank. The central bank agreed to extend its €60 billion (£45 billion) monthly bond-buying quantitative easing (QE) programme for a further six months. The ECB's €1.1 trillion QE scheme had originally been due to end in September 2016.

"We are doing more because it works," Mr Draghi said. Yet the ECB did not increase the size of its monthly asset purchases and also disappointed those expecting that it would cut interest rates more aggressively.

The euro rose almost 3% against the dollar to $1.08 after the announcement. Italian and Spanish bond yields both jumped by 0.27% to 1.62% and 1.72% respectively.

The ECB's economists reduced their inflation forecasts for the next two years. They now predict consumer prices in the Eurozone rising by just 1% in 2016 and 1.6% in 2017 – still below the central bank's ceiling of 2%. In November 2015, the inflation rate was just 0.1% and core inflation, excluding volatile items such as fuel and food, dropped to 0.9%.

Mr Draghi stressed again that monetary policy alone could not restore the Eurozone to economic health. He called for looser fiscal policy among member states to support aggregate demand and more rapid implementation of supply-side reforms. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively," he said.

(Source: http://www.independent.co.uk/news/business/news/ecb-disappoints-traders-with-weaker-than-expected-stimulus-a6759786.html, 4th December 2015)

(c) Since mid-2015 the euro has appreciated. Assess the likely impact of an appreciation of the euro on the current account of the balance of payments for Eurozone countries.

(10)

Q) 8 The British pound fell by over 10% to a 30-year low against the US dollar after the UK voted to leave the European Union. To what extent will this depreciation impact on future economic growth in the UK?

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION A

Read Figure 1 and the following extracts (A to C) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

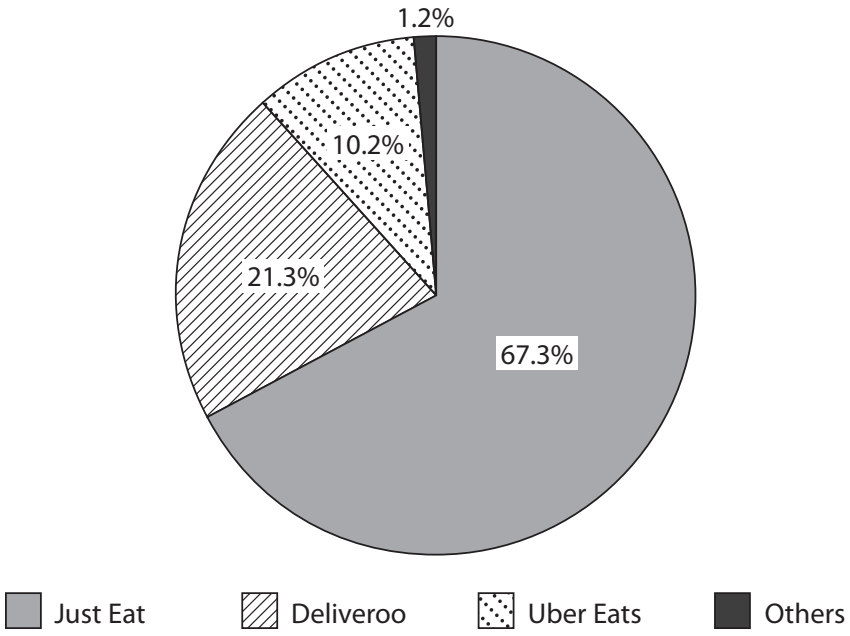
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

The food delivery industry

Figure 1: Market share for third-party food delivery services in the UK, 2019



(Source: adapted from https://onefourzerogroup.com/the-takeaway-takeover/)

Extract A

National Minimum Wage rises are more significant for 23 to 25-year-olds

In 2021, the National Minimum Wage main rate, also known as the National Living Wage, rose by 2.2% to £8.91, following a 6.2% rise in 2020. By reducing the age at which people are eligible for the National Living Wage to 23 in 2021, it is estimated that an additional 7.5% of 23 to 25-year-olds could get a 71p an hour pay rise. This amounts to an 8.7% increase, which may cause further financial worries for employers.

(Source: adapted from https://www.ndna.org.uk/NDNA/News/Latest_news/2020/Minimum_wages_to_rise_by_inflation_in_April.aspx)

Extract B

What is the true cost of the food delivery service?

The food delivery industry has boomed in recent years. Just Eat, Uber Eats and Deliveroo all offer very similar services – third-party food delivery firms that take up to 30% of the price of restaurant meals and deliver them to customers within a certain radius. The average spend per customer is around £15 with a £5 delivery fee, about five times more expensive than cooking at home and the same price as eating in the restaurant. Cash rich, time poor professionals increasingly turn to food delivery.

Food delivery comes with many layers of packaging. In the UK, there are 200 million meals annually with around 1.4 billion individual pieces of plastic for heat retention and protection when travelling, but does it really have to be plastic? People tend to order more food, often high in fat, sugar and salt, and don't even have to get up from their sofa.

But there are concerns that the delivery firms are exploiting employees who have no alternative. There is an issue of low pay and informal contracts. Delivery drivers are classed as 'independent contractors', and therefore not subject to some employment rights including a guaranteed minimum wage, sick pay, pensions or holiday pay. Drivers are paid either a flat hourly rate, or a fee per delivery. Factors such as delivery distance, speed, how busy it is and whether there are multiple drop-offs are all factored into how much a driver is paid. Deliveroo says its wages amount to around £10 per hour, but drivers say that during 2020 their pay has been as low as £1 per hour. Drivers are not paid extra for petrol or to maintain their vehicles. Many drivers are recent immigrants or students, who do not have property or savings to fall back on.

The government could address this with widening minimum pay legislation to contracted workers, by setting codes of practice, or by setting recommended wage targets. Furthermore, there are health and safety issues for workers. Vehicle safety checks, length of shifts and safety equipment are of concern. However, there are still people who take benefit from working flexibility.

(Source: adapted from https://www.theguardian.com/australia-news/2020/oct/25/home-food-delivery-what-is-the-most-ethical-way-to-order-in and https://digitalcommons.molloy.edu/cgi/viewcontent.cgi?article=1043&context=bus_fac)

Extract C

Integration in the third-party food delivery industry

The Competition and Markets Authority (CMA) is watching carefully to prevent any one firm having complete control of the food delivery industry. Just Eat, the market leader, agreed to merge with successful Dutch firm Takeaway.com in 2020, creating a new European leader by revenues. It also bought Grubhub in the US, with 20 million active users. Just Eat uses an aggressive pricing strategy, undercutting delivery fees below the average cost of other firms in the market, that will force them to merge in order to gain some economies of scale.

Amazon, having failed with its own delivery company Amazon Restaurants in 2018, has bought 16% of Deliveroo. The CMA took over a year to agree to the partial integration, on the argument that Deliveroo would close down without external investment. Amazon has unique expertise in marketing, increasing customer share and, most importantly, efficiency in delivering things. Food delivery is often uneconomical because a single household puts in a single order from a single restaurant at any one time. Tech companies such as Amazon can improve the business: once a meal has been ordered, an app often moves that restaurant to the top of the rankings for that neighbourhood, in the hope of getting a second and third delivery.

So why do restaurants turn to these delivery firms? The sheer volume of customers these delivery firms can hold makes it a difficult deal to turn down. But resentment from small business restaurant owners, angry at being wholly dependent on tech companies, is growing. Most restaurants would prefer that customers come in and pick up their orders themselves because they do not have to pay the 30% commission. Restaurant profit margins are small, and the effects of a 20% fall in the external value of the pound since 2016 on food costs are significant, given that over half of their food and drink is sourced outside the UK.

(Source: adapted from https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735 https://www.ft.com/content/edf8a144-a101-4ef8-80e3-7d2f1565d35c and https://www.thisismoney.co.uk/money/markets/article-8138703/Uber-set-sell-takeaway-division-rival-Deliveroo-two-years.html and https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735 and https://www.ft.com/content/bed7c4d8-28c1-11ea-9a4f-963f0ec7e134 and https://www.economist.com/1843/2021/01/26/gulp-the-secret-economics-of-food-delivery)

Q) 1 (d) Evaluate the microeconomic and macroeconomic effects of a depreciation of the pound. Refer to restaurants or other food delivery services in your answer.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.1.9

INTERNATIONAL COMPETITIVENESS

Sub-topic 4.1.9 · 7 questions · 85 marks · lowest tariff first

3 Unit labour costs for selected European countries, 2017, base year 2010 = 100.

Country	Unit labour costs
Austria	113
Hungary	120
Estonia	129
France	107

(Source: http://www.oecd-ilibrary.org/economics/data/labour/unit-labour-cost-quarterly-indicators-early-estimates_data-00607-en)

(c) The increase in Austria's unit labour costs between 2010 and 2017 is:

(1)

- ☒ **A** 3%
- ☒ **B** 11.3%
- ☒ **C** 13%
- ☒ **D** 113%

(Total for Question 3(c) = 1 mark)

3 Unit labour costs for selected European countries, 2017, base year 2010 = 100.

Country	Unit labour costs
Austria	113
Hungary	120
Estonia	129
France	107

(Source: http://www.oecd-ilibrary.org/economics/data/labour/unit-labour-cost-quarterly-indicators-early-estimates_data-00607-en)

(a) Explain **one** likely reason for Estonia's unit labour costs rising faster than in other European countries.

(2)

(Total for Question 3(a) = 2 marks)

3 Unit labour costs for selected European countries, 2017, base year 2010 = 100.

Country	Unit labour costs
Austria	113
Hungary	120
Estonia	129
France	107

(Source: http://www.oecd-ilibrary.org/economics/data/labour/unit-labour-cost-quarterly-indicators-early-estimates_data-00607-en)

(b) Explain how Estonia's competitiveness could be affected by rising unit labour costs.

(2)

(Total for Question 3(b) = 2 marks)

3 Unit labour costs for selected European countries, 2017, base year 2010 = 100.

Country	Unit labour costs
Austria	113
Hungary	120
Estonia	129
France	107

(Source: http://www.oecd-ilibrary.org/economics/data/labour/unit-labour-cost-quarterly-indicators-early-estimates_data-00607-en)

(a) Explain **one** likely reason for Estonia's unit labour costs rising faster than in other European countries.

(2)

(b) Explain how Estonia's competitiveness could be affected by rising unit labour costs.

(2)

(c) The increase in Austria's unit labour costs between 2010 and 2017 is:

(1)

- ☒ **A** 3%
- ☒ **B** 11.3%
- ☒ **C** 13%
- ☒ **D** 113%

(Total for Question 3 = 5 marks)

SECTION B

Read Figures 4 to 6 and the following extracts (C and D) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) or 2(e).

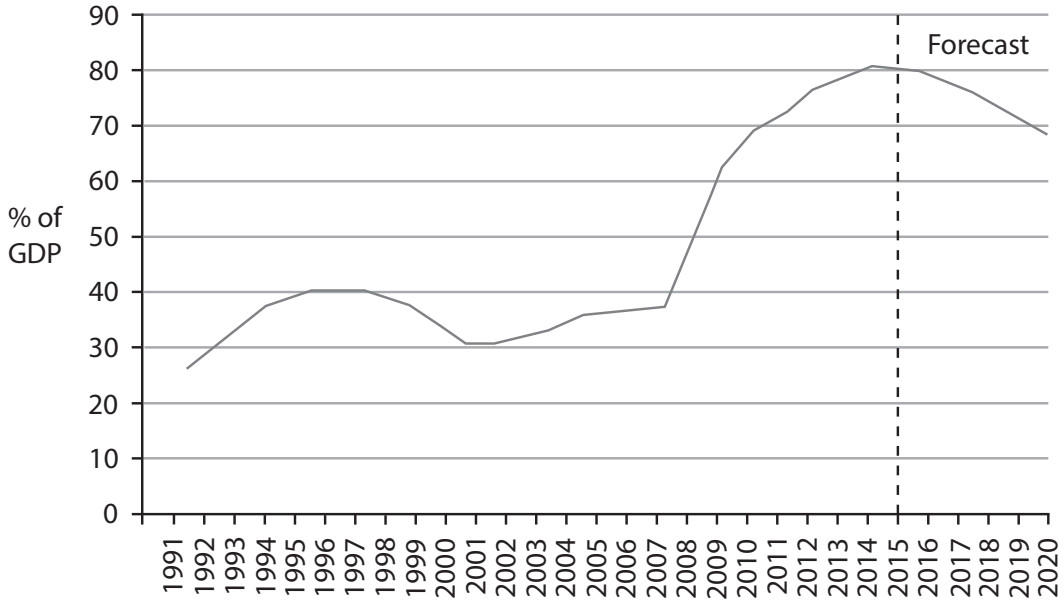
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

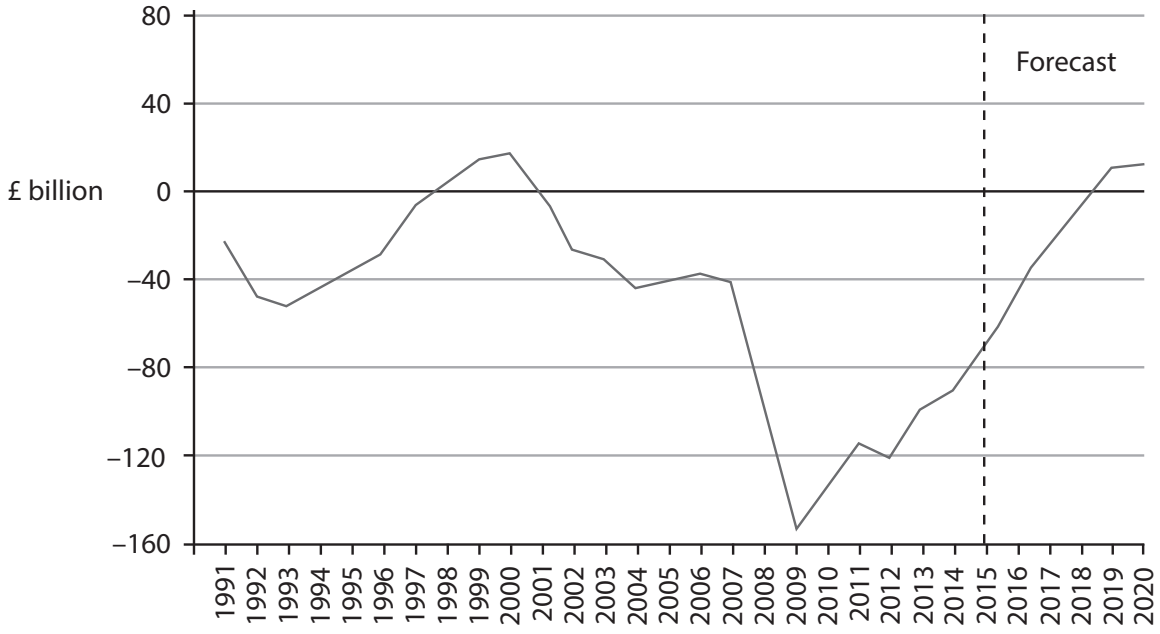
The UK economy

Figure 4: UK national debt as a percentage of GDP



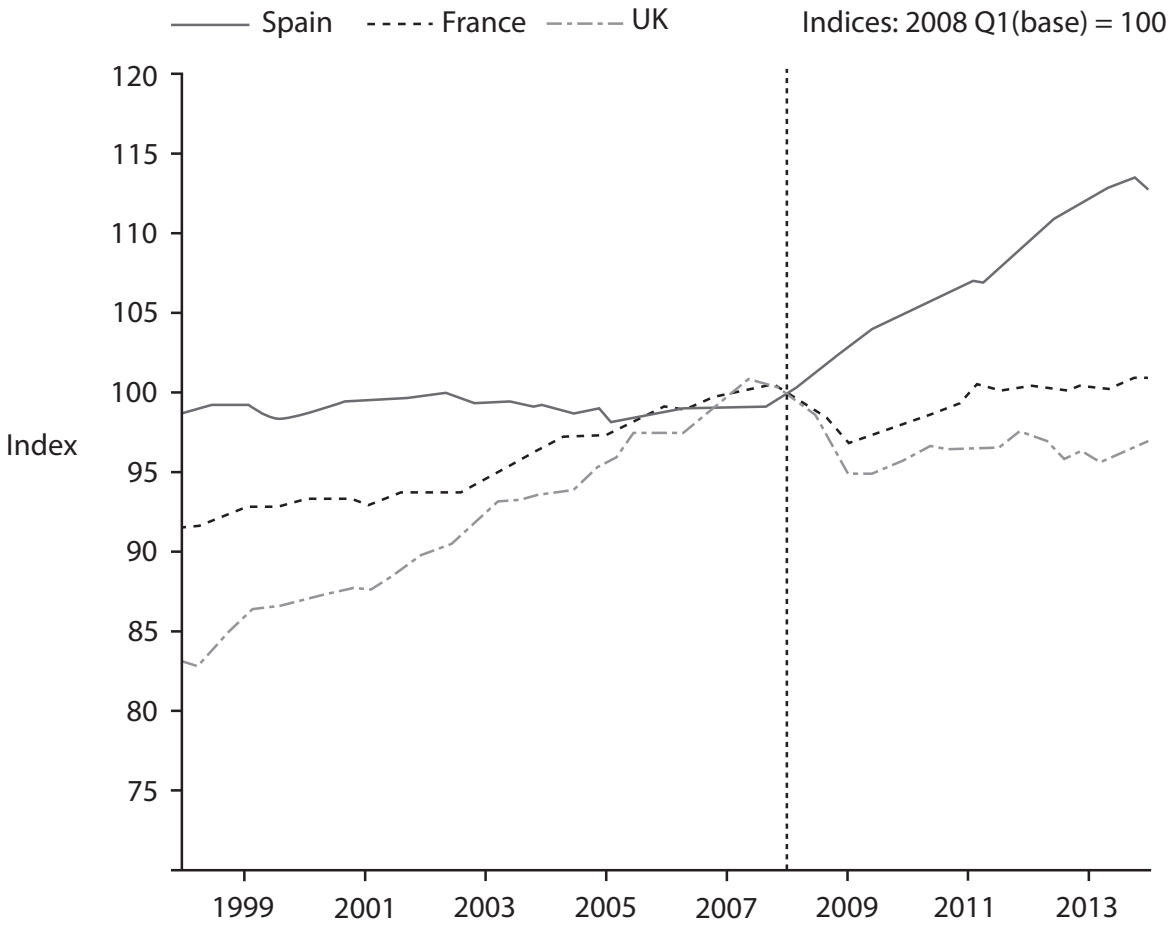
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 5: UK fiscal deficit, public sector net borrowing (PSNB)



(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 6: Labour productivity per head, selected countries



(Source: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf)

Extract C

The National Living Wage (NLW)

The Government has announced that from 2016 it will introduce a Living Wage Premium that will apply on top of the National Minimum Wage (NMW) for employees aged 25 and over to deliver a National Living Wage (NLW) for those people. The main NMW will continue to be set for all employees aged 21 and over, so that those aged 21 to 24 will continue to be subject only to that rate.

The effective minimum wage for the 25+ age group will therefore be over 13% higher in 2020 than would otherwise have been the case, and result in a 0.3% increase in wage costs overall. Further impacts on real GDP are estimated to be higher productivity (+0.3%) but lower average hours worked (-0.2%) and higher unemployment. Overall real GDP is forecast to fall by 0.1% as a result of the NLW. However these forecasts depend on estimates of the likely elasticity of demand for labour.

Academic evidence suggests that changes to the NMW since 1999 have led to only limited effects on demand for labour in the UK. The types of work that will be affected are relatively labour intensive, which may limit the scope for firms to substitute towards using capital. Firms may also be expected to shift demand in favour of the under-25s given that they will not be subject to the NLW, which all else being equal would lead to a smaller reduction in overall labour demand. Some of the reduction in employees could also be partially offset by a rise in self-employment. But increasing the NLW to a higher proportion of median earnings may lead to bigger effects than have been experienced in the past.

(Sources: adapted from http://cdn.budgetresponsibility.independent.gov.uk/July-2015-EFO-234224.pdf and http://budgetresponsibility.independent.gov.uk/)

Extract D

The productivity puzzle in the UK

Since the onset of the 2007–2008 financial crisis, labour productivity growth in the UK has been exceptionally weak. Despite some modest improvements in 2013, whole-economy output per hour remains around 16% below the level implied by its pre-crisis trend. Even taking into account possible measurement issues and changes in the size of the service sector, this shortfall is large and is often referred to as the 'productivity puzzle'.

Measures of productivity can be used to inform estimates of an economy's ability to grow without generating excessive inflationary pressure, which makes understanding recent movements important for the conduct of monetary policy. During the initial phases of the recession, companies appear to have acted flexibly by holding on to labour and lowering levels of capacity utilisation in response to weak demand conditions. But the protracted weakness in productivity and the strength in employment growth over the past two years suggest that other factors are likely to be having a more persistent impact on the level of productivity. These factors are reduced investment in both physical and intangible capital, such as innovation and training, and failings in the labour market such as immobility of labour and under-employment of skilled workers. Some economists explain this by using the concept of an output gap.

(Source: adapted from http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf)

Q) 2 (d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic influences on the UK's international competitiveness.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

Read Figures 3 to 5 and the following extract (D) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

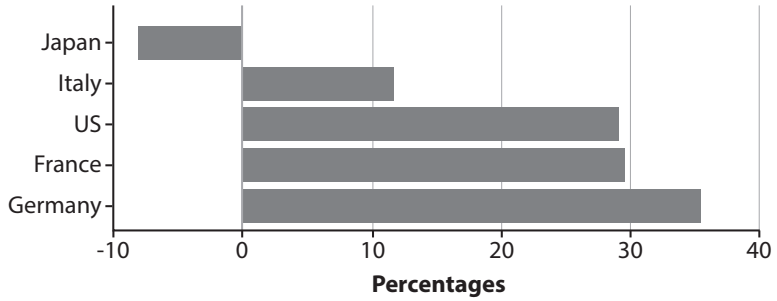
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

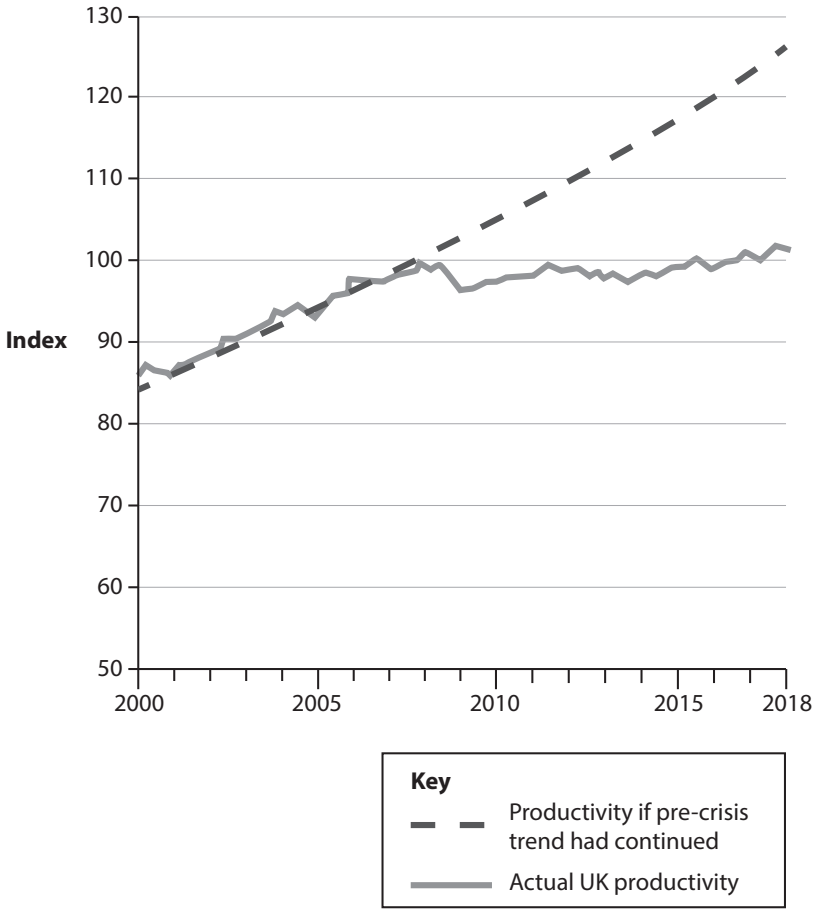
The UK economy

Figure 3: GDP per hour worked, nominal values at PPPs, percentage above or below UK level, 2018



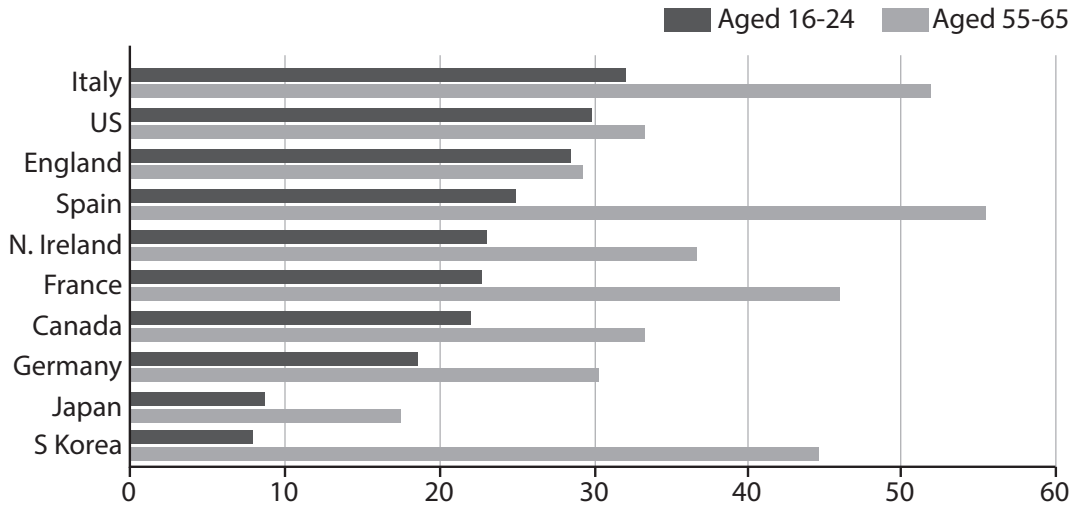
(Source adapted from: ONS.gov.uk)

Figure 4: UK index of output per hour worked, base year 2016 = 100



(Source adapted from: ONS.gov.uk)

Figure 5: Proportion of adults with low literacy and/or numeracy skills, by age, selected countries



(Source adapted from: OECD.org)

(Figures 3, 4 and 5 Source: FT.com 2016 data published https://www.ft.com/content/6ada0002-9a57-11e8-9702-5946bae86e6d 2018)

Extract D

The end of the High Street?

Homebase, the UK's second-largest do-it-yourself (DIY) retailer, made £20–40 million a year profit up to 2016. The Australian conglomerate Wesfarmers bought Homebase for £340 million in 2016, and began to rebrand 24 stores under its own name. It scaled back on curtain, cushion and other homeware sales in favour of power tools and building materials. In 2018 Wesfarmers sold the DIY chain for £1, in the face of "extremely challenging" market conditions and excess store space. The chain was bought by restructuring specialist Hilco, which had also rescued the music chain HMV in 2013, and the stores have gone back to using the Homebase name. Over 70% of Homebase stores are currently losing money and the new owner wants to exit loss-making stores and agree to rent reductions, as sales fell 10% in 2018. Homebase has gone back to popular products and brands dropped by its previous owner Wesfarmers.

The closures will add to the mounting job losses on Britain's high streets. About 25 000 jobs have gone in the first seven months of 2018, according to analysis by an economics thinktank. A further 8 300 jobs are under threat at suppliers, with the multiplier effect meaning that GDP is £1.5 billion less than projected.

Several Marks & Spencer clothing stores closed their doors for the last time as the high-street chain pushes ahead with a transformation plan. It plans to close 100 stores by 2022. Toys R Us, Poundworld and Maplin have shut down completely, while New Look, Mothercare and Carpetright have plans to close hundreds of stores as losses rise sharply. Increasing rents and higher business rates have occurred at the same time as falling consumer confidence. Meanwhile, House of Fraser employees and pensioners are nervously awaiting more details about their future. The £90 million rescue deal by Sports Direct, the sportswear chain controlled by Mike Ashley, will protect 16 000 jobs for the time being.

(Source adapted from: https://www.ft.com/content/00d0bb9e-a6ee-11e8-8ecf-a7ae1beff35b 24 August 2018 and https://www.theguardian.com/business/2018/aug/13/homebase-close-80-stores-high-street-job-losses-mount Patrick Collinson 13 Aug 2018)

Q) 2 (d) Evaluate possible microeconomic and macroeconomic policies which could be used to improve UK competitiveness.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

7 In 2022 the value of UK exports fell by 14% compared with 2020. In contrast, the global average increase in exports was 8.2% over the same time period. The UK's competitiveness also fell, dropping five places from 18th in 2021 to 23rd in 2022 in the world competitiveness rankings.
(Sources: adapted from https://www.ft.com/content/021c629d-5853-4111-9600-ab5f0eb65a35 and https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness)

Q) Evaluate macroeconomic policies that could be used to increase international competitiveness in the UK's export markets.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.2.1

ABSOLUTE AND RELATIVE POVERTY

Sub-topic 4.2.1 · 3 questions · 38 marks · lowest tariff first

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

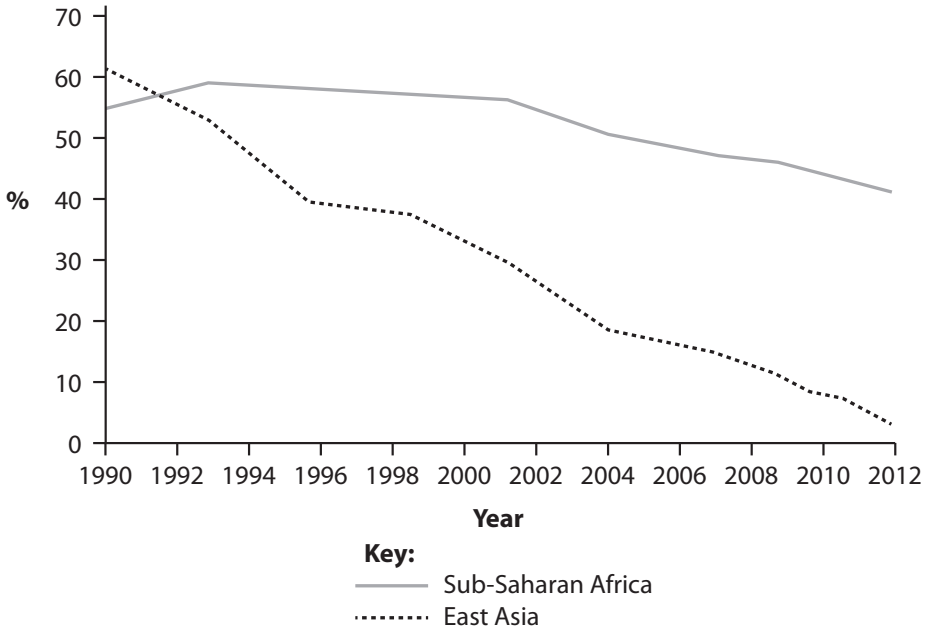
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US$1.90-a-day 2011 PPP)



(Source: https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

Extract A

Lessons from globalisation

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

(Source: adapted from https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism)

Extract B

Tackling inequality

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.

These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution.

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.

(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

(a) With reference to the information provided, explain the distinction between absolute poverty and relative poverty.

(5)

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

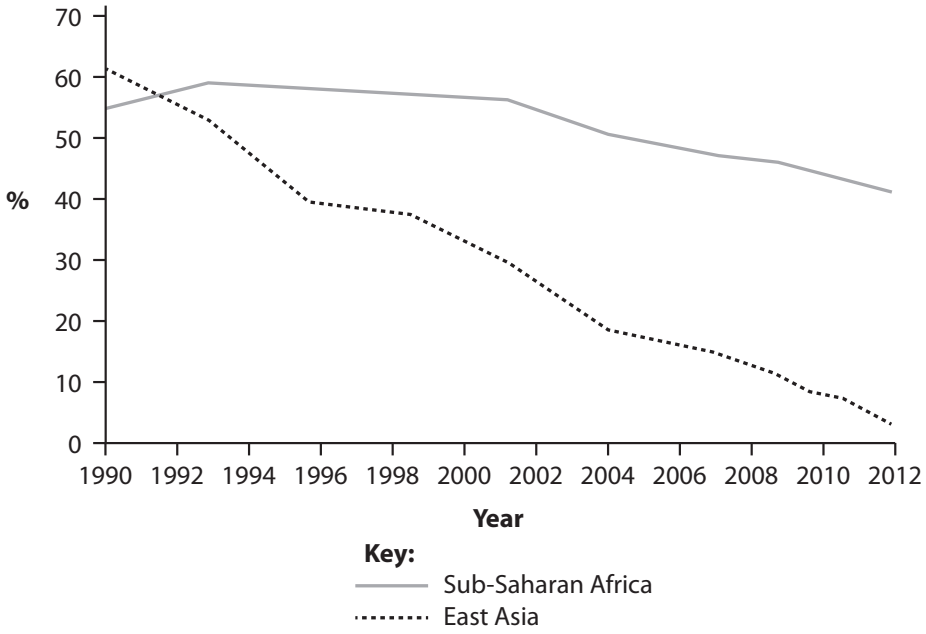
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US$1.90-a-day 2011 PPP)



(Source: https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

Extract A

Lessons from globalisation

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

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(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

(b) With reference to the information provided and your own knowledge, examine **two** factors that might explain the differing rates of decline in absolute poverty in East Asia and Sub-Saharan Africa.

(8)

Sources for use with SECTION B

Read Figure 3 and the following Extracts (E to G) before answering Question 2.

The economy of India

Figure 3: Selected economic data for India, 2006–2021

Year	GDP per capita (US$)	Human Development Index (HDI) value	% people living in absolute poverty
2006	820.0	0.611	55.1
2016	1 714.3	0.624	27.7
2021	2 238.1	0.633	16.4

(Source adapted from: https://www.statista.com/statistics/1272613/india-multidimensional-poverty-index/; https://data.worldbank.org/indicator/; UN Human Development Reports)

Extract E

135 million Indians escape absolute poverty in recent years

Absolute poverty in India, measured by the number of people living on under US$2.15 a day, has fallen dramatically over the last 15 years. The government's dedicated focus on improving access to sanitation, nutrition, cooking oil, banking services, drinking water and electricity has led to significant advances in these areas. The $2.3 million provision of subsidised cooking oil has positively transformed lives, with a 14.6 percentage points improvement in the access to cooking oil. 5

(Source adapted from: https://pib.gov.in/)

Extract F

Buffer stocks in India

The Indian government is required to maintain a buffer stock of 11 million tonnes of wheat and 10 million tonnes of rice. The grains are purchased from farmers at the minimum support price and stored in secure warehouses across the country. India, once troubled by famine, has more recently managed to remain self-sufficient in most food categories except edible oils, and is the world's largest rice exporter. Even during the global health crisis 2020-2022, when the government distributed free food to nearly 800 million people, buffer stocks ran down but not out. Farmers are encouraged to produce more without any consideration of sustainability.

(Source adapted from: https://ig.ft.com/india-population/)

Extract G

Population growth in India

"The greatest obstacle in the path of overall economic development is the alarming rate of population growth," was one Indian government minister's view in 1967. In the 1970s, the Indian government took radical measures to try to prevent population growth, with little success.

Then, in the 1980s and 1990s, India began opening up its economy to the private sector. Policymakers began viewing a growing young population in the form of the so-called demographic dividend – when a majority of a country's population is of working age (15-64 years) – as an engine for further economic development. In May 2023 India took over from China as the country with the highest population reaching 1.4 billion. However, it needs enough well-paying jobs designed to serve the modern, urban economy.

(Source adapted from: https://www.aljazeera.com/features/2023/4/18/overtaking-chinas-population-will-india-gain-or-lose)

Q) 2 (d) Evaluate the microeconomic and macroeconomic reasons for the fall in poverty in India.

(25)

(Total for this part = 25 marks)

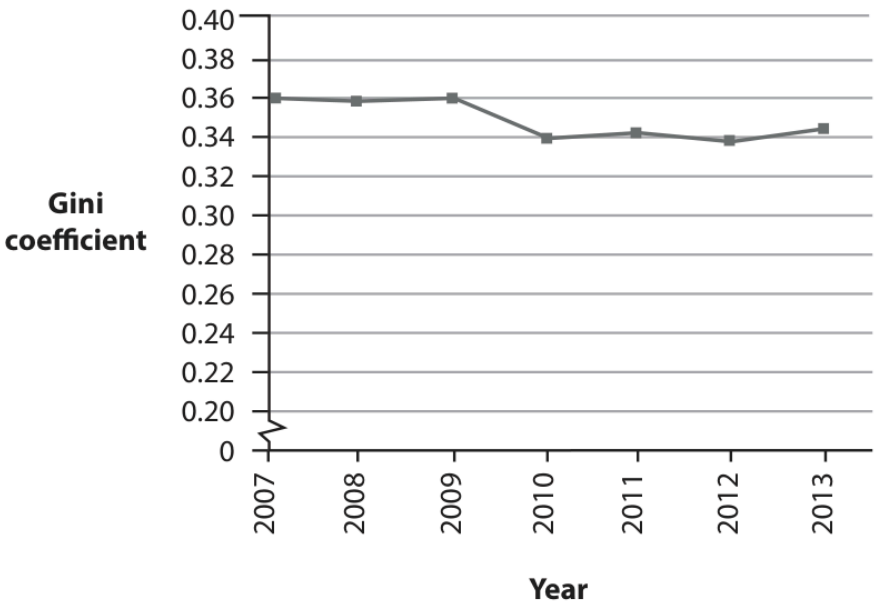
Continue on separate paper if required.

SUB-TOPIC 4.2.2

INEQUALITY

Sub-topic 4.2.2 · 13 questions · 122 marks · lowest tariff first

4 The chart below shows the UK Gini coefficient of incomes, 2007 to 2013.



(Source: adapted from https://www.equalitytrust.org.uk/how-has-inequality-changed)

(b) Which **one** of the following values for the Gini coefficient is correct if there is perfect income equality?

(1)

- ☒ **A** 0
- ☒ **B** 0.5
- ☒ **C** 1
- ☒ **D** 50:50

(Total for Question 4(b) = 1 mark)

5 According to the charity Oxfam, the combined wealth of the 62 richest people in the world is the same as the wealth of the poorest half of the world's population. The value of the combined wealth of the poorest half of the world's population has fallen by 38% between 2010 and 2016.

(Source: adapted from https://www.oxfam.org/en/pressroom/pressreleases/2016-01-18/62-people-own-same-half-world-reveals-oxfam-davos-report)

(c) Which **one** of the following would be most likely to reduce a country's Gini coefficient?

An increase in:

(1)

- ☒ **A** import tariffs
- ☒ **B** progressive taxes
- ☒ **C** regressive taxes
- ☒ **D** value added tax

(Total for Question 5(c) = 1 mark)

5 According to the charity Oxfam, the combined wealth of the 62 richest people in the world is the same as the wealth of the poorest half of the world's population. The value of the combined wealth of the poorest half of the world's population has fallen by 38% between 2010 and 2016.

(Source: adapted from https://www.oxfam.org/en/pressroom/pressreleases/2016-01-18/62-people-own-same-half-world-reveals-oxfam-davos-report)

(a) Explain the distinction between income and wealth.

(2)

(Total for Question 5(a) = 2 marks)

5 According to the charity Oxfam, the combined wealth of the 62 richest people in the world is the same as the wealth of the poorest half of the world's population. The value of the combined wealth of the poorest half of the world's population has fallen by 38% between 2010 and 2016.

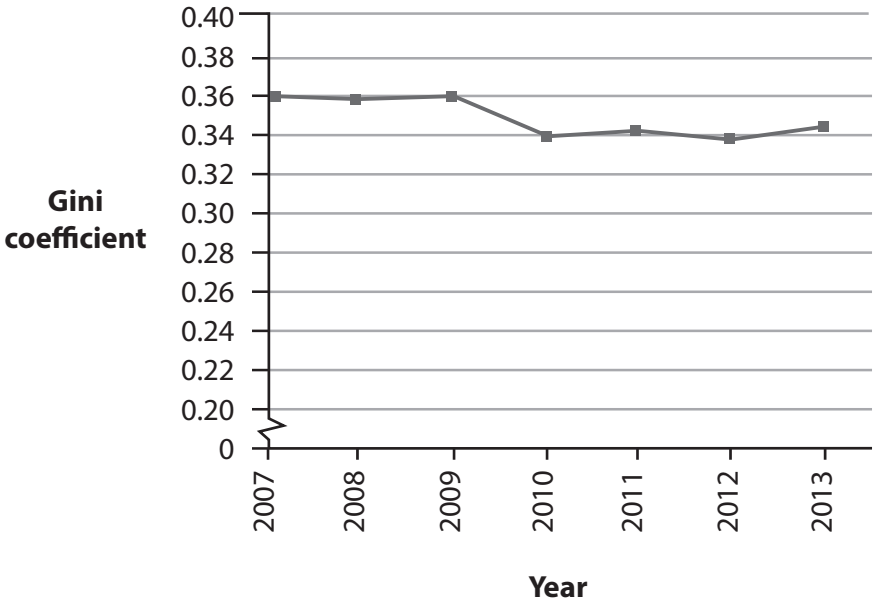
(Source: adapted from https://www.oxfam.org/en/pressroom/pressreleases/2016-01-18/62-people-own-same-half-world-reveals-oxfam-davos-report)

(b) Explain **one** likely reason why global wealth inequality has increased.

(2)

(Total for Question 5(b) = 2 marks)

4 The chart below shows the UK Gini coefficient of incomes, 2007 to 2013.



(Source: adapted from https://www.equalitytrust.org.uk/how-has-inequality-changed)

(a) Explain **one** likely reason for the change in UK income inequality since 2007.

(4)

(b) Which **one** of the following values for the Gini coefficient is correct if there is perfect income equality?

(1)

- ☒ **A** 0
- ☒ **B** 0.5
- ☒ **C** 1
- ☒ **D** 50:50

(Total for Question 4 = 5 marks)

5 According to the charity Oxfam, the combined wealth of the 62 richest people in the world is the same as the wealth of the poorest half of the world's population. The value of the combined wealth of the poorest half of the world's population has fallen by 38% between 2010 and 2016.

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- ☒ **C** regressive taxes
- ☒ **D** value added tax

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

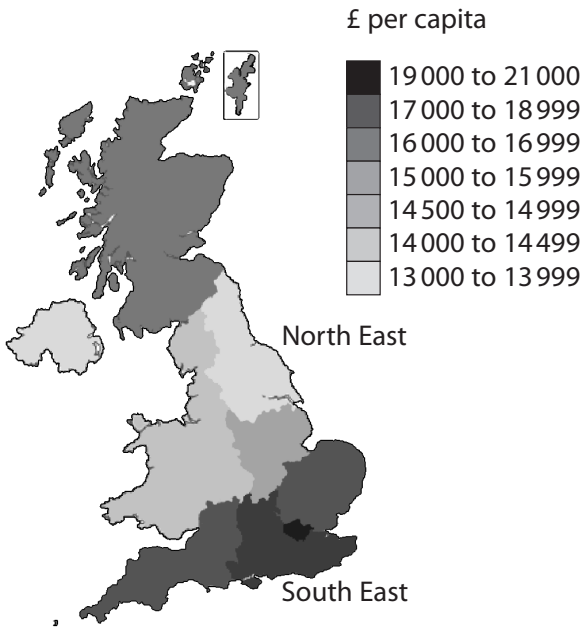
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

UK Government spending and inequality

Figure 1: UK regional gross disposable household income per capita, 2018



(Source: adapted from University of Sheffield/Office for National Statistics: https://www.sheffield.ac.uk/news/nr/uk-higher-regional-inequality-large-wealthy-country-1.862262)

Figure 2: UK subjective happiness by income, April 2021

Answer to the question: 'On a scale of 1–10, how happy did you feel after yesterday?' (0 = not at all, 10 = completely)

Less than £10 000	£10 000–£20 000	£20 000–£40 000	More than £40 000
7.31	7.02	7.13	7.29

(Source: adapted from https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/datasets/incomegroupsplitestimatesonpersonalandeconomicwellbeingacrosstime)

Extract A

Regional inequality in the UK

Geographically, the UK is highly unequal in incomes. According to research from the University of Sheffield, the estimate of the Gini coefficient is 0.34. There are a number of different reasons for this. First, labour in poor places tend to develop too few skills, with a lack of education holding people back. In Rotherham in the north of England, for example, 21% of disadvantaged 18-year-olds from state schools and colleges go on to higher education compared to 41% in London. Secondly, there is a lack of infrastructure spending in northern cities compared to London. In 2017–18, 28% of public expenditure on transport – and 46% of capital expenditure on railways – was spent in London. The argument for this is that London gets a lot of public money because a lot of people take public transport. This has angered many people in the North.

These problems cannot be solved quickly. They compound each other. Just as people are rarely poor for one reason, regions do not fall behind only because they have poor transport, poor schools or poor policy making, but for all those reasons and more. Ideally, the UK would develop a bold plan for regional development that could be followed by future governments, as Germany did for its eastern part. Tera Allas of McKinsey, a consultancy firm, argues that improving education is crucial, even if the returns are not immediately obvious. It is easier to improve schools than to persuade businesses to move to a poorer part of the country.

(Source: adapted from https://www.economist.com/britain/2020/07/30/why-britain-is-more-geographically-unequal-than-any-other-rich-country)

Extract B

Public sector spending on infrastructure

Economic differences across the UK are large and have grown. The government is looking at reducing this inequality partly through spending on transport infrastructure. Public sector capital spending is due to rise from just over 2% of GDP to 3%. That amounts to around £20 billion of additional spending per year on new capital projects. The government is looking to take advantage of current low interest rates to finance the expansion without worsening its fiscal position.

The government is determined to focus this spending on the north of England, Wales and the Midlands. Planned schemes include a new Trafford Park tram line in Manchester and reopening train lines and stations closed back in the 1960s, including stations in Haxby in Yorkshire and Blyth in Northumberland. Progress has already been made in Wales with the reopening of Bow Street station near Aberystwyth. This project has taken 11 years to become a reality and cost £8m. It is estimated that it will generate a boost to the economy of £24m through boosting local trade, creating new jobs in the local area, and easing pressure on congested roads heading into Aberystwyth.

(Source: adapted from https://www.economist.com/britain/2020/01/09/the-coming-splurge-on-northern-infrastructure and https://www.wales247.co.uk/transport-for-wales-delivers-new-bow-street-station)

Extract C

Options for UK tax rises in the future

There are a number of options for raising additional tax revenue in the future. These include:

- increasing council tax on houses: this annual charge paid to local government is currently based on estimated house prices in 1991 and so is very out of date. This would negatively affect areas where house prices have risen the most since 1991
- a one-off wealth tax: a 5% tax on property and pension wealth of more than £500 000 would raise £260 billion to help pay for the global health crisis in five years, according to proposals from the Wealth Commission
- increasing corporation tax: at the 2021 Budget the Chancellor announced that the top rate of UK corporation tax would be increased to 25% by 2023. This will remain the lowest rate in the G7 group of the world's largest advanced countries, but will raise £17.2 billion in 2025–26.

(Source: adapted from https://www.telegraph.co.uk/tax/income-tax/five-tax-rises-rishi-sunak-considering-chances-happening-budget/, and https://home.kpmg/uk/en/home/insights/2021/03/tmd-corporation-tax-rate-to-increase-to-25-percent.html)

6 (a) Using a Lorenz curve diagram, explain how income inequality is measured using the Gini coefficient. Refer to Extract A in your answer.

(5)

SECTION A

Read Figure 1 and the following extracts (A, B and C) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Markets for food and drinks high in fat, salt or sugar (HFSS)

Figure 1: UK market share of potato crisps, 2017

Firm	Brand	Size	Market share of firm	Market share of product	Price (£)
Walkers	All Walkers		*55.3%*		
	of which: *Regular Standard*	35 g		28.1%	0.45
	Regular Max	50 g		7.4%	0.63
	Sensations	40 g		2.0%	0.59
	Doritos	40 g		4.7%	0.45
	Other			13.1%	
KP	KP	50 g	*22.7%*		0.52
Tayto	Golden Wonder		*4.2%*		
		<40g		3.1%	0.38
		40g+		1.1%	0.72
Other	Other		*17.8%*		

(Source: adapted from https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food 6 April 2017)

Extract A

The effects of a total ban on advertising of HFSS foods

Food and drinks which are high in fat, salt or sugar (HFSS) tend to be sold in highly concentrated markets. Tough new rules banning advertisements for HFSS products, such as those for confectionery, fizzy drinks and potato crisps, come into effect in July 2017 as a means to reduce consumption. The rules apply to media targeted at under-16s and will mean a major reduction in the number of advertisements children see for HFSS products in posters near schools, in films targeted at children, on catch-up television and in social media if it is directed at children.

There are three main factors that will determine the effectiveness of the intervention: first, whether advertising acts to expand the market share or steal rivals' market share. Secondly, how firms in the market adapt their behaviour in response to the ban. Thirdly, what substitute products do consumers turn to if they opted out of the targeted market.

Results from a recent survey in the UK suggest that the total quantity of crisps sold would fall by around 15% in the presence of an advertising ban, or by 10% if firms respond with price cuts, since the ban acts to make the market more competitive and firms respond to the ban by, on average, lowering their prices.

The survey showed that following a ban, consumers are more likely to switch to another junk food than to a healthy food, which (in addition to the pricing response of firms) acts to partially offset any health gains from the policy.

(Source: adapted from The Effects of Banning Advertising in Junk Food Markets, Dubois, Pierre; Griffith, Rachel, Review of Economic Studies Copyright © 2017, Oxford University Press https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food 6 April 2017 and https://www.asa.org.uk/news/tougher-new-food-and-drink-rules-come-into-effect-in-children-s-media.html 30 June 2017)

Extract B

Taxing HFSS foods and subsidising healthy eating widens inequality

Since low-income groups spend a higher proportion of their income on food and tend to eat less healthily, they are the main targets of taxes on products that are high in fat, salt or sugar (HFSS). Subsidies on healthy food are seen as an alternative policy approach to encourage healthy eating. While data on the impact of such policies are scarce, a recent study on the distributional impacts of HFSS taxes and healthy food subsidies found that these actually widened health and fiscal inequalities. The policies tend to be regressive and favour higher-income consumers. Taxes on unhealthy food increase prices which have a greater impact on low income groups rather than higher income groups. Lower income groups prefer to buy HFSS food.

Subsidies encouraged all income groups to buy more fruit and vegetables. However, those on higher incomes proved more responsive and the average share of budget spent on healthy food actually increased for the higher income groups who were more likely to buy the subsidised healthy food and then spend the savings they had enjoyed on yet more healthy food. The diets of the higher income groups before the subsidy tended to be healthier. The choices of the higher income groups are more responsive to price changes. By contrast, lower income groups, if they responded to lower prices, often used the money saved to buy unhealthy items or something else entirely. The long-term benefits of a healthier diet are harder to grasp for consumers when information gaps exist. Often the immediate boost of a tasty treat is more appealing. Taxes and subsidies do not change that. Other strategies are needed to promote healthy eating, especially education.

(Source: adapted from Economist 5 October 2017 https://www.economist.com/news/finance-and-economics/21730033-study-suggests-lower-income-families-end-up-paying-more-their-food-taxing-fat and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3031005 The Economic Journal September 2017 Vol 127 Issue 604)

Extract C

Tax on fatty foods in Denmark is an economic disaster

Denmark introduced a specific tax on saturated fat in October 2011. Recognised as a world-leading public health policy, it was abandoned just 15 months later having been both an economic and political disaster.

Indirect taxes of this sort are invariably regressive, disproportionately affecting the elderly and the poor. The specific tax led to prices rising on average 15% for highest-fat products, yielding a total decrease of 5% in the intake of saturated fat from products such as minced beef and cream. 80% of Danish consumers did not change their shopping habits at all. The behavioural change was economically damaging as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping. Danish tax revenue fell as a result.

(Source: adapted from https://iea.org.uk/in-the-media/press-release/evidence-shows-a-fat-tax-would-hit-poorest-the-hardest 25 May 2013 and https://www.cambridge.org/core/journals/public-health-nutrition/article/effects-of-the-danish-saturated-fat-tax-on-the-demand-for-meat-and-dairy-products/984CF03634C819D50E66C7B5DC5209DA/core-reader)

(b) Apart from changes in indirect taxes and subsidies, examine **two** causes of income inequality within a developed economy such as the UK.

(8)

SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

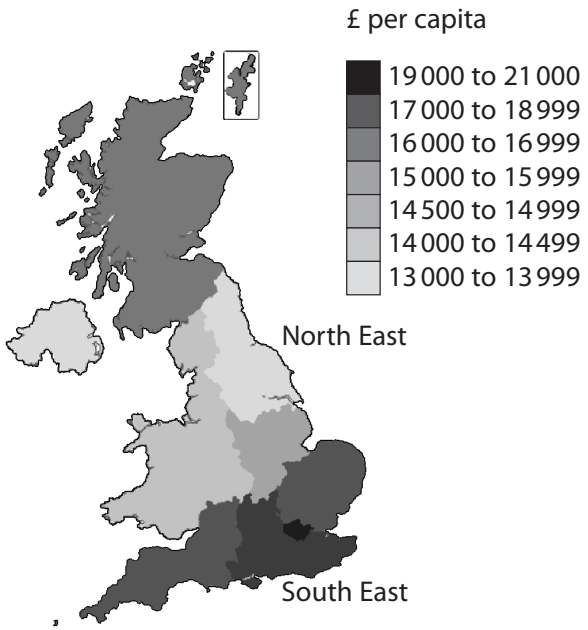
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Extract C

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- increasing council tax on houses: this annual charge paid to local government is currently based on estimated house prices in 1991 and so is very out of date. This would negatively affect areas where house prices have risen the most since 1991
- a one-off wealth tax: a 5% tax on property and pension wealth of more than £500 000 would raise £260 billion to help pay for the global health crisis in five years, according to proposals from the Wealth Commission
- increasing corporation tax: at the 2021 Budget the Chancellor announced that the top rate of UK corporation tax would be increased to 25% by 2023. This will remain the lowest rate in the G7 group of the world's largest advanced countries, but will raise £17.2 billion in 2025–26.

(Source: adapted from https://www.telegraph.co.uk/tax/income-tax/five-tax-rises-rishi-sunak-considering-chances-happening-budget/, and https://home.kpmg/uk/en/home/insights/2021/03/tmd-corporation-tax-rate-to-increase-to-25-percent.html)

(b) With reference to Figure 1 and Extract A, examine **two** likely causes of income inequality within the UK.

(8)

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

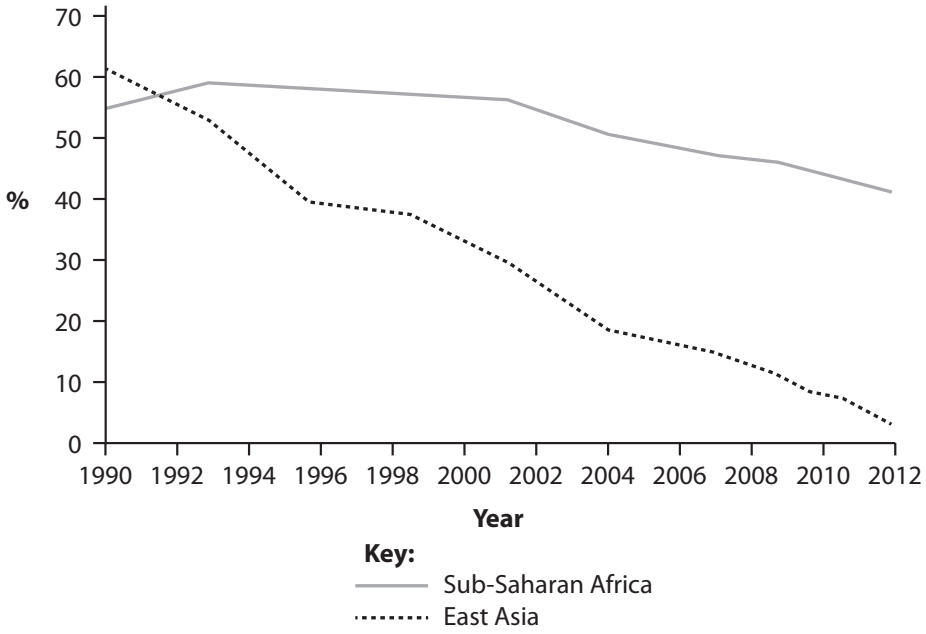
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US$1.90-a-day 2011 PPP)



(Source: https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

Extract A

Lessons from globalisation

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

(Source: adapted from https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism)

Extract B

Tackling inequality

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.

These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution.

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.

(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

(d) Assess the view that 'some level of inequality is desirable to maintain an appropriate incentive structure in the economy' (Extract B, lines 19 and 20).

(10)

8 In terms of income distribution and wealth distribution Brazil is one of the most unequal countries in the world. Its income Gini coefficient is 0.449 and it is ranked number 2 in the world for its wealth inequality.
Evaluate possible economic causes of income and wealth inequalities within a country such as Brazil.
(Source: https://www.gfmag.com/)

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION A

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

The UK economy

Figure 1: UK gas prices in pence per therm, August 2002 to August 2022

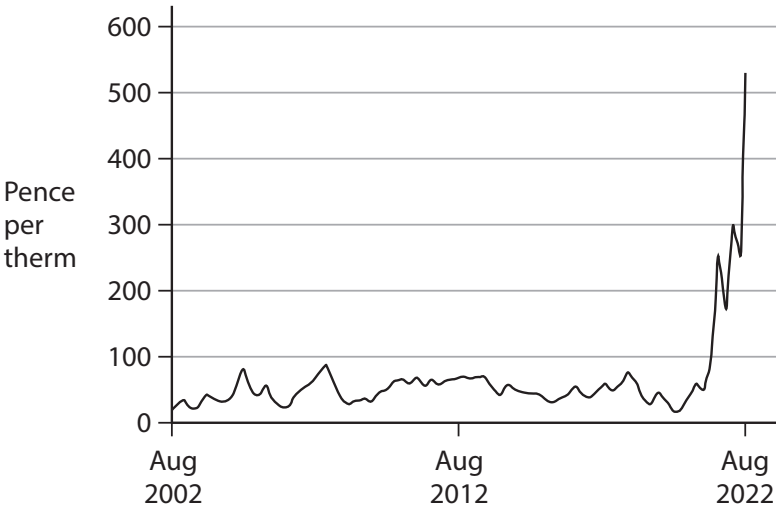
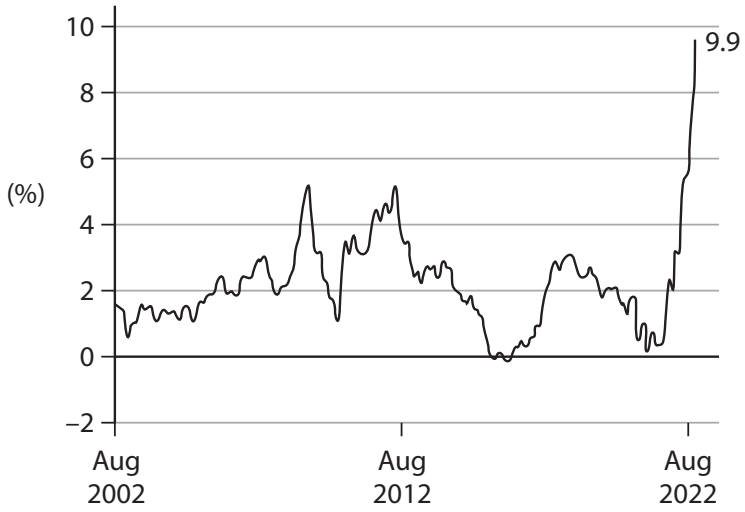


Figure 2: UK inflation, CPI, August 2002 to August 2022



Extract A

Fiscal policy changes in the UK, Autumn 2022

After many changes in policy, people earning above £150 000 will now no longer benefit from the tax cut in the September 2022 mini-budget, which proposed the removal of the 45% tax band. The proposed change in the main 20% standard rate of income tax moving to 19% has been postponed.

In April 2022, a 1.25% rise in national insurance contributions was implemented, labelled as a health and social care levy. It was cancelled in Autumn 2022. Britain's poorest households would have lost £7.56 a year from the national insurance rise. The richest 10% of households, earning an average of £108 000, would have lost £1 800.

Another measure in the Truss Government's £30 billion tax cut proposals that would have benefitted the rich, was the removal of the 2023 planned rise in corporation tax from 19% to 25%. The former chancellor wanted to cut the tax to 15% but this was the wrong time to do this. The former chancellor also removed the 2014 cap on bankers' bonuses, clearly an unfair decision at the time when public sector workers were told to accept pay caps to keep inflation under control.

The reflationary fiscal policy triggered warnings that the Monetary Policy Committee of the Bank of England would raise interest rates further – having already raised them from 0.1% in 2021 to 2.25% in September 2022. This meant an end to the fiscal rules set by the government in the recent past: debt to be falling as a share of national income by 2024 and no borrowing for day-to-day spending.

(Source: adapted from 'Tax cuts benefit high income earners the most' R Merrick The Independent: 19 September 2022 and FT Source: adapted from Sebastian Payne and Chris Giles in London 29 August 2022)

Extract B

Inequality to rise in the UK

The rising cost of living is expected to affect low-income families the most. Inflation in Autumn 2022 is expected to hit 14% for families in the poorest tenth of the income distribution, compared with 8% for families in the richest tenth, driven in large part by rising energy costs and food prices. Around half of the food consumed in the UK is imported, and the 20% fall in the value of the pound in 2022 has affected lower income groups more because food is a higher proportion of their spending. The government's decision to freeze benefits, rather than allowing them to rise in line with current inflation, means that the support provided is a real terms cut for families currently receiving high levels of benefits. A two-year freeze on energy price caps will now only last until April 2023, which would have kept the average energy bill at £2 500 rather than £3 500.

(Source: adapted from IFS Report: Living standards, poverty and inequality in the UK: July 2022 and https://www.ft.com/content/6de5b52e-64c8-4997-8939-e1c59172daa7?shareType=nongift)

Q) 1 (d) Evaluate microeconomic and macroeconomic policies that could be used to reduce inequality in the UK.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION A

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

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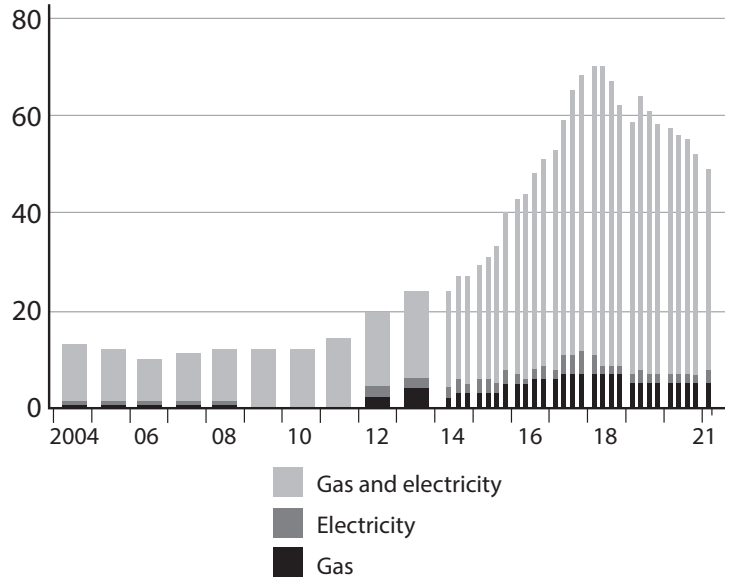
Question 1

The energy market

Figure 1: UK wholesale gas prices per therm, 2021, in pence



Figure 2: Number of firms supplying gas and electricity in the UK, 2004–2021



Extract A

Rising gas prices

UK consumers are some of the biggest users of gas. 85% of homes use gas central heating, and gas generates a third of the country's electricity. North Sea gas is running out – and as Britain has replaced coal-fired energy production with wind power in order to reduce carbon emissions, it has become dependent on gas imports.

Almost all UK businesses face significant rises in fuel costs over the next few months, and there is no substitute for energy, at least in the short run – an almost perfect example of price inelastic demand.

(Source: adapted from https://www.theecoexperts.co.uk/blog/reasons-for-uk-gas-price-increase)

Extract B

The UK gas market is broken

During the past decade the government has allowed new entrants into the retail energy market with business models that left them ill-prepared to achieve long term business growth. Now the UK must choose between letting its energy market collapse and offering large subsidies for energy retailers.

The problem began in the 1980s and 1990s, when privatisation created an oligopolistic energy market dominated by the "Big Six", which paid their shareholders high dividends and their bosses excessive salaries. The government responded to anger over high energy bills with further liberalisation. Some of the new entrants were innovative, such as Bulb, which offered consumption-tracking apps, and Octopus, which discouraged consumption when demand was high with dynamic pricing. But most were under-capitalised and produced no energy, merely buying it on global wholesale markets and selling it on. Some paid little attention to ensuring continuity of supply or forward buying of gas.

The constraints on energy retailers worsened in 2017 with the closure of a big gas-storage facility, which left the UK able to store just 2% of its annual demand. Other big gas importing countries, by contrast, can store 20%–30%. The risks rose further in 2019, when the government capped consumer prices in response to continued complaints about high energy bills.

The perfect storm came in the summer of 2021. As economies opened up, global demand for energy rose. Gas supply in Russia, a big producer, was disrupted, and unusually calm weather reduced UK wind turbine energy production to 11% of capacity. In August Ofgem, the industry regulator, said that from October the firms would be able to raise prices for households by 54%. But since then the wholesale price of gas paid by UK energy firms has risen by more than 70%. The result is that UK energy firms are tied into contracts to supply gas to households at far less than they must pay to get it.

(Source: adapted from https://www.economist.com/britain/britains-gas-market-is-broken/)

Extract C

The gender pay gap in the oil and gas industry

Despite best efforts to try to attract more women into the oil and gas industry, females are still hugely under-represented in science, technology, engineering and maths careers, whether school leavers, graduates or experienced workers. Women hold under 25% of careers in these areas, and typically hold more non-technical roles, which can attract lower salaries than technical disciplines.

There is an even smaller female representation in the offshore workforce (3.6%) e.g. working on rigs in the North Sea, an area that pays higher salaries than onshore work. Despite continued efforts there is still a lack of female applications. Only 5% of the applications to the technical apprentice programme were female, of which half withdrew their applications at the first stage of the recruitment process.

There is also a low representation of females in senior leadership roles within the oil and gas industry, especially in technical positions. Women also generally take up part-time positions which are typically lower paid. This has resulted in the oil and gas industry having an average gap in hourly pay of 25%.

In the majority of developed countries, women have made substantial progress in the labour market since the 1970s, with both wages and labour force participation increasing relative to that for men. Notwithstanding these large improvements, women still earn less than 'comparable' men in all developed countries and, since the 2000s, progress for women in the labour market seems to have slowed.

(Source: adapted from https://www.harbourenergy.com/media/2a2nmavb/chr-18311-01-gender-pay-gap-2020-v6-final.pdf and https://ftp.iza.org/dp10975.pdf)

Q) 1 (d) Evaluate the microeconomic and macroeconomic factors that explain gender-based wage differences in the UK oil and gas industry.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.3.1

MEASURES OF DEVELOPMENT

Sub-topic 4.3.1 · 3 questions · 14 marks · lowest tariff first

5 The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	Human Development Index (HDI) value
Vietnam	5 092	0.666
India	5 497	0.609

(Source: www.hdr.undp.org/en/composite/HDI)

(a) Which **one** of the following statements can be deduced from the data in the table?

(1)

☒ **A** Average incomes are higher in India than in Vietnam.

☒ **B** Levels of absolute poverty are higher in Vietnam.

☒ **C** Life expectancy is higher in India than in Vietnam.

☒ **D** Provision of healthcare and education is less effective in Vietnam than in India.

(Total for Question 5(a) = 1 mark)

5 The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	Human Development Index (HDI) value
Vietnam	5 092	0.666
India	5 497	0.609

(Source: www.hdr.undp.org/en/composite/HDI)

(a) Which **one** of the following statements can be deduced from the data in the table?

(1)

- ☒ **A** Average incomes are higher in India than in Vietnam.
- ☒ **B** Levels of absolute poverty are higher in Vietnam.
- ☒ **C** Life expectancy is higher in India than in Vietnam.
- ☒ **D** Provision of healthcare and education is less effective in Vietnam than in India.

(b) With reference to the data provided, explain **two** limitations of using the HDI to compare levels of development between countries and over time.

(4)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

Sources for use with SECTION B

Read Figure 3 and the following Extracts (E to G) before answering Question 2.

The economy of India

Figure 3: Selected economic data for India, 2006–2021

Year	GDP per capita (US$)	Human Development Index (HDI) value	% people living in absolute poverty
2006	820.0	0.611	55.1
2016	1 714.3	0.624	27.7
2021	2 238.1	0.633	16.4

(Source adapted from: https://www.statista.com/statistics/1272613/india-multidimensional-poverty-index/; https://data.worldbank.org/indicator/; UN Human Development Reports)

Extract E

135 million Indians escape absolute poverty in recent years

Absolute poverty in India, measured by the number of people living on under US$2.15 a day, has fallen dramatically over the last 15 years. The government's dedicated focus on improving access to sanitation, nutrition, cooking oil, banking services, drinking water and electricity has led to significant advances in these areas. The $2.3 million provision of subsidised cooking oil has positively transformed lives, with a 14.6 percentage points improvement in the access to cooking oil. 5

(Source adapted from: https://pib.gov.in/)

Extract F

Buffer stocks in India

The Indian government is required to maintain a buffer stock of 11 million tonnes of wheat and 10 million tonnes of rice. The grains are purchased from farmers at the minimum support price and stored in secure warehouses across the country. India, once troubled by famine, has more recently managed to remain self-sufficient in most food categories except edible oils, and is the world's largest rice exporter. Even during the global health crisis 2020-2022, when the government distributed free food to nearly 800 million people, buffer stocks ran down but not out. Farmers are encouraged to produce more without any consideration of sustainability.

(Source adapted from: https://ig.ft.com/india-population/)

Extract G

Population growth in India

"The greatest obstacle in the path of overall economic development is the alarming rate of population growth," was one Indian government minister's view in 1967. In the 1970s, the Indian government took radical measures to try to prevent population growth, with little success.

Then, in the 1980s and 1990s, India began opening up its economy to the private sector. Policymakers began viewing a growing young population in the form of the so-called demographic dividend – when a majority of a country's population is of working age (15-64 years) – as an engine for further economic development. In May 2023 India took over from China as the country with the highest population reaching 1.4 billion. However, it needs enough well-paying jobs designed to serve the modern, urban economy.

(Source adapted from: https://www.aljazeera.com/features/2023/4/18/overtaking-chinas-population-will-india-gain-or-lose)

(b) Examine **two** advantages of using the Human Development Index (HDI) to measure the level of economic development in India.

(8)

SUB-TOPIC 4.3.2

FACTORS INFLUENCING GROWTH AND DEVELOPMENT

Sub-topic 4.3.2 · 16 questions · 256 marks · lowest tariff first

SECTION B

Read Figures 2, 3 and the following extracts (D to F) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	**21.75%**	**18.0%**
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399)

Extract E

Mozambique's economic stability is being put to the test

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line.

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1.

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability.

(Source: adapted from http://www.africaneconomicoutlook.org/en/country-notes/mozambiqua and https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test 6 October 2017 Dr Alex Vines OBE)

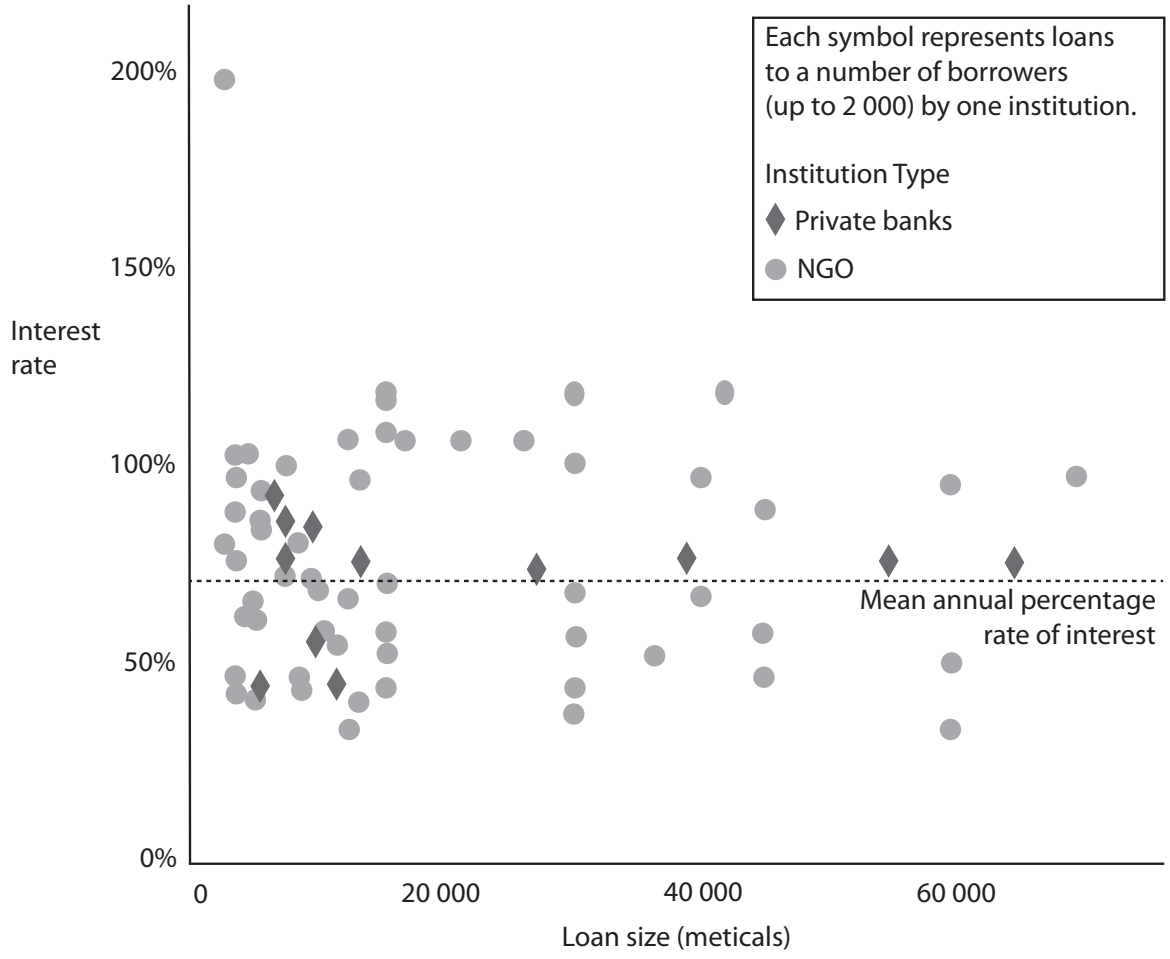
Extract F

Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion.

(Source: adapted from http://www.mftransparency.org/microfinance-pricing/mozambique/)

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: http://www.mftransparency.org/microfinance-pricing/mozambique/)

(a) With reference to Extract D line 21, explain why 'opportunity cost' is a problem for governments of developing countries when servicing debt.

(5)

SECTION B

Read Figures 2, 3 and the following extracts (D to F) before answering Question 2.

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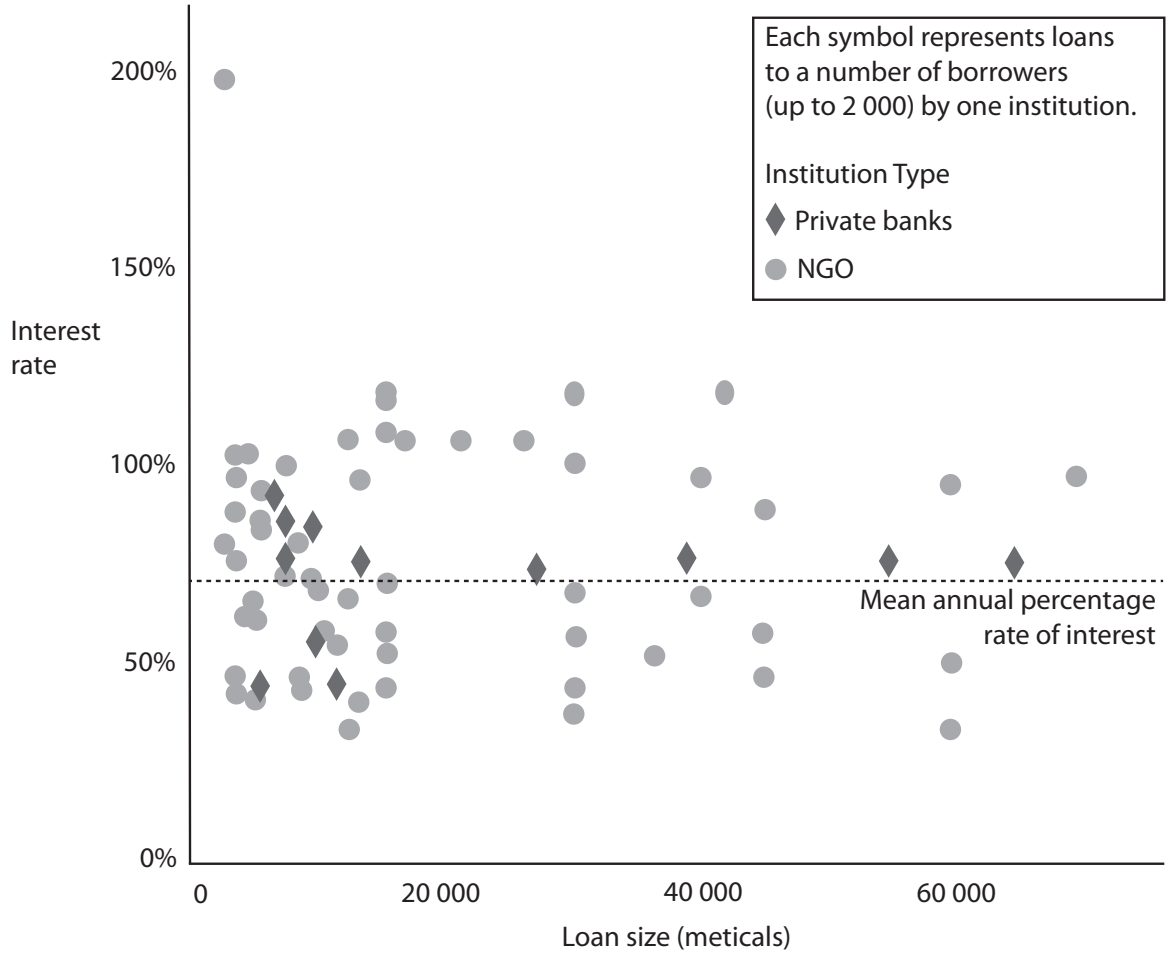
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Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: http://www.mftransparency.org/microfinance-pricing/mozambique/)

(b) Examine **two** reasons, apart from access to finance, why 90% of the manufacturing sector in Mozambique 'is made up of small enterprises' (Extract E, line 9).

(8)

SECTION B

Read Figures 1, 2, and 3 and extracts A and B before answering Question 6.

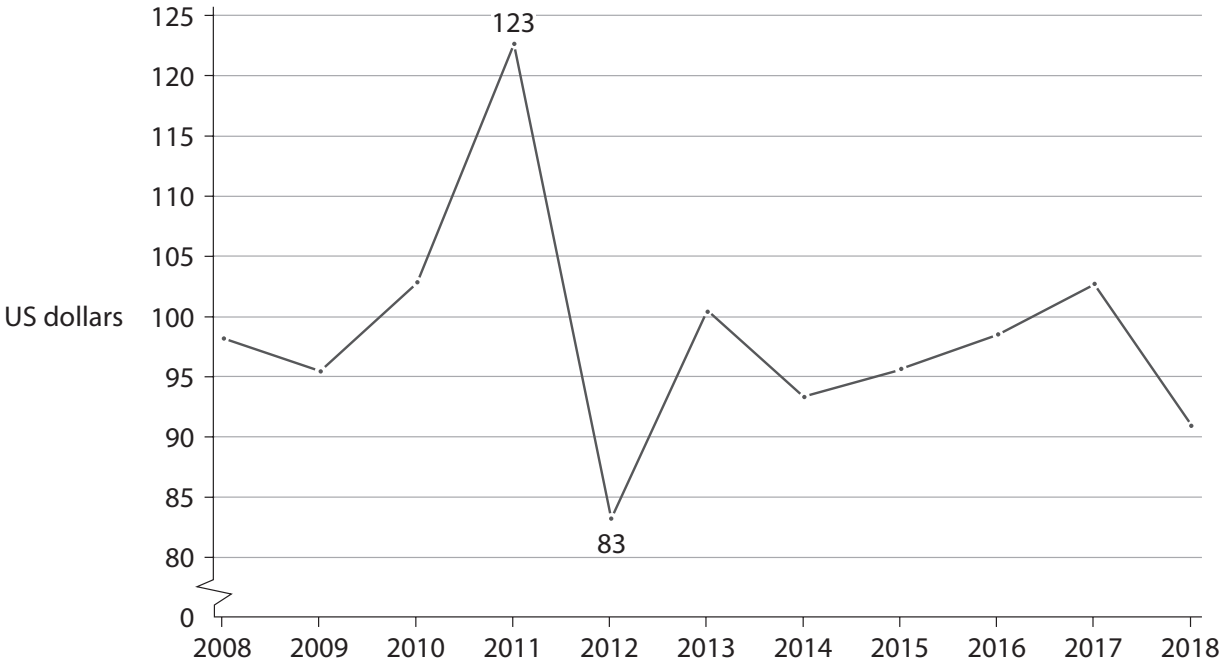
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

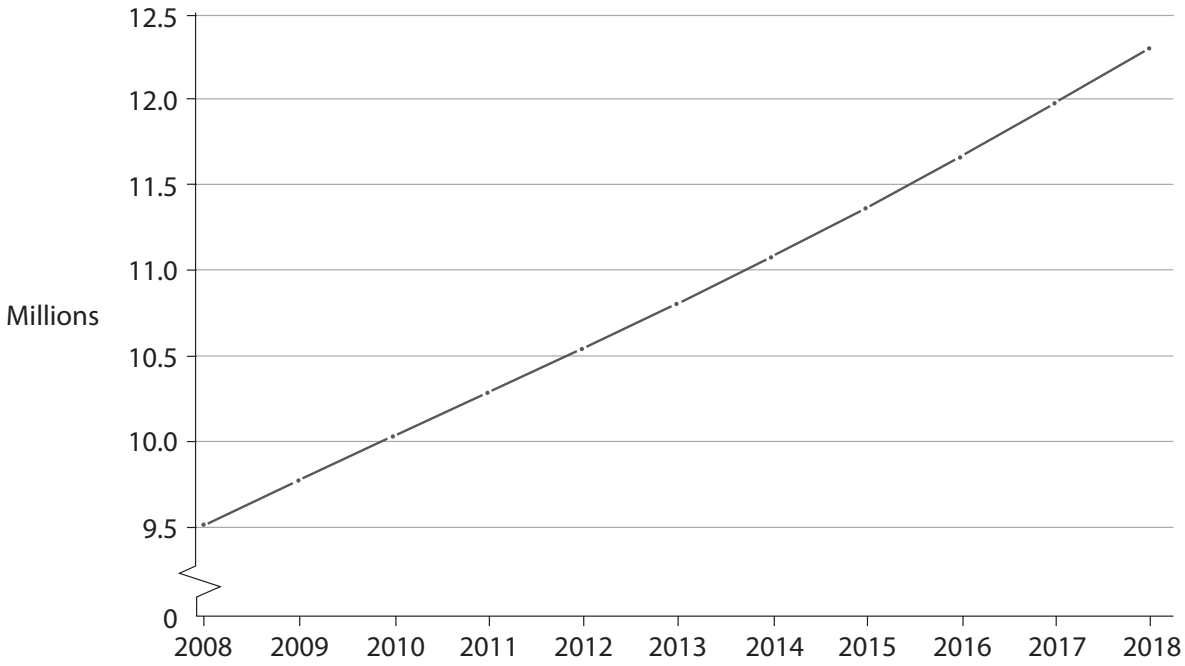
Trade and aid in Rwanda

Figure 1: Aid funding received by Rwanda (per capita, US dollars), 2008 to 2018



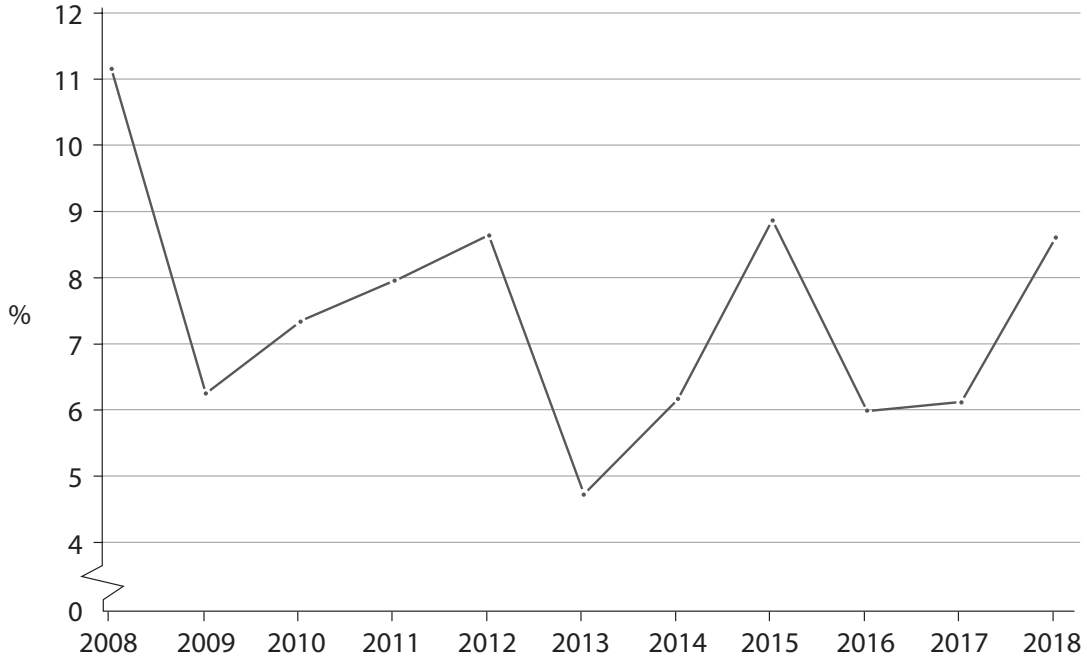
(Source adapted from: data.worldbank.org)

Figure 2: Population of Rwanda (millions), 2008 to 2018



(Source adapted from: https://tradingeconomics.com/rwanda/population)

Figure 3: Rwanda real GDP annual percentage growth rate, 2008 to 2018



(Source adapted from: African Development Bank Statistics accessed April 2020)

Extract A

Rwandan tariffs on imports of used clothing

In a market in Kigali, Rwanda's capital, an auction is under way. Sellers offer crumpled T-shirts and faded jeans; traders argue over the best picks. Everything is second-hand. A Tommy Hilfiger shirt sells for 5 000 Rwandan francs ($5.82); a plain one for a tenth of that. Afterwards, a trader sorts through the purchases he will resell in his home village. The logos hint at their previous lives: Kent State University, a rotary club in Pennsylvania, Number One Dad.

These auctions were once twice as busy, but in 2016 Rwanda's government increased import tariffs on a kilo of used clothes from $0.20 to $2.50. Now many traders struggle to make a profit. The traders are not the only ones who are unhappy. Exporters in the US claim the tariffs are costing jobs there. In March, the US President warned that he would suspend Rwanda's tariff-free access to US markets for its clothing exports after 60 days if it did not remove the tariff.

Globally, about $4 billion of used clothes crossed borders in 2016. The share from China and South Korea is growing, but 70% still come from Europe and North America. Many go to Asia and eastern Europe, but Africa remains the largest market. The trade enables poor people to afford clothes and creates retail jobs. However, governments worry that the trade undercuts their own clothing manufacturers.

Second-hand imports of clothing now dominate African markets. Researchers at the Overseas Development Institute, a British think-tank, estimate that Tanzania imports 540 million used items of clothing and 180 million new ones each year, while producing fewer than 20 million itself. African manufacturing is weak for many reasons, from ineffective privatisations to collapsing infrastructure. But second-hand clothing imports are a major factor: it is estimated that they accounted for half of the fall in employment in the African clothing industry between 1981 and 2000.

For example, a clothing factory in Kigali is operating at only 40% of capacity and employs 600 workers, down from 1 100 in the 1990s. It is hard to compete, says Ritesh Patel, its manager, when a used imported T-shirt sells for the price of a bottle of water. Instead, the company specialises in uniforms for police, soldiers and security guards, which cannot be bought second-hand.

The threatened suspension of tariff-free access to the US market would hurt Rwanda, but not very much. Last year Rwanda sold just $1.5 million of clothing to the US. Nor, with about 12 million people, is Rwanda a big market for US exports.

(Source adapted from: https://www.economist.com/finance-and-economics/2018/05/31/rwanda-refuses-to-remove-tariffs-on-imports-of-used-clothing)

Extract B

Development in Rwanda

Rwanda's strong economic growth has been accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on policies to encourage industrialisation and poverty reduction initiatives have contributed to significant improvements in access to services and human development indicators. Absolute poverty declined from 59% to 39% of the population between 2001 and 2014 but was almost stagnant between 2014 and 2017. The official inequality measure, the Gini index, declined from 0.52 in 2006 to 0.43 in 2017.

(Source adapted from: https://www.worldbank.org/en/country/rwanda/overview)

(b) With reference to the information provided, examine **two** likely benefits for the Rwandan economy of the growth in the country's population.

(8)

SECTION B

Read Figure 2 and the following extracts (D to G) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

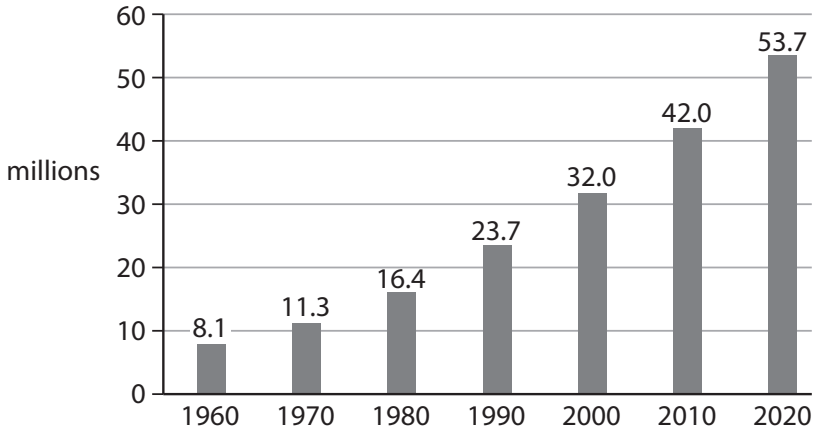
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Sub-Saharan Africa – growth and development

Figure 2: Kenya population, millions, 1960 to 2020



(Source: adapted from Population, total - Kenya | Data (worldbank.org))

Extract D

Growth and development in Africa: 'Africa has a massive opportunity as a low-cost provider of services'

The outlook for Africa's economies is not as simple as the Lewis model of growth and development implies: do more manufacturing or stay poor. Many countries are expanding into areas that economists are starting to call 'industries without smoking chimneys'. Some, such as flower-exports, may not be classified as manufactured goods in export statistics. But the process of producing flowers looks a lot like factory work and demands many of the same management skills. These industries also deliver many of the benefits of normal manufacturing, including many well-paid jobs, and greater opportunities.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/many-of-africas-economies-are-doing-well)

Extract E

The demography of Kenya – 'Demography will shape Africa's future'

Falling birth rates, when accompanied by rising literacy, can help kick-start growth. In Kenya 39% of the population is below the age of 15, falling from 43% in 2009. The labour force (15–64 years) is 57% and is the fastest growing population group. 6% of the population is over the age of 60. The number of children per family has fallen sharply, from 8.1 children in 1978 to 4.6 children in 2008, and it is projected to possibly reach 2.4 children by 2050.

In the 1970s little more than half of children in sub-Saharan Africa were enrolled in primary school. That share has shot up to almost 100%. The statistic is slightly misleading, since the percentage of children regularly attending schools is nearer 60%.

Why does Kenya's population continue to rise rapidly, while family size declines? There are two reasons. First, due to high fertility in previous decades, there are many more families in Kenya today. So even though families are smaller, the total number of children continues to grow. Second, Kenyans are living longer, with better healthcare – for example, polio was eradicated in 2014. Life expectancy is projected to increase from 54 years today to 68 years by 2050.

28% of Kenya is urbanised, and is becoming rapidly more so. By the 2030s it is expected that 36% of Kenyans will live in towns or cities rather than the poorer rural areas. Rich countries are urban countries. No country has ever reached high income levels with low urbanisation. Large urban centres have two distinct economic advantages. First, as more people interact, there is more scope for innovation. Young people need jobs, but they also create jobs. Kenya has an educated workforce and a dynamic service industry, which typically has lower barriers of entry than agriculture or manufacturing, and provides opportunities for young entrepreneurs. Second, larger groups of population living in close proximity allow for economies of scale.

In light of these facts, Kenya's future pattern of population growth can be a force of good. A large urbanising and well-educated population tends to generate a strong middle class and vibrant private sector. Economic development may be easier to achieve and sustain – though it is not guaranteed.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050 and https://kenya.unfpa.org/sites/default/files/pub-pdf/state_of_kenya_population_report_2020.pdf and https://www.worldbank.org/en/news/opinion/2010/04/28/demographic-transition-growth-kenya)

Extract F

Kenya has an absolute advantage in cut flowers

In the UK, 80% of cut flowers come via the Netherlands, although a significant proportion come from Kenya. Some Kenyan flowers come straight to the UK on direct flights from Nairobi, where entire terminals at certain airports are dedicated to flights exporting flowers.

Kenya flower production has three major advantages over the Netherlands: areas of high altitude with cool nights, which many flowers benefit from, proximity to the equator for maximum hours of sunlight, and cheaper labour. This means an end to seasonal production and the beginning of a 365-day-a-year absolute advantage. The Netherlands has cost advantages in machinery and transport equipment, not flowers.

Cut flowers are now Kenya's second largest export after tea, contributing around 1% of the country's GDP. They are also one of the country's largest sources of employment, with over 100 000 people working directly in the flower industry and an estimated two million indirectly.

(Source: adapted from: https://www.economist.com/middle-east-and-africa/2021/02/11/kenyas-floral-exports-are-blooming-once-more)

Extract G

Changes in interest rates in sub-Saharan Africa

When Robert Matsiko was a young man his grain-milling business in eastern Africa was destroyed by fire. Now, after building it back up from the ashes, he is being hurt by high interest rates. To buy a new machine he must borrow from a bank at an annual rate of 22%. 'You fear to do that,' Mr Matsiko says. Many other entrepreneurs feel the same, which stops their businesses from growing, although very small firms can get help from microfinance schemes.

Kenya's central bank rate has fallen from over 20% to 7% in the last decade, but the rates charged to small businesses and individuals are much higher than the central bank interest rate. In sub-Saharan Africa, the gap between saving and borrowing rates is higher than anywhere else. The average bank lends at 6.8% above the central bank interest rate. Mobile banking, credit-information sharing and innovation have helped to bring borrowing costs down. But until birth rates fall, interest rates will stay relatively high, because families with many children cannot afford to save.

(Source: adapted from https://www.economist.com/finance-and-economics/2020/05/21/why-interest-rates-are-so-high-in-africa)

(b) Examine **two** demographic factors influencing development in Kenya. **(8)**

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

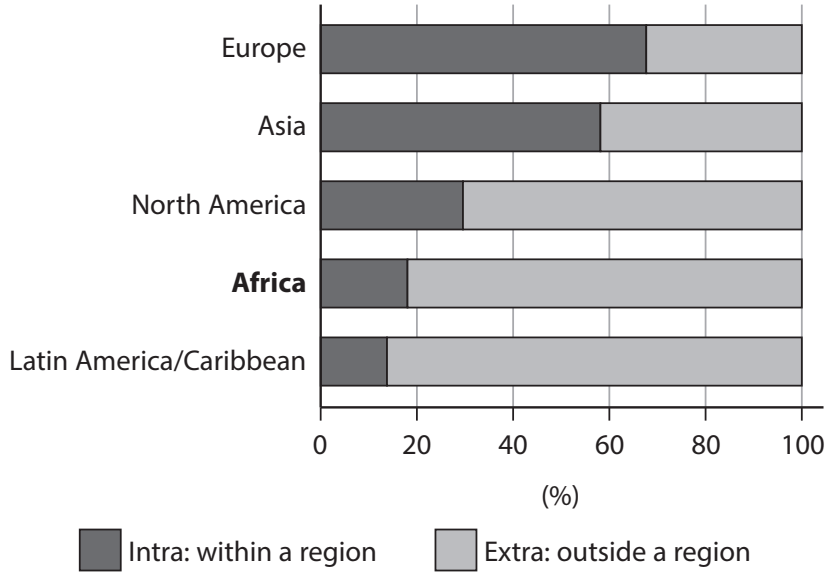
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and development in Africa

Figure 1: Intra- and extra-regional exports as a percentage of total exports, 2020



(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract A: Why it costs so much to move goods around Africa

Lorries carrying, among other things, cobalt from Congo, copper from Zambia and tea from Malawi queued for miles as they waited to cross the Limpopo river into South Africa. Many were there for days. Some drivers bribe their way to the front; 1 000 rand (£49) is the going rate. Others cannot afford to.

African politicians say they want to end such delays. The African Continental Free Trade Area (AfCFTA) regional trade agreement, so far agreed by 41 of Africa's 55 countries, could boost the region's economies by making it easier to trade between themselves. In 2020 just 18% of exports were to other African countries (see Figure 1), lower than the equivalent in North America (30%), Asia (58%) or Europe (68%). More trade within the region could lead to more jobs, higher wages and less poverty.

The AfCFTA pledges to improve trade in two ways. The first is by reducing tariffs. This could boost intra-African trade by 15% to 25%, says the IMF. The second is to reduce non-tariff barriers which could cause a 50% rise in intra-African trade.

Poor infrastructure is a major barrier to trade. Africa's land area is bigger than China, India, the United States and much of Europe combined. Yet its railway network is not very much bigger than France's and Germany's put together. Many lines were built by colonial companies to link mines to ports, rather than countries to one another. Newer Chinese-built railways across African borders are under-used, either because they struggle to compete on price with road transport or because they lack additional services such as storage yards.

Ports are small and slow. Cargo waits for more than two weeks on average, compared to less than a week in Asia, Europe and Latin America. Handling costs are around 50% higher than in other parts of the world.

Nearly 90% of transport of goods goes by road, of which there are not enough. Road quality is poor. Just 800 000 km of the total of 2.8 million km in sub-Saharan Africa are paved.

The IMF estimates that if the quality of Africa's infrastructure were brought up to the global average this would increase intra-African trade by 7%. However, even bigger gains could be made by improving how trade flows. The key problem is a lack of information. In much of the world large firms can buy space on trains or lorries as they need it. But in Africa, where markets for this do not exist, firms such as miners have to sign long-term contracts with larger transport firms in which they agree to pay for capacity, whether they use it all or not.

(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract B: Economic reform in Angola

When the new president, João Lourenço, took power in the southern African country of Angola in 2017, he pledged to reform the economy. This is a challenging task. The oil industry accounts for nearly all of Angola's exports and two-thirds of government revenues. The government is heavily involved in oil production along with significant foreign direct investment from international firms such as Chevron and Total. Declining production and falling oil prices brought about a collapse in GDP and rapidly rising debts to China and the IMF.

To reduce the cost of debt repayments, improve the country's fiscal position, and support a steadily declining debt-to-GDP ratio, the government of Angola has opted for debt relief. Together with a complete stop on debt repayments for the next three years, Angola will gain additional cash flow of $6.9 billion in 2020–22. This will help bring Angola's total annual borrowing to a much more manageable level of around 8.7% of GDP. With improved finances the government will have more money to spend supporting the economy and providing vital public services to its citizens, over 17 million of whom still live in absolute poverty.

The IMF, which has since 2018 agreed to lend $4.5 billion to Angola, is also encouraged by the country's fiscal policies. The finance minister, Vera Daves de Sousa, wants the state oil firm to sell shares to the public and for over one hundred state firms to be privatised. There have been delays – just 34 sales have taken place so far. But, she says, private firms must be the 'main driver' of growth and the economy must diversify away from oil.

Since 2019 Angola has ended government intervention in the foreign exchange market and moved towards a floating exchange rate. This led to a rapid depreciation in the kwanza (the Angolan currency) before stabilising after a few months.

(Sources: adapted from https://www.economist.com/middle-east-and-africa/2021/02/20/joao-lourencos-reforms-in-angola-are-pleasing-the-imf, https://www.cabri-sbo.org/en/blog/2021/country-spotlight-angolas-commitment-to-prudent-and-proactive-public-debt-management, and https://www.focus-economics.com/countries/angola/news/special/kwanza-dives-to-all-time-low-as-central-bank-floats-the-currency)

(b) With reference to Extract A, examine **two** causes of the high cost of transporting goods between African countries.

(8)

Section B

Read Figure 3 and the extracts (D to F) before answering Question 2.

Answer ALL Questions 2 (a) to 2 (c), and EITHER Questions 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Ghana – cocoa and chocolate production

Figure 3: World's largest cocoa growers and chocolate producers

Cocoa growers	Chocolate producers
Ivory Coast 46%	Germany 17%
Ghana 18%	Belgium 11%
Indonesia 14%	Italy 7.4%
Nigeria 7%	US 7.2%

(Source: adapted from International Cocoa Association www.icco.org December 2021 and The Telegraph.co.uk accessed 24/2/22)

Extract D

From a managed to a floating exchange rate

Ghana's currency, the cedi, has depreciated significantly against major currencies, especially the US dollar (US$), since the adoption of the floating exchange rate system in 1992. From 1983 to 1992 it operated a managed exchange rate. Since the liberalisation of the foreign exchange market there have substantial swings and on average the cedi has depreciated 98% against the US dollar. The cedi to US dollar rate has been very volatile recently, causing macroeconomic instability and limiting economic growth. 5

(Source adapted from: https://www.theigc.org/project/on-the-causes-and-effect-of-exchange-rate-volatility-on-economic-growth-evidence-from-ghana/ and https://www.scirp.org/journal/paperinformation.aspx?paperid=95492)

Extract E

There is a lot of money in chocolate but the growers of cocoa see very little of it.

In 2020 the chocolate retail industry was worth £78 billion, but Ghana – the world's second largest cocoa producer – earned just over £1 billion. Cocoa farmers in Ghana now make roughly $1 a day (this often includes being subsidised by the Ghanaian government). This is a familiar pattern for many African countries where the economy is still shaped by a colonial relationship in which they export commodities to be processed elsewhere.

Ghana currently processes about 30% of its cocoa crop into chocolate, meaning that the exports can earn high prices. Despite plans for expanding the domestic chocolate industry there are still many obstacles in the way. The equipment to make chocolate is very expensive and there is neither a local sugar nor dairy industry. Imported milk and sugar would increase the cost of production significantly, with the added problem that foreign currency would be needed. Producing chocolate requires consistent refrigeration, and the high cost of the equipment to achieve that is a major obstacle for entrepreneurs without substantial funds. There is an inconsistent supply of energy in rural parts of Ghana. An alternative, making teas and wines using cocoa, can make 20 times more revenue than the raw beans, but they do not have the mass market appeal and high profits of chocolate.

Access to funds is a big problem and one farmer, Nana Aduna, says that high interest rates on bank loans are an issue for start-up businesses and at the moment he cannot afford to borrow money. "You cannot grow a business when you have to service interest rates of 18%–20% or even more," he says.

But the government has pledged to address these structural issues, using supply side policies. The Trade and Industry Minister announced that industrialisation is the focus of government policy. "It only makes sense that the most important commodity in our country, which is cocoa… should become the target for a major programme of industrialisation," he says.

The 'One District One Factory' programme aims to kickstart industrialisation by providing the infrastructure for Ghana's farms, by establishing processing plants in some of the big cocoa-growing areas. It has become easier for the private sector to invest in food processing, and there is a big tax rebate available to processing companies that set up in the country's enterprise zones – designated areas to encourage economic activity – in a bid to help them export.

(Source: adapted from https://www.newsbreak.com/news/2201853748349/ghana-s-farmers-eye-sweet-success-from-chocolate and https://www.indepthnews.net/index.php/the-world/africa/4495-ghana-starts-with-cocoa-to-end-neocolonial-trading-ties and https://www.brookings.edu/blog/africa-in-focus/2020/09/03/pathways-to-structural-transformation-of-the-ghanaian-economy-and-some-roadblocks/ and https://www.ghanaweb.com/GhanaHomePage/business/Speculators-driving-interbank-retail-FX-rates-gap-1468375)

Extract F

A new trade bloc for Africa

The African Continental Free Trade Agreement (AfCFTA) has been signed by all 55 member states of the African Union, including Ghana, Nigeria, and South Africa. This brings together 1.2 billion people with a combined gross domestic product (GDP) of more than $2 trillion as of 2023. 5

The agreement commits countries to removing tariffs on 90% of goods, with other goods to be phased in later.

The agreement also liberalises services and aims to tackle non-tariff barriers which reduce trade between African countries, such as long delays at the borders.

(Source adapted from: https://www.aljazeera.com/economy/2018/3/20/african-continental-free-trade-area-what-you-need-to-know)

(b) With reference to the second paragraph of Extract E, examine **two** likely problems for the expansion of the chocolate industry in Ghana.

(8)

SECTION A

Read Figures 1 to 3 and the following extracts (A and B) before answering Question 1.

Answer ALL questions 1(a) to 1(c), and EITHER Question 1(d) or 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Chile

Figure 1: Copper prices, US dollars per tonne, 2007–2015



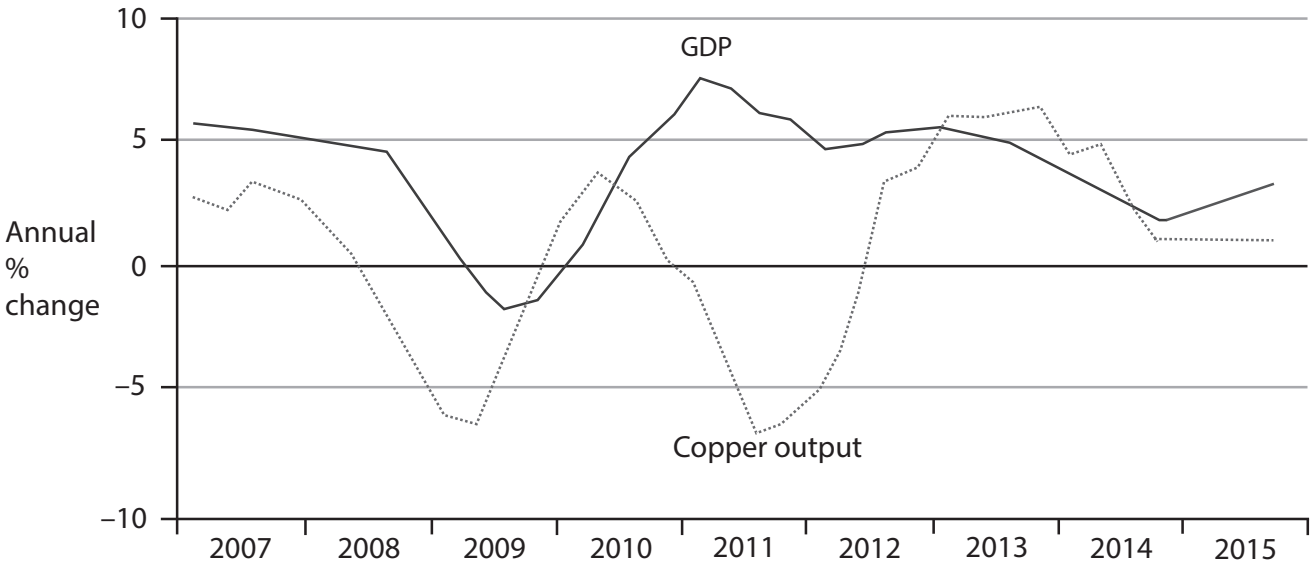
(Source: adapted from http://www.indexmundi.com/commodities/?commodity=copper&months=120)

Figure 2: US dollar per 100 Chile pesos exchange rate, 2007–2015



(Source: https://www.google.co.uk/finance?q=CLPUSD&ei=OGEvVun-AoulU6awjugF)

Figure 3: Chile: copper output and real GDP growth, 2007–2015



(Source: adapted from FT.com sources below)

Extract A

Chile's economic outlook brightens

Chile has been hit hard by a worldwide fall in commodity prices since 2011. Copper accounts for 20% of Chile's GDP and 60% of its exports; one third of the world's copper is produced by Chile. China purchased 40% of the world's copper, so a slowdown in China combined with increased global over-supply has meant copper prices have collapsed (see Figure 1). Chilean government income from copper exports had reached $11.5 billion a year before copper prices fell, but now tax revenues from this source have fallen drastically. Growing numbers of copper mines struggle to break even at current prices.

Chile's GDP is now growing, helped by a weak currency that has boosted export industries outside the mining sector, such as its successful wine and salmon industries. There are strengths in tourism and high-tech products. Public services are good in Chile, and poverty rates have been falling fast. On top of this, a large and diversified financial sector with high domestic savings provides a useful safety net, given high levels of corporate debt and the government's need to finance a fiscal deficit of 3% of GDP.

Chile's economy is often regarded as the best run in the region. This is attributed to the credibility of its financial institutions, relatively low levels of national debt (about 15% of GDP) and its free-trade model, which is unrestricted by government interventionism that has distorted the economies of countries such as Argentina and Venezuela. "Chile is an example of how credible institutions can smooth the economic cycle and make adjustments less traumatic," said Mr Valdés, the minister of finance in Chile, pointing to its widely respected and independent central bank and a well-established fiscal rule that give officials the freedom to implement counter-cyclical policies.

However, there are worries that without enough spare capacity in the economy, expansionary fiscal and monetary policies could end up increasing inflation rather than economic growth. Meanwhile monetary policy is restricted by inflation that has reached 5%, well outside the central bank's 2–4% target range, fuelled by a weaker exchange rate. Crucially, investment remains low because of uncertainty over the outcome of the Prime Minister's reforms, which are aimed at reducing inequality. A recent rise in corporation tax from 20% to 25% and labour market reforms that strengthen the power of trade unions may have a negative effect on business confidence.

Despite a "mildly contractionary" budget, Valdés insisted that the government would continue with costly reforms. Increased taxes on those on higher incomes are considered by the government to be necessary to sustain economic development in Chile. "We do want to change society, while recognising all the good things that have been done in the past 25 years," said Mr Valdés, referring to an average growth rate of 5.3% over the past three decades, but under 2% in 2015. There is broad consensus that investment in education is the key to unlocking Chile's growth potential.

(Sources: adapted from http://www.ft.com/cms/s/0/89926ce8-df96-11e4-a6c400144feab7de html#axzz3pCnzT3PC FT 20 April 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 all by Benedict Mander)

Extract B

Chile's copper mining on a downward track

There was a time when investing in Chilean mining meant guaranteed success. After 1990, when military rule was replaced by an elected government, market reforms and restored relations with the US and UK meant foreign companies were keen to exploit vast copper reserves. The existence of large copper reserves in a stable country with a business-friendly government is rare, making Chile much more attractive to investors than countries such as Zambia.

By mid-2015, however, the copper price hit a six-year low. Chilean mines are becoming less productive. After 20 years of heavy digging, the ore is lower grade, and much further down. The deeper pits take longer to mine, and use more fuel. Wages are high, and trade unions are powerful. A mining truck driver earns $70 000 a year, $10 000 more than the US equivalent. Many mining projects that were planned are being postponed, and investors are looking to Peru; even the US copper mining industry is becoming more competitive.

Energy supply is also a worry as Chile produces virtually no fossil fuels and relies on imported coal and liquid natural gas to power its mines. Energy costs account for 18% of the cost of copper production.

Water supply is also becoming a major problem. Farmers and communities accuse mining companies of causing water shortages to keep their operations running. A prolonged drought has not helped. Mining firms are turning to desalination plants or using untreated seawater. However pumping water 200 kilometres from the Pacific Ocean to the copper mines is costly.

Chile's environmentalist movement has forced the government to tighten regulations. In 2001, it took 236 days to get an environmental impact assessment of a new mine approved. By 2013, this had increased to 506 days.

(Source: adapted from http://www.ft.com/cms/s/0/ea060ef4-6ae2-11e5-8171-ba1968cf791a.html#axzz3p20if45k Gideon Long September 27, 2015)

(c) Apart from externalities, discuss the problems that Chile faces as a result of dependency on copper mining.

(12)

SECTION B

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and Development Issues in Africa

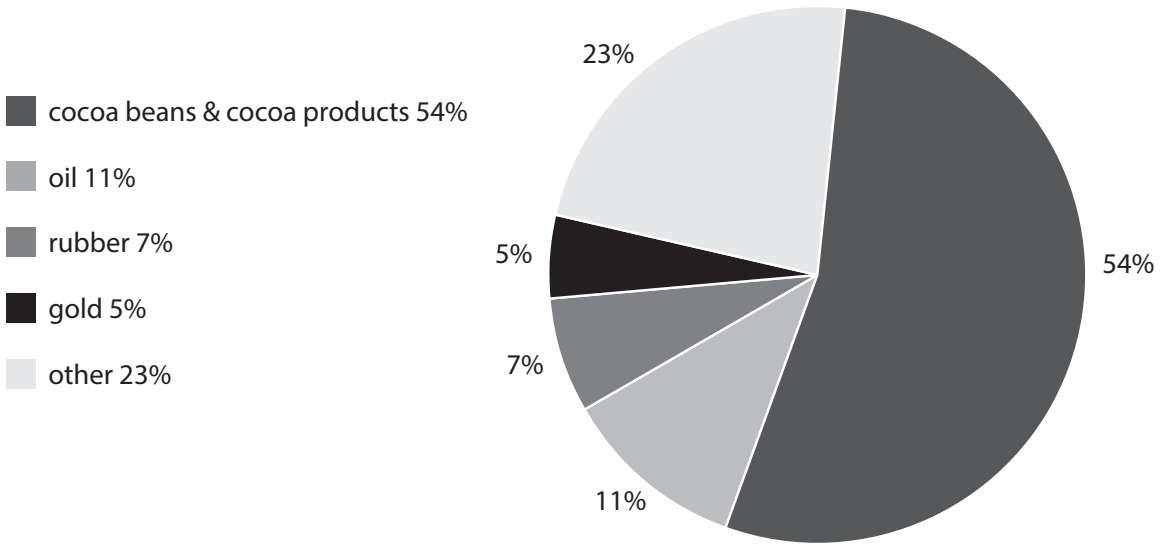
Figure 1: The Fairtrade scheme in the cocoa industry. How the additional revenue is spent by cocoa farmers.



Improving business administration and infrastructure	44%
Investing in farm equipment, training and funding	45%
Supporting social services for the community	10%
Other	1%

(Source: https://www.fairtrade.org.uk/~/media/FairtradeUK/What%20is%20Fairtrade/Documents/Policy%20and%20Research%20documents/Monitoring%20reports/Fairtrade%20Monitoring%20Report_9thEdition%202016.pdf)

Figure 2: Ivory Coast exports – relative share of main products (%), 2016



(Source: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/civ/all/show/2016/)

Extract A

Cheap cocoa is costing farmers dear

The median annual income of cocoa farmers in the west African country, Ivory Coast, is just US$2 600. Research suggests that an annual income of US$6 133 is needed for this country's farmers to have a decent, living income. This situation is even worse for farmers who are not part of a Fairtrade scheme.

World cocoa prices fell by more than a third in 2017. Cocoa farmers have to accept all the risk from price volatility, putting a significant strain on their fragile incomes. On the other hand, cocoa processors and chocolate manufacturers are able to adapt or even make high profit and consumers continue to enjoy their chocolate.

This is still happening despite considerable investment in agriculture to build a sustainable cocoa sector. The focus has been on raising productivity and diversifying crops. The average cocoa farm in the Ivory Coast produces only around half of the output that could be achieved with training and resources such as fertilisers, equipment and replanting. If farmers diversify into other crops, livestock or non-farm activities, they lower the risk they face of fluctuating world cocoa prices.

Even tripling farm output would not provide the average cocoa farmer with a living income. Diversification alone will not always make farms more profitable. If we want farmers to earn a living income, we must also be willing to pay farmers more.

(Source adapted from: https://www.fairtrade.org.uk/Media-Centre/Blog/2018/October/Cheap-cocoa-is-costing-farmers-dear)

Extract B

Sub-Saharan Africa is becoming more integrated

After two years of negotiations, representatives of a large number of African countries signed the African Continental Free Trade Agreement (AfCFTA) in Kigali on March 21, 2018. This created a trading bloc of 1.2 billion people with a combined gross domestic product of more than US$2 trillion. The agreement committed countries to removing tariffs on 90% of goods and to liberalise services.

This can be seen as a sign of rapid and steady regional integration. Sub-Saharan Africa in particular is much more integrated today than in the past. The level of integration in sub-Saharan Africa is now similar to that in the world's other developing and emerging market economies.

However, the two largest African economies, Nigeria and South Africa, refused to sign the agreement. Nigeria's manufacturers and trade unions are concerned about the potential negative impacts of becoming more open to imports from other African countries with lower labour costs.

Greater interdependence can expose small economies to their partners' recessions. After nearly 20 years of strong economic activity, sub-Saharan Africa experienced the downside of integration in 2015. The collapse in commodity prices and the slowdown in economic activity in Nigeria and South Africa contributed to sub-Saharan African growth slowing sharply. Since 2017 growth has begun to recover. The recovery is mixed, though, and it is unclear to what extent the slow recovery of the larger economies is still affecting the rest of sub-Saharan Africa.

(Source adapted from: https://www.imf.org/ and https://www.pulse.ng/)

6 (a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

(5)

(b) Examine **two** ways, apart from Fairtrade schemes, in which cocoa farmers could boost their incomes despite the falling price of cocoa.

(8)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports. Refer to Figure 2 in your answer.

(12)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

(10)

(e) Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

(15)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports. Refer to Figure 2 in your answer.

(12)

Section B

Read Figure 3 and the extracts (D to F) before answering Question 2.

Answer ALL Questions 2 (a) to 2 (c), and EITHER Questions 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Ghana – cocoa and chocolate production

Figure 3: World's largest cocoa growers and chocolate producers

Cocoa growers	Chocolate producers
Ivory Coast 46%	Germany 17%
Ghana 18%	Belgium 11%
Indonesia 14%	Italy 7.4%
Nigeria 7%	US 7.2%

(Source: adapted from International Cocoa Association www.icco.org December 2021 and The Telegraph.co.uk accessed 24/2/22)

Extract D

From a managed to a floating exchange rate

Ghana's currency, the cedi, has depreciated significantly against major currencies, especially the US dollar (US$), since the adoption of the floating exchange rate system in 1992. From 1983 to 1992 it operated a managed exchange rate. Since the liberalisation of the foreign exchange market there have substantial swings and on average the cedi has depreciated 98% against the US dollar. The cedi to US dollar rate has been very volatile recently, causing macroeconomic instability and limiting economic growth.

(Source adapted from: https://www.theigc.org/project/on-the-causes-and-effect-of-exchange-rate-volatility-on-economic-growth-evidence-from-ghana/ and https://www.scirp.org/journal/paperinformation.aspx?paperid=95492)

Extract E

There is a lot of money in chocolate but the growers of cocoa see very little of it.

In 2020 the chocolate retail industry was worth £78 billion, but Ghana – the world's second largest cocoa producer – earned just over £1 billion. Cocoa farmers in Ghana now make roughly $1 a day (this often includes being subsidised by the Ghanaian government). This is a familiar pattern for many African countries where the economy is still shaped by a colonial relationship in which they export commodities to be processed elsewhere.

Ghana currently processes about 30% of its cocoa crop into chocolate, meaning that the exports can earn high prices. Despite plans for expanding the domestic chocolate industry there are still many obstacles in the way. The equipment to make chocolate is very expensive and there is neither a local sugar nor dairy industry. Imported milk and sugar would increase the cost of production significantly, with the added problem that foreign currency would be needed. Producing chocolate requires consistent refrigeration, and the high cost of the equipment to achieve that is a major obstacle for entrepreneurs without substantial funds. There is an inconsistent supply of energy in rural parts of Ghana. An alternative, making teas and wines using cocoa, can make 20 times more revenue than the raw beans, but they do not have the mass market appeal and high profits of chocolate.

Access to funds is a big problem and one farmer, Nana Aduna, says that high interest rates on bank loans are an issue for start-up businesses and at the moment he cannot afford to borrow money. "You cannot grow a business when you have to service interest rates of 18%–20% or even more," he says.

But the government has pledged to address these structural issues, using supply side policies. The Trade and Industry Minister announced that industrialisation is the focus of government policy. "It only makes sense that the most important commodity in our country, which is cocoa… should become the target for a major programme of industrialisation," he says.

The 'One District One Factory' programme aims to kickstart industrialisation by providing the infrastructure for Ghana's farms, by establishing processing plants in some of the big cocoa-growing areas. It has become easier for the private sector to invest in food processing, and there is a big tax rebate available to processing companies that set up in the country's enterprise zones – designated areas to encourage economic activity – in a bid to help them export.

(Source: adapted from https://www.newsbreak.com/news/2201853748349/ghana-s-farmers-eye-sweet-success-from-chocolate and https://www.indepthnews.net/index.php/the-world/africa/4495-ghana-starts-with-cocoa-to-end-neocolonial-trading-ties and https://www.brookings.edu/blog/africa-in-focus/2020/09/03/pathways-to-structural-transformation-of-the-ghanaian-economy-and-some-roadblocks/ and https://www.ghanaweb.com/GhanaHomePage/business/Speculators-driving-interbank-retail-FX-rates-gap-1468375)

Extract F

A new trade bloc for Africa

The African Continental Free Trade Agreement (AfCFTA) has been signed by all 55 member states of the African Union, including Ghana, Nigeria, and South Africa. This brings together 1.2 billion people with a combined gross domestic product (GDP) of more than $2 trillion as of 2023.

The agreement commits countries to removing tariffs on 90% of goods, with other goods to be phased in later.

The agreement also liberalises services and aims to tackle non-tariff barriers which reduce trade between African countries, such as long delays at the borders.

(Source adapted from: https://www.aljazeera.com/economy/2018/3/20/african-continental-free-trade-area-what-you-need-to-know)

(c) Discuss factors influencing the level of aggregate demand in Ghana. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

SECTION A

Read Figures 1 to 3 and the following extracts (A and B) before answering Question 1.

Answer ALL questions 1(a) to 1(c), and EITHER Question 1(d) or 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Chile

Figure 1: Copper prices, US dollars per tonne, 2007–2015



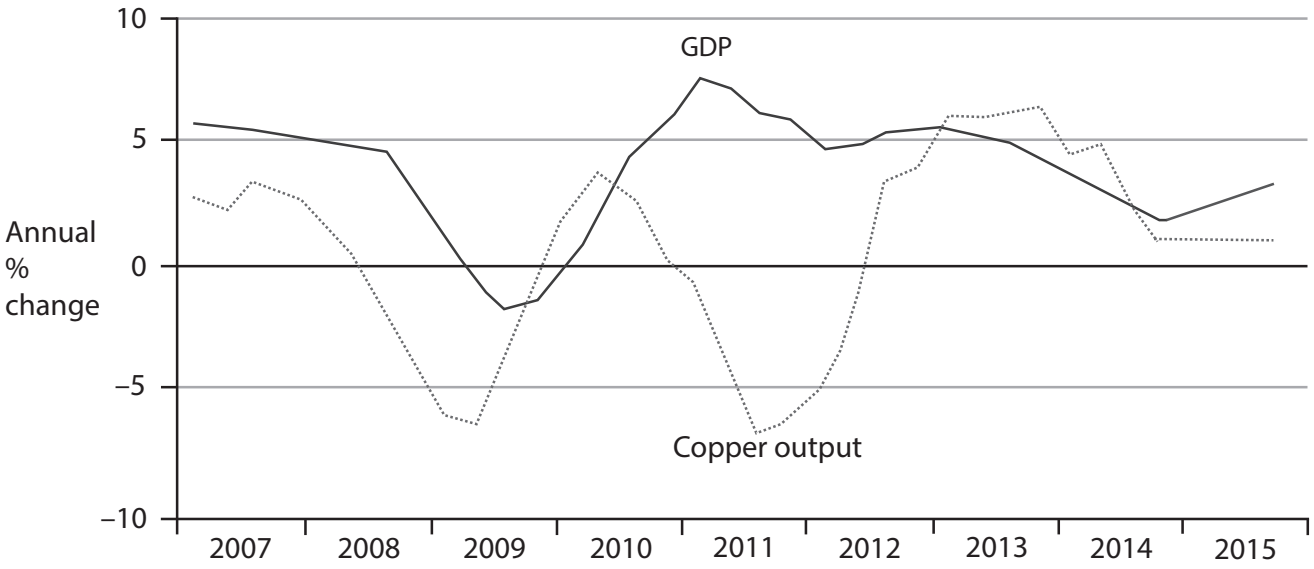
(Source: adapted from http://www.indexmundi.com/commodities/?commodity=copper&months=120)

Figure 2: US dollar per 100 Chile pesos exchange rate, 2007–2015



(Source: https://www.google.co.uk/finance?q=CLPUSD&ei=OGEvVun-AoulU6awjugF)

Figure 3: Chile: copper output and real GDP growth, 2007–2015



(Source: adapted from FT.com sources below)

Extract A

Chile's economic outlook brightens

Chile has been hit hard by a worldwide fall in commodity prices since 2011. Copper accounts for 20% of Chile's GDP and 60% of its exports; one third of the world's copper is produced by Chile. China purchased 40% of the world's copper, so a slowdown in China combined with increased global over-supply has meant copper prices have collapsed (see Figure 1). Chilean government income from copper exports had reached $11.5 billion a year before copper prices fell, but now tax revenues from this source have fallen drastically. Growing numbers of copper mines struggle to break even at current prices.

Chile's GDP is now growing, helped by a weak currency that has boosted export industries outside the mining sector, such as its successful wine and salmon industries. There are strengths in tourism and high-tech products. Public services are good in Chile, and poverty rates have been falling fast. On top of this, a large and diversified financial sector with high domestic savings provides a useful safety net, given high levels of corporate debt and the government's need to finance a fiscal deficit of 3% of GDP.

Chile's economy is often regarded as the best run in the region. This is attributed to the credibility of its financial institutions, relatively low levels of national debt (about 15% of GDP) and its free-trade model, which is unrestricted by government interventionism that has distorted the economies of countries such as Argentina and Venezuela. "Chile is an example of how credible institutions can smooth the economic cycle and make adjustments less traumatic," said Mr Valdés, the minister of finance in Chile, pointing to its widely respected and independent central bank and a well-established fiscal rule that give officials the freedom to implement counter-cyclical policies.

However, there are worries that without enough spare capacity in the economy, expansionary fiscal and monetary policies could end up increasing inflation rather than economic growth. Meanwhile monetary policy is restricted by inflation that has reached 5%, well outside the central bank's 2–4% target range, fuelled by a weaker exchange rate. Crucially, investment remains low because of uncertainty over the outcome of the Prime Minister's reforms, which are aimed at reducing inequality. A recent rise in corporation tax from 20% to 25% and labour market reforms that strengthen the power of trade unions may have a negative effect on business confidence.

Despite a "mildly contractionary" budget, Valdés insisted that the government would continue with costly reforms. Increased taxes on those on higher incomes are considered by the government to be necessary to sustain economic development in Chile. "We do want to change society, while recognising all the good things that have been done in the past 25 years," said Mr Valdés, referring to an average growth rate of 5.3% over the past three decades, but under 2% in 2015. There is broad consensus that investment in education is the key to unlocking Chile's growth potential.

(Sources: adapted from http://www.ft.com/cms/s/0/89926ce8-df96-11e4-a6c400144feab7de html#axzz3pCnzT3PC FT 20 April 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 all by Benedict Mander)

Extract B

Chile's copper mining on a downward track

There was a time when investing in Chilean mining meant guaranteed success. After 1990, when military rule was replaced by an elected government, market reforms and restored relations with the US and UK meant foreign companies were keen to exploit vast copper reserves. The existence of large copper reserves in a stable country with a business-friendly government is rare, making Chile much more attractive to investors than countries such as Zambia.

By mid-2015, however, the copper price hit a six-year low. Chilean mines are becoming less productive. After 20 years of heavy digging, the ore is lower grade, and much further down. The deeper pits take longer to mine, and use more fuel. Wages are high, and trade unions are powerful. A mining truck driver earns $70 000 a year, $10 000 more than the US equivalent. Many mining projects that were planned are being postponed, and investors are looking to Peru; even the US copper mining industry is becoming more competitive.

Energy supply is also a worry as Chile produces virtually no fossil fuels and relies on imported coal and liquid natural gas to power its mines. Energy costs account for 18% of the cost of copper production.

Water supply is also becoming a major problem. Farmers and communities accuse mining companies of causing water shortages to keep their operations running. A prolonged drought has not helped. Mining firms are turning to desalination plants or using untreated seawater. However pumping water 200 kilometres from the Pacific Ocean to the copper mines is costly.

Chile's environmentalist movement has forced the government to tighten regulations. In 2001, it took 236 days to get an environmental impact assessment of a new mine approved. By 2013, this had increased to 506 days.

(Source: adapted from http://www.ft.com/cms/s/0/ea060ef4-6ae2-11e5-8171-ba1968cf791a.html#axzz3p20if45k Gideon Long September 27, 2015)

Q) 1 (e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic impact on Chile's economy of changes in the level of investment.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

Read Figures 4 and 5 and the following extracts (D and E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

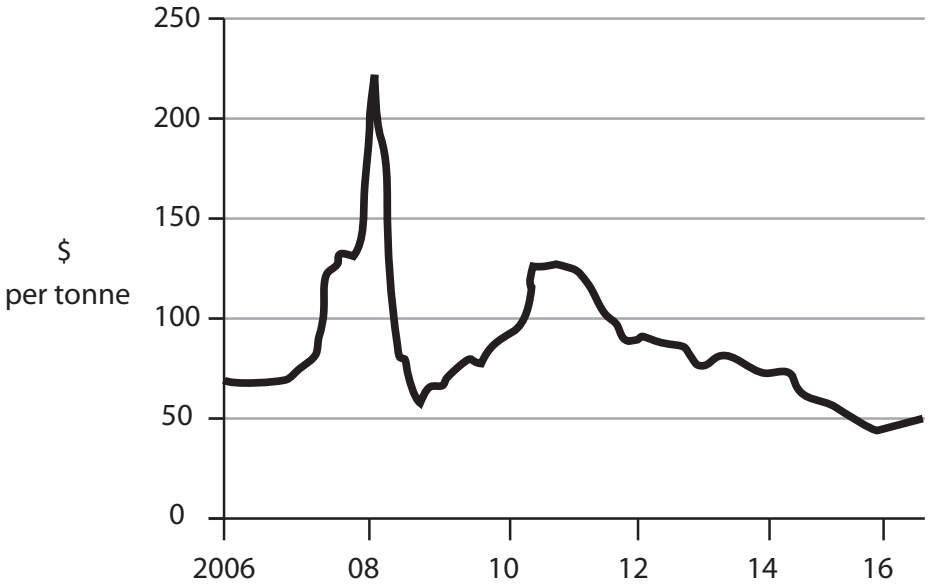
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

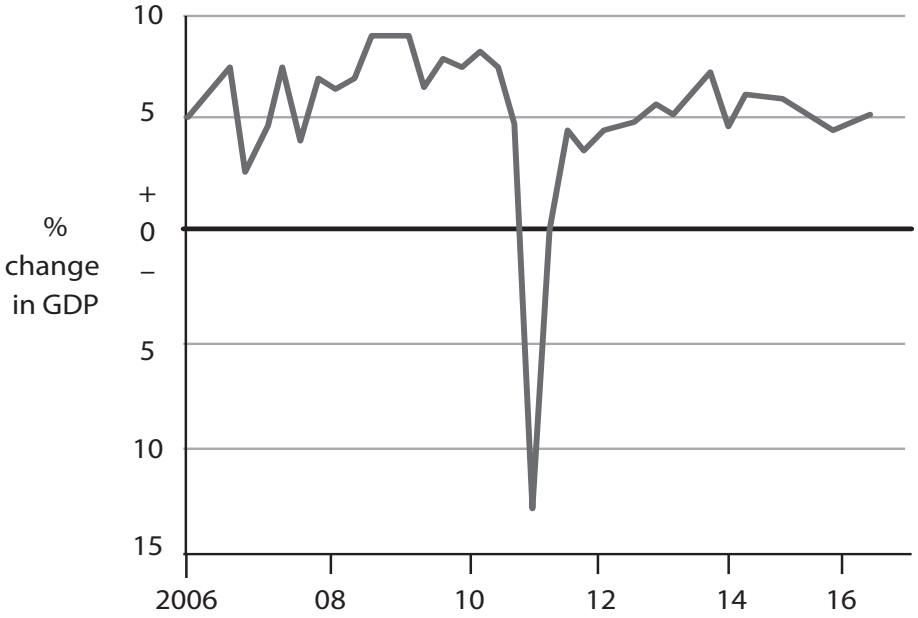
Indonesia

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Extract D

Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

Indonesia receives US$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US$14.37) a month. The World Bank has approved US$800 million in infrastructure loans to Indonesia, with another US$950 million as conditional loans. The Asian Development Bank has committed itself to lending US$2 billion. In December Japan's development agency lent Indonesia US$535 million to construct two power stations.

(Sources: adapted from http://country.eiu.com/Indonesia and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

Extract E

Indonesia's economic policies as commodity prices collapse

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US$50 per tonne, against US$125 in 2011.

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly.

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP.

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones.

The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target.

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports. In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment. Indonesia has plans for 65 dams, 16 of which are already under construction. In 2015 work started on the Keureuto Dam, designed to boost agricultural productivity in Aceh. Recently fields

were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

(Sources: adapted from http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

2 (a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer.

(8)

(c) Discuss the benefits of aid to Indonesia.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

(25)

OR

(e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

(25)

Q) 2 (d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

Read Figures 2, 3 and the following extracts (D to F) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	**21.75%**	**18.0%**
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399)

Extract E

Mozambique's economic stability is being put to the test

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line.

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1.

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability.

(Source: adapted from http://www.africaneconomicoutlook.org/en/country-notes/mozambiqua and https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test 6 October 2017 Dr Alex Vines OBE)

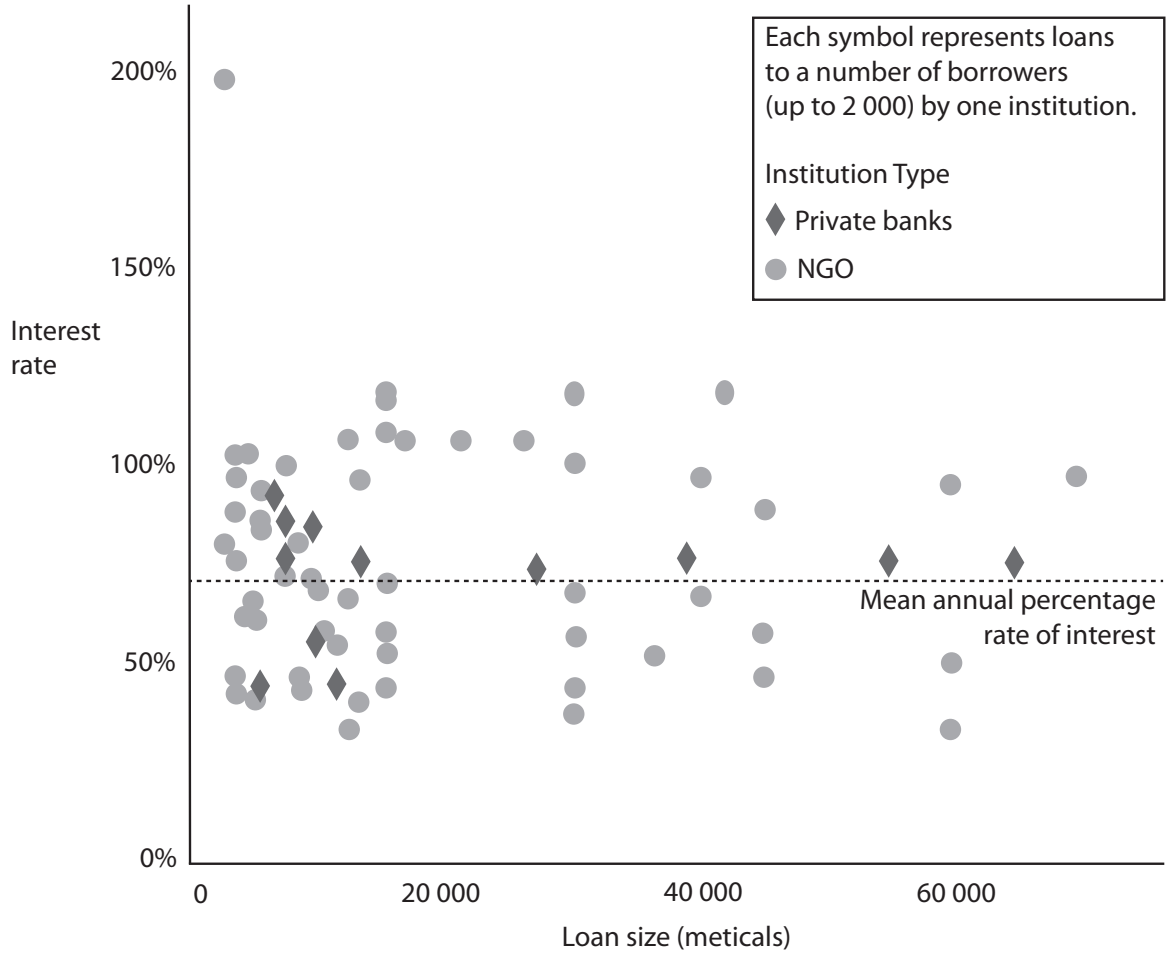
Extract F

Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion.

(Source: adapted from http://www.mftransparency.org/microfinance-pricing/mozambique/)

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: http://www.mftransparency.org/microfinance-pricing/mozambique/)

Q) 2 (d) Evaluate the microeconomic and macroeconomic factors, apart from access to credit and banking, influencing growth and development in Mozambique.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

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Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

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Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability.

(Source: adapted from http://www.africaneconomicoutlook.org/en/country-notes/mozambiqua and https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test 6 October 2017 Dr Alex Vines OBE)

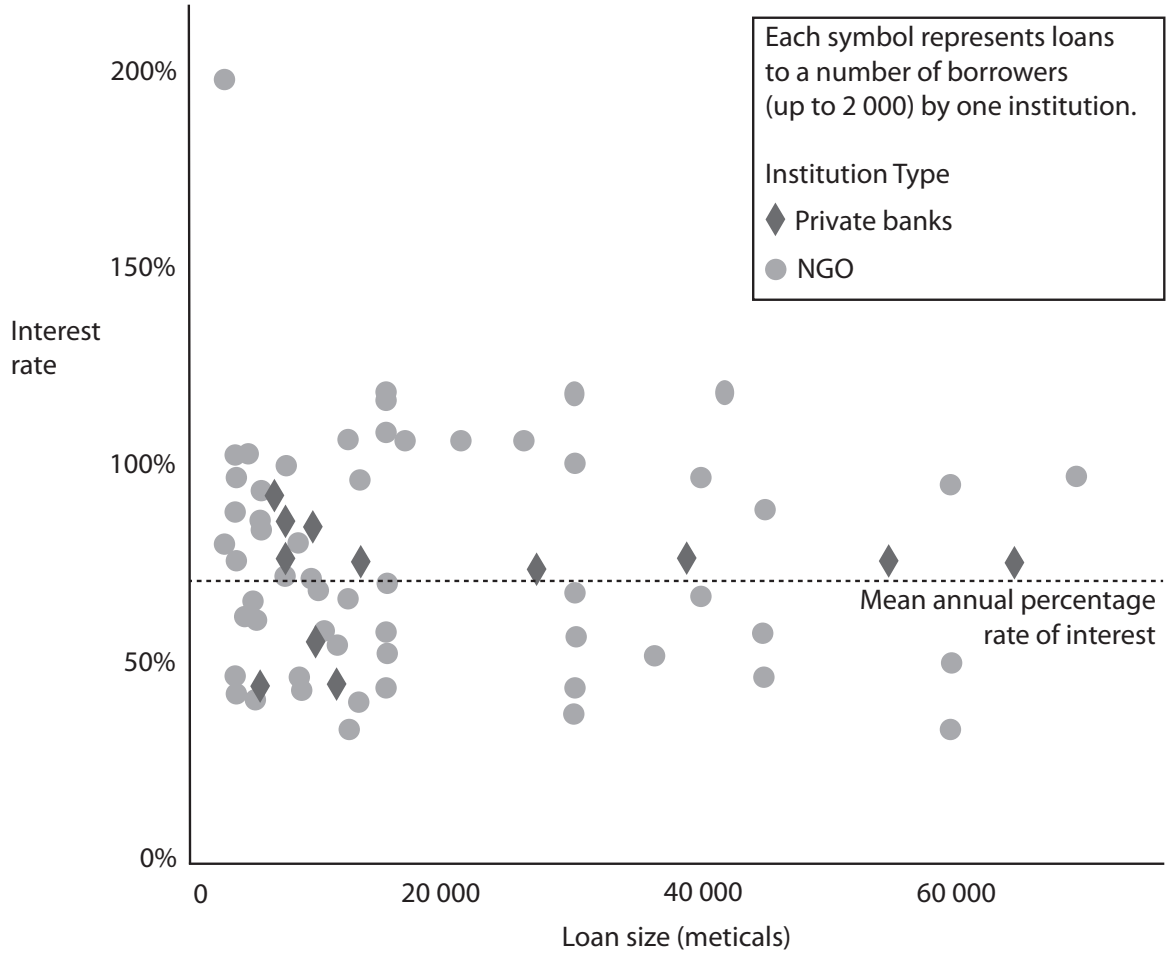
Extract F

Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion.

(Source: adapted from http://www.mftransparency.org/microfinance-pricing/mozambique/)

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: http://www.mftransparency.org/microfinance-pricing/mozambique/)

Q) 2 (e) Evaluate the likely microeconomic and macroeconomic effects of relatively high inflation rates in many African countries.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

Section B

Read Figure 3 and the extracts (D to F) before answering Question 2.

Answer ALL Questions 2 (a) to 2 (c), and EITHER Questions 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Ghana – cocoa and chocolate production

Figure 3: World's largest cocoa growers and chocolate producers

Cocoa growers	Chocolate producers
Ivory Coast 46%	Germany 17%
Ghana 18%	Belgium 11%
Indonesia 14%	Italy 7.4%
Nigeria 7%	US 7.2%

(Source: adapted from International Cocoa Association www.icco.org December 2021 and The Telegraph.co.uk accessed 24/2/22)

Extract D

From a managed to a floating exchange rate

Ghana's currency, the cedi, has depreciated significantly against major currencies, especially the US dollar (US$), since the adoption of the floating exchange rate system in 1992. From 1983 to 1992 it operated a managed exchange rate. Since the liberalisation of the foreign exchange market there have substantial swings and on average the cedi has depreciated 98% against the US dollar. The cedi to US dollar rate has been very volatile recently, causing macroeconomic instability and limiting economic growth. 5

(Source adapted from: https://www.theigc.org/project/on-the-causes-and-effect-of-exchange-rate-volatility-on-economic-growth-evidence-from-ghana/ and https://www.scirp.org/journal/paperinformation.aspx?paperid=95492)

Extract E

There is a lot of money in chocolate but the growers of cocoa see very little of it.

In 2020 the chocolate retail industry was worth £78 billion, but Ghana – the world's second largest cocoa producer – earned just over £1 billion. Cocoa farmers in Ghana now make roughly $1 a day (this often includes being subsidised by the Ghanaian government). This is a familiar pattern for many African countries where the economy is still shaped by a colonial relationship in which they export commodities to be processed elsewhere.

Ghana currently processes about 30% of its cocoa crop into chocolate, meaning that the exports can earn high prices. Despite plans for expanding the domestic chocolate industry there are still many obstacles in the way. The equipment to make chocolate is very expensive and there is neither a local sugar nor dairy industry. Imported milk and sugar would increase the cost of production significantly, with the added problem that foreign currency would be needed. Producing chocolate requires consistent refrigeration, and the high cost of the equipment to achieve that is a major obstacle for entrepreneurs without substantial funds. There is an inconsistent supply of energy in rural parts of Ghana. An alternative, making teas and wines using cocoa, can make 20 times more revenue than the raw beans, but they do not have the mass market appeal and high profits of chocolate.

Access to funds is a big problem and one farmer, Nana Aduna, says that high interest rates on bank loans are an issue for start-up businesses and at the moment he cannot afford to borrow money. "You cannot grow a business when you have to service interest rates of 18%–20% or even more," he says.

But the government has pledged to address these structural issues, using supply side policies. The Trade and Industry Minister announced that industrialisation is the focus of government policy. "It only makes sense that the most important commodity in our country, which is cocoa… should become the target for a major programme of industrialisation," he says.

The 'One District One Factory' programme aims to kickstart industrialisation by providing the infrastructure for Ghana's farms, by establishing processing plants in some of the big cocoa-growing areas. It has become easier for the private sector to invest in food processing, and there is a big tax rebate available to processing companies that set up in the country's enterprise zones – designated areas to encourage economic activity – in a bid to help them export.

(Source: adapted from https://www.newsbreak.com/news/2201853748349/ghana-s-farmers-eye-sweet-success-from-chocolate and https://www.indepthnews.net/index.php/the-world/africa/4495-ghana-starts-with-cocoa-to-end-neocolonial-trading-ties and https://www.brookings.edu/blog/africa-in-focus/2020/09/03/pathways-to-structural-transformation-of-the-ghanaian-economy-and-some-roadblocks/ and https://www.ghanaweb.com/GhanaHomePage/business/Speculators-driving-interbank-retail-FX-rates-gap-1468375)

Extract F

A new trade bloc for Africa

The African Continental Free Trade Agreement (AfCFTA) has been signed by all 55 member states of the African Union, including Ghana, Nigeria, and South Africa. This brings together 1.2 billion people with a combined gross domestic product (GDP) of more than $2 trillion as of 2023.

The agreement commits countries to removing tariffs on 90% of goods, with other goods to be phased in later.

The agreement also liberalises services and aims to tackle non-tariff barriers which reduce trade between African countries, such as long delays at the borders.

(Source adapted from: https://www.aljazeera.com/economy/2018/3/20/african-continental-free-trade-area-what-you-need-to-know)

Q) 2 (d) Evaluate the microeconomic and macroeconomic effects of high interest rates in Ghana, or another developing country of your choice.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

8 In Sudan, public services such as healthcare are struggling to keep running. Power outages, blocking of internet access, and fuel shortages, will mean hospitals struggle to operate. Many of the hospitals in the capital city, Khartoum, have reported shortages of doctors, blood, transfusion equipment, medical supplies, and other skilled workers and commodities.
(Source adapted from: https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(23)00858-9/fulltext)

Q) Evaluate the possible factors influencing the level of economic development in a developing country of your choice.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

Sources for use with SECTION B

Read Figure 3 and the following Extracts (E to G) before answering Question 2.

The economy of India

Figure 3: Selected economic data for India, 2006–2021

Year	GDP per capita (US$)	Human Development Index (HDI) value	% people living in absolute poverty
2006	820.0	0.611	55.1
2016	1 714.3	0.624	27.7
2021	2 238.1	0.633	16.4

(Source adapted from: https://www.statista.com/statistics/1272613/india-multidimensional-poverty-index/; https://data.worldbank.org/indicator/; UN Human Development Reports)

Extract E

135 million Indians escape absolute poverty in recent years

Absolute poverty in India, measured by the number of people living on under US$2.15 a day, has fallen dramatically over the last 15 years. The government's dedicated focus on improving access to sanitation, nutrition, cooking oil, banking services, drinking water and electricity has led to significant advances in these areas. The $2.3 million provision of subsidised cooking oil has positively transformed lives, with a 14.6 percentage points improvement in the access to cooking oil. 5

(Source adapted from: https://pib.gov.in/)

Extract F

Buffer stocks in India

The Indian government is required to maintain a buffer stock of 11 million tonnes of wheat and 10 million tonnes of rice. The grains are purchased from farmers at the minimum support price and stored in secure warehouses across the country. India, once troubled by famine, has more recently managed to remain self-sufficient in most food categories except edible oils, and is the world's largest rice exporter. Even during the global health crisis 2020-2022, when the government distributed free food to nearly 800 million people, buffer stocks ran down but not out. Farmers are encouraged to produce more without any consideration of sustainability.

(Source adapted from: https://ig.ft.com/india-population/)

Extract G

Population growth in India

"The greatest obstacle in the path of overall economic development is the alarming rate of population growth," was one Indian government minister's view in 1967. In the 1970s, the Indian government took radical measures to try to prevent population growth, with little success.

Then, in the 1980s and 1990s, India began opening up its economy to the private sector. Policymakers began viewing a growing young population in the form of the so-called demographic dividend – when a majority of a country's population is of working age (15-64 years) – as an engine for further economic development. In May 2023 India took over from China as the country with the highest population reaching 1.4 billion. However, it needs enough well-paying jobs designed to serve the modern, urban economy.

(Source adapted from: https://www.aljazeera.com/features/2023/4/18/overtaking-chinas-population-will-india-gain-or-lose)

Q) 2 (e) Evaluate the microeconomic and macroeconomic effects of rapid increases in population in India.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.3.3

STRATEGIES INFLUENCING GROWTH AND DEVELOPMENT

Sub-topic 4.3.3 · 17 questions · 222 marks · lowest tariff first

3 In 2018, the International Monetary Fund (IMF) lent Argentina $57 billion as part of a bailout package to help prevent the country's government defaulting on its debts. This financial crisis also caused significant capital flight out of Argentina's economy.

(Source adapted from: https://www.ft.com/content/737b48bc-c1c9-11e8-95b1-d36dfef1b89a)

(a) Explain the role of the IMF in providing financial assistance to countries such as Argentina.

(4)

(b) Which **one** of the following is most likely to happen to Argentina's currency value as a result of capital flight, assuming it is operating with a floating exchange rate system?

(1)

- ☒ **A** Appreciation
- ☒ **B** Depreciation
- ☒ **C** Devaluation
- ☒ **D** Revaluation

(Total for Question 3 = 5 marks)

SECTION B

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and Development Issues in Africa

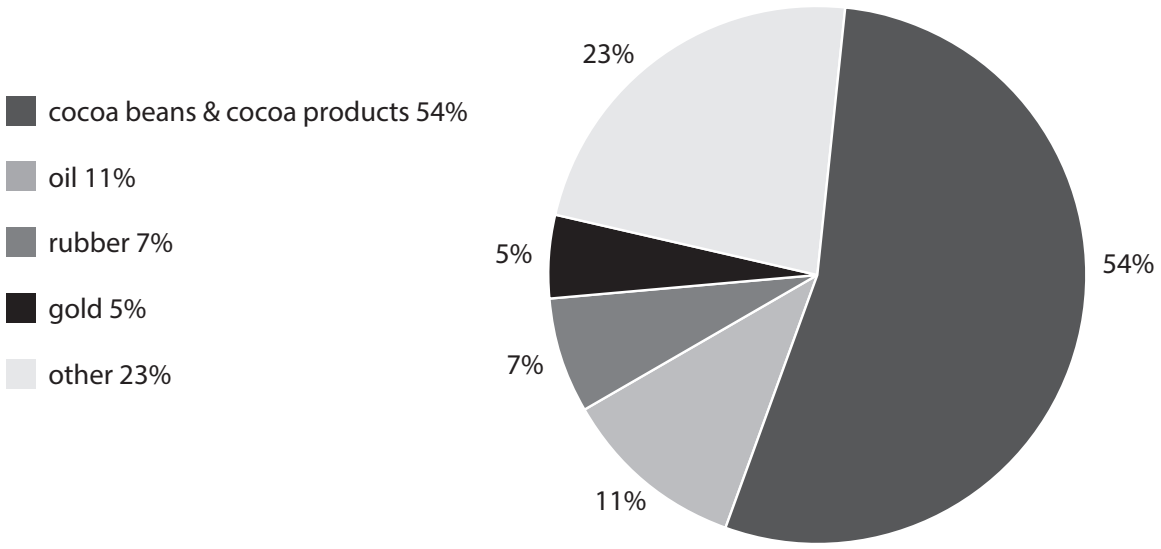
Figure 1: The Fairtrade scheme in the cocoa industry. How the additional revenue is spent by cocoa farmers.



Improving business administration and infrastructure	44%
Investing in farm equipment, training and funding	45%
Supporting social services for the community	10%
Other	1%

(Source: https://www.fairtrade.org.uk/~/media/FairtradeUK/What%20is%20Fairtrade/Documents/Policy%20and%20Research%20documents/Monitoring%20reports/Fairtrade%20Monitoring%20Report_9thEdition%202016.pdf)

Figure 2: Ivory Coast exports – relative share of main products (%), 2016



(Source: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/civ/all/show/2016/)

Extract A

Cheap cocoa is costing farmers dear

The median annual income of cocoa farmers in the west African country, Ivory Coast, is just US$2 600. Research suggests that an annual income of US$6 133 is needed for this country's farmers to have a decent, living income. This situation is even worse for farmers who are not part of a Fairtrade scheme.

World cocoa prices fell by more than a third in 2017. Cocoa farmers have to accept all the risk from price volatility, putting a significant strain on their fragile incomes. On the other hand, cocoa processors and chocolate manufacturers are able to adapt or even make high profit and consumers continue to enjoy their chocolate.

This is still happening despite considerable investment in agriculture to build a sustainable cocoa sector. The focus has been on raising productivity and diversifying crops. The average cocoa farm in the Ivory Coast produces only around half of the output that could be achieved with training and resources such as fertilisers, equipment and replanting. If farmers diversify into other crops, livestock or non-farm activities, they lower the risk they face of fluctuating world cocoa prices.

Even tripling farm output would not provide the average cocoa farmer with a living income. Diversification alone will not always make farms more profitable. If we want farmers to earn a living income, we must also be willing to pay farmers more.

(Source adapted from: https://www.fairtrade.org.uk/Media-Centre/Blog/2018/October/Cheap-cocoa-is-costing-farmers-dear)

Extract B

Sub-Saharan Africa is becoming more integrated

After two years of negotiations, representatives of a large number of African countries signed the African Continental Free Trade Agreement (AfCFTA) in Kigali on March 21, 2018. This created a trading bloc of 1.2 billion people with a combined gross domestic product of more than US$2 trillion. The agreement committed countries to removing tariffs on 90% of goods and to liberalise services.

This can be seen as a sign of rapid and steady regional integration. Sub-Saharan Africa in particular is much more integrated today than in the past. The level of integration in sub-Saharan Africa is now similar to that in the world's other developing and emerging market economies.

However, the two largest African economies, Nigeria and South Africa, refused to sign the agreement. Nigeria's manufacturers and trade unions are concerned about the potential negative impacts of becoming more open to imports from other African countries with lower labour costs.

Greater interdependence can expose small economies to their partners' recessions. After nearly 20 years of strong economic activity, sub-Saharan Africa experienced the downside of integration in 2015. The collapse in commodity prices and the slowdown in economic activity in Nigeria and South Africa contributed to sub-Saharan African growth slowing sharply. Since 2017 growth has begun to recover. The recovery is mixed, though, and it is unclear to what extent the slow recovery of the larger economies is still affecting the rest of sub-Saharan Africa.

(Source adapted from: https://www.imf.org/ and https://www.pulse.ng/)

6 (a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

(5)

(b) Examine **two** ways, apart from Fairtrade schemes, in which cocoa farmers could boost their incomes despite the falling price of cocoa.

(8)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports. Refer to Figure 2 in your answer.

(12)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

(10)

(e) Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

(15)

6 (a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

(5)

SECTION B

Read Figures 1, 2, and 3 and extracts A and B before answering Question 6.

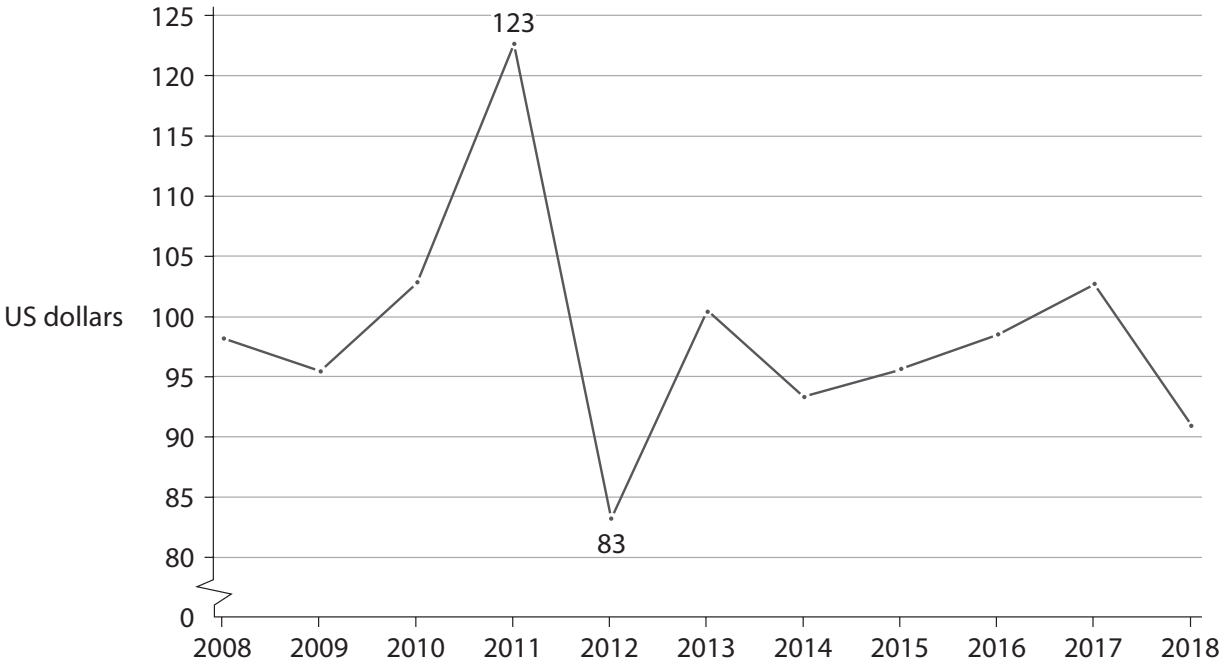
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

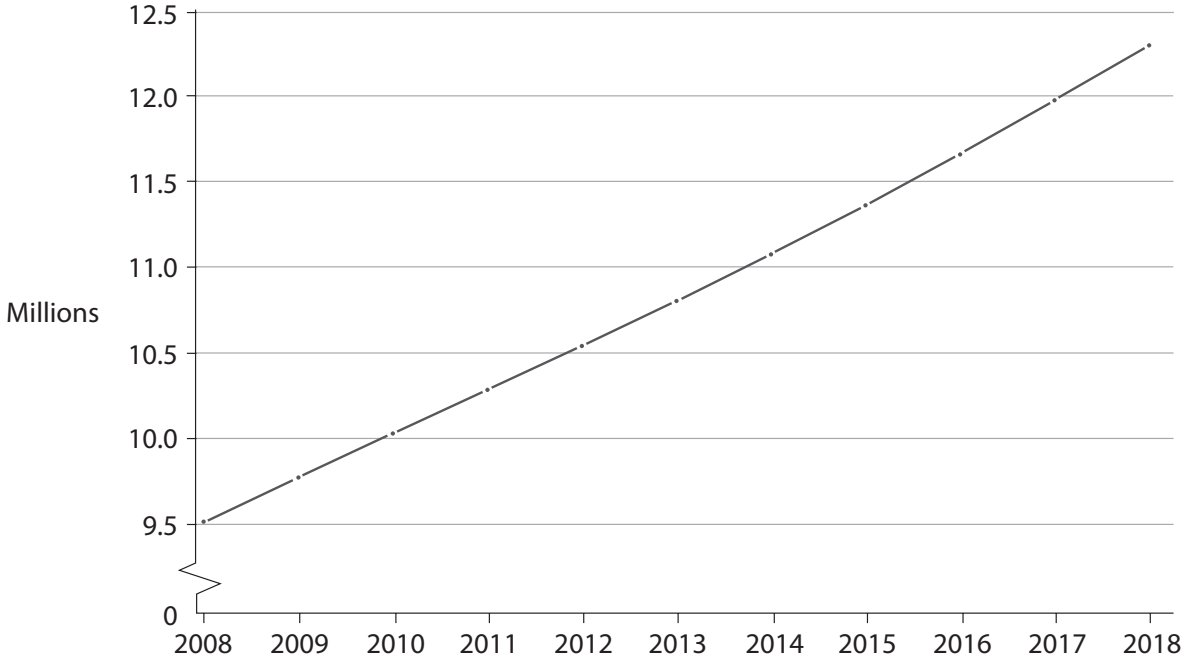
Trade and aid in Rwanda

Figure 1: Aid funding received by Rwanda (per capita, US dollars), 2008 to 2018



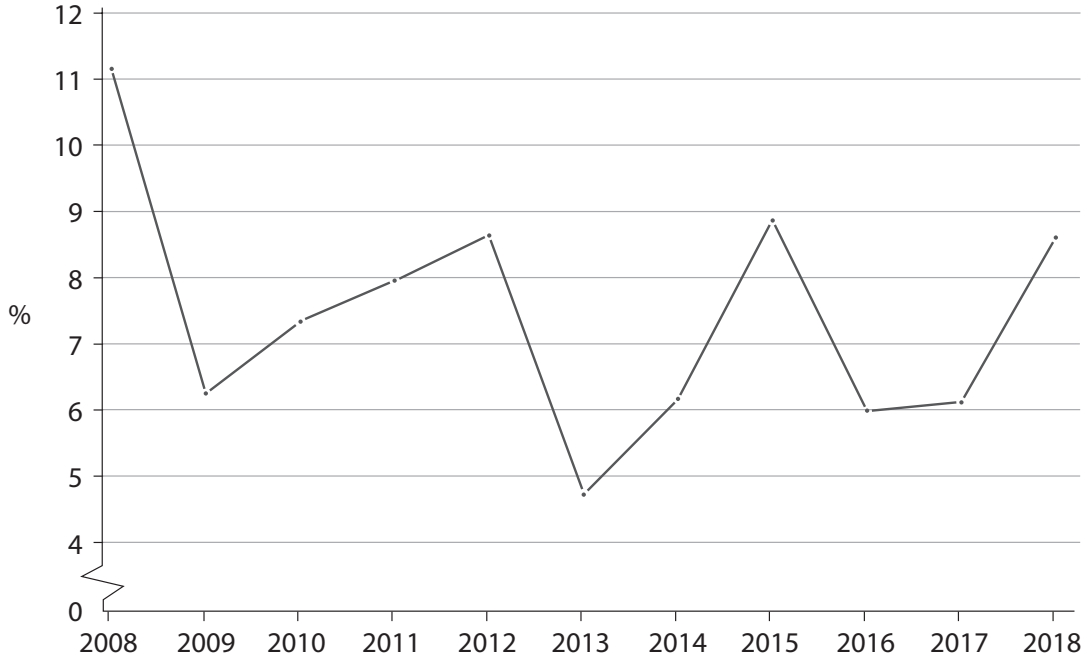
(Source adapted from: data.worldbank.org)

Figure 2: Population of Rwanda (millions), 2008 to 2018



(Source adapted from: https://tradingeconomics.com/rwanda/population)

Figure 3: Rwanda real GDP annual percentage growth rate, 2008 to 2018



(Source adapted from: African Development Bank Statistics accessed April 2020)

Extract A

Rwandan tariffs on imports of used clothing

In a market in Kigali, Rwanda's capital, an auction is under way. Sellers offer crumpled T-shirts and faded jeans; traders argue over the best picks. Everything is second-hand. A Tommy Hilfiger shirt sells for 5 000 Rwandan francs ($5.82); a plain one for a tenth of that. Afterwards, a trader sorts through the purchases he will resell in his home village. The logos hint at their previous lives: Kent State University, a rotary club in Pennsylvania, Number One Dad.

These auctions were once twice as busy, but in 2016 Rwanda's government increased import tariffs on a kilo of used clothes from $0.20 to $2.50. Now many traders struggle to make a profit. The traders are not the only ones who are unhappy. Exporters in the US claim the tariffs are costing jobs there. In March, the US President warned that he would suspend Rwanda's tariff-free access to US markets for its clothing exports after 60 days if it did not remove the tariff.

Globally, about $4 billion of used clothes crossed borders in 2016. The share from China and South Korea is growing, but 70% still come from Europe and North America. Many go to Asia and eastern Europe, but Africa remains the largest market. The trade enables poor people to afford clothes and creates retail jobs. However, governments worry that the trade undercuts their own clothing manufacturers.

Second-hand imports of clothing now dominate African markets. Researchers at the Overseas Development Institute, a British think-tank, estimate that Tanzania imports 540 million used items of clothing and 180 million new ones each year, while producing fewer than 20 million itself. African manufacturing is weak for many reasons, from ineffective privatisations to collapsing infrastructure. But second-hand clothing imports are a major factor: it is estimated that they accounted for half of the fall in employment in the African clothing industry between 1981 and 2000.

For example, a clothing factory in Kigali is operating at only 40% of capacity and employs 600 workers, down from 1 100 in the 1990s. It is hard to compete, says Ritesh Patel, its manager, when a used imported T-shirt sells for the price of a bottle of water. Instead, the company specialises in uniforms for police, soldiers and security guards, which cannot be bought second-hand.

The threatened suspension of tariff-free access to the US market would hurt Rwanda, but not very much. Last year Rwanda sold just $1.5 million of clothing to the US. Nor, with about 12 million people, is Rwanda a big market for US exports.

(Source adapted from: https://www.economist.com/finance-and-economics/2018/05/31/rwanda-refuses-to-remove-tariffs-on-imports-of-used-clothing)

Extract B

Development in Rwanda

Rwanda's strong economic growth has been accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on policies to encourage industrialisation and poverty reduction initiatives have contributed to significant improvements in access to services and human development indicators. Absolute poverty declined from 59% to 39% of the population between 2001 and 2014 but was almost stagnant between 2014 and 2017. The official inequality measure, the Gini index, declined from 0.52 in 2006 to 0.43 in 2017.

(Source adapted from: https://www.worldbank.org/en/country/rwanda/overview)

6 (a) Using the data in Figures 1 and 2, calculate the change in the level of total aid funding to Rwanda between 2011 and 2012.

(5)

SECTION B

Read Figure 2 and the following extracts (D to G) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

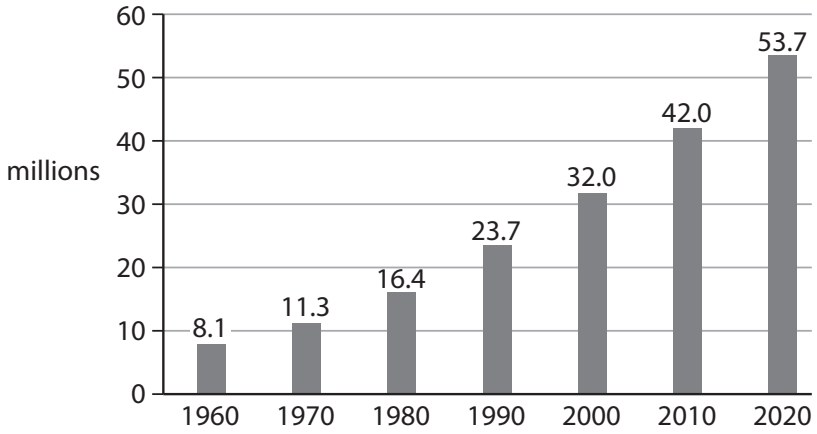
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Sub-Saharan Africa – growth and development

Figure 2: Kenya population, millions, 1960 to 2020



(Source: adapted from Population, total - Kenya | Data (worldbank.org))

Extract D

Growth and development in Africa: 'Africa has a massive opportunity as a low-cost provider of services'

The outlook for Africa's economies is not as simple as the Lewis model of growth and development implies: do more manufacturing or stay poor. Many countries are expanding into areas that economists are starting to call 'industries without smoking chimneys'. Some, such as flower-exports, may not be classified as manufactured goods in export statistics. But the process of producing flowers looks a lot like factory work and demands many of the same management skills. These industries also deliver many of the benefits of normal manufacturing, including many well-paid jobs, and greater opportunities.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/many-of-africas-economies-are-doing-well)

Extract E

The demography of Kenya – 'Demography will shape Africa's future'

Falling birth rates, when accompanied by rising literacy, can help kick-start growth. In Kenya 39% of the population is below the age of 15, falling from 43% in 2009. The labour force (15–64 years) is 57% and is the fastest growing population group. 6% of the population is over the age of 60. The number of children per family has fallen sharply, from 8.1 children in 1978 to 4.6 children in 2008, and it is projected to possibly reach 2.4 children by 2050.

In the 1970s little more than half of children in sub-Saharan Africa were enrolled in primary school. That share has shot up to almost 100%. The statistic is slightly misleading, since the percentage of children regularly attending schools is nearer 60%.

Why does Kenya's population continue to rise rapidly, while family size declines? There are two reasons. First, due to high fertility in previous decades, there are many more families in Kenya today. So even though families are smaller, the total number of children continues to grow. Second, Kenyans are living longer, with better healthcare – for example, polio was eradicated in 2014. Life expectancy is projected to increase from 54 years today to 68 years by 2050.

28% of Kenya is urbanised, and is becoming rapidly more so. By the 2030s it is expected that 36% of Kenyans will live in towns or cities rather than the poorer rural areas. Rich countries are urban countries. No country has ever reached high income levels with low urbanisation. Large urban centres have two distinct economic advantages. First, as more people interact, there is more scope for innovation. Young people need jobs, but they also create jobs. Kenya has an educated workforce and a dynamic service industry, which typically has lower barriers of entry than agriculture or manufacturing, and provides opportunities for young entrepreneurs. Second, larger groups of population living in close proximity allow for economies of scale.

In light of these facts, Kenya's future pattern of population growth can be a force of good. A large urbanising and well-educated population tends to generate a strong middle class and vibrant private sector. Economic development may be easier to achieve and sustain – though it is not guaranteed.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050 and https://kenya.unfpa.org/sites/default/files/pub-pdf/state_of_kenya_population_report_2020.pdf and https://www.worldbank.org/en/news/opinion/2010/04/28/demographic-transition-growth-kenya)

Extract F

Kenya has an absolute advantage in cut flowers

In the UK, 80% of cut flowers come via the Netherlands, although a significant proportion come from Kenya. Some Kenyan flowers come straight to the UK on direct flights from Nairobi, where entire terminals at certain airports are dedicated to flights exporting flowers.

Kenya flower production has three major advantages over the Netherlands: areas of high altitude with cool nights, which many flowers benefit from, proximity to the equator for maximum hours of sunlight, and cheaper labour. This means an end to seasonal production and the beginning of a 365-day-a-year absolute advantage. The Netherlands has cost advantages in machinery and transport equipment, not flowers.

Cut flowers are now Kenya's second largest export after tea, contributing around 1% of the country's GDP. They are also one of the country's largest sources of employment, with over 100 000 people working directly in the flower industry and an estimated two million indirectly.

(Source: adapted from: https://www.economist.com/middle-east-and-africa/2021/02/11/kenyas-floral-exports-are-blooming-once-more)

Extract G

Changes in interest rates in sub-Saharan Africa

When Robert Matsiko was a young man his grain-milling business in eastern Africa was destroyed by fire. Now, after building it back up from the ashes, he is being hurt by high interest rates. To buy a new machine he must borrow from a bank at an annual rate of 22%. 'You fear to do that,' Mr Matsiko says. Many other entrepreneurs feel the same, which stops their businesses from growing, although very small firms can get help from microfinance schemes.

Kenya's central bank rate has fallen from over 20% to 7% in the last decade, but the rates charged to small businesses and individuals are much higher than the central bank interest rate. In sub-Saharan Africa, the gap between saving and borrowing rates is higher than anywhere else. The average bank lends at 6.8% above the central bank interest rate. Mobile banking, credit-information sharing and innovation have helped to bring borrowing costs down. But until birth rates fall, interest rates will stay relatively high, because families with many children cannot afford to save.

(Source: adapted from https://www.economist.com/finance-and-economics/2020/05/21/why-interest-rates-are-so-high-in-africa)

(a) Explain what is meant by the Lewis model. Refer to Extract D in your answer. **(5)**

SECTION B

Read Figures 4 and 5 and the following extracts (D and E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

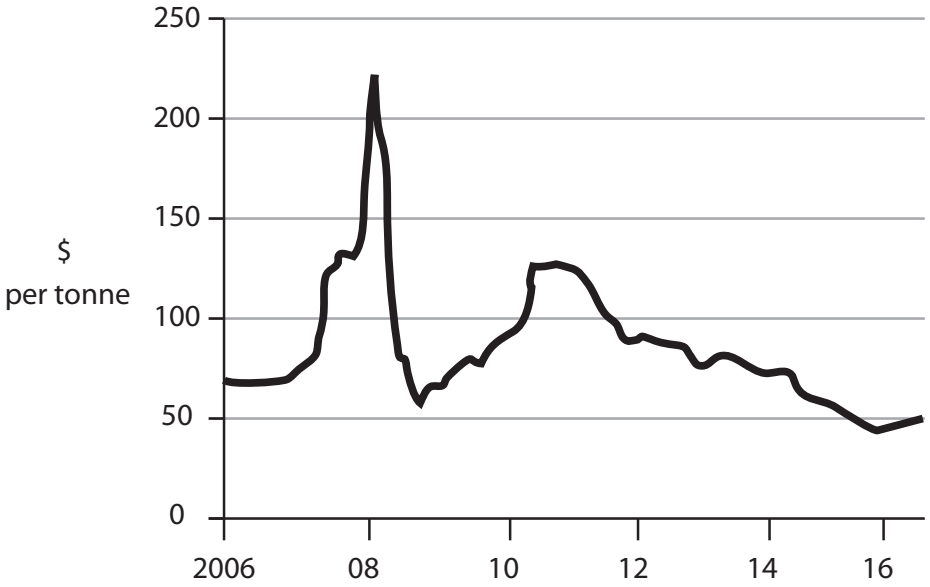
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

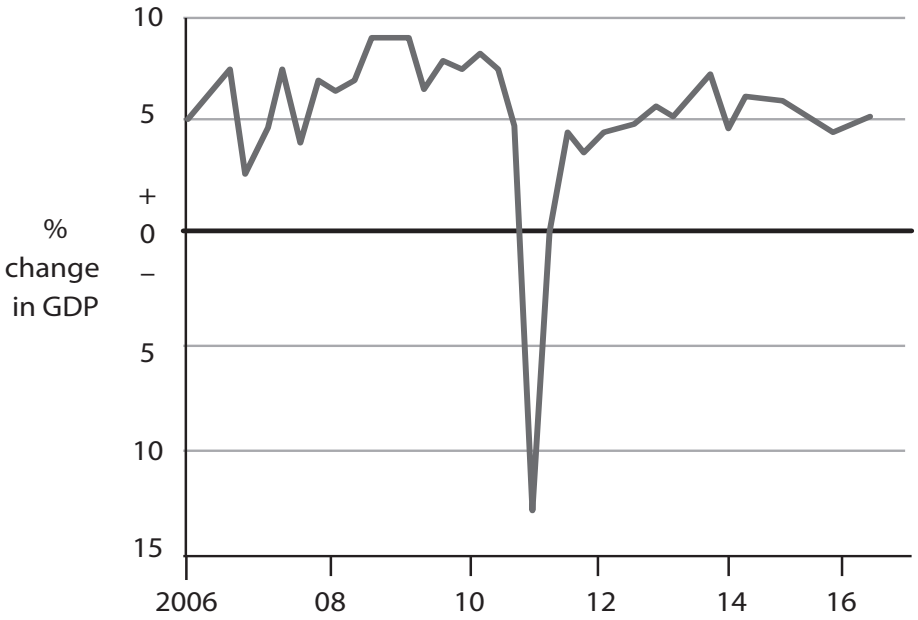
Indonesia

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Extract D

Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

Indonesia receives US$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US$14.37) a month. The World Bank has approved US$800 million in infrastructure loans to Indonesia, with another US$950 million as conditional loans. The Asian Development Bank has committed itself to lending US$2 billion. In December Japan's development agency lent Indonesia US$535 million to construct two power stations.

(Sources: adapted from http://country.eiu.com/Indonesia and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

Extract E

Indonesia's economic policies as commodity prices collapse

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US$50 per tonne, against US$125 in 2011.

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly.

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP.

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones.

The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target.

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were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

(Sources: adapted from http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

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(8)

(c) Discuss the benefits of aid to Indonesia.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

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SECTION B

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and Development Issues in Africa

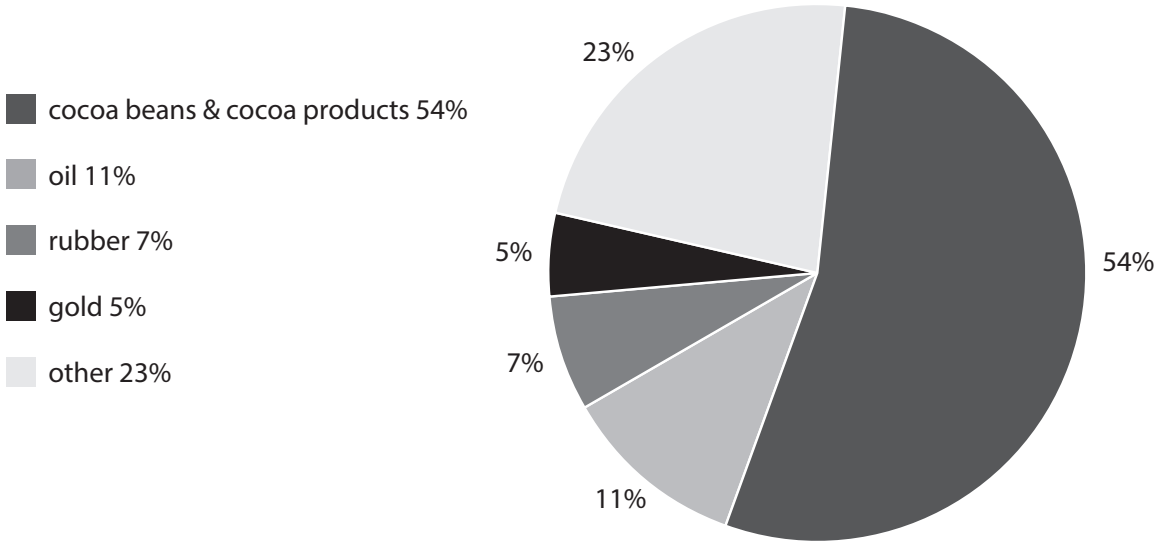
Figure 1: The Fairtrade scheme in the cocoa industry. How the additional revenue is spent by cocoa farmers.



Improving business administration and infrastructure	44%
Investing in farm equipment, training and funding	45%
Supporting social services for the community	10%
Other	1%

(Source: https://www.fairtrade.org.uk/~/media/FairtradeUK/What%20is%20Fairtrade/Documents/Policy%20and%20Research%20documents/Monitoring%20reports/Fairtrade%20Monitoring%20Report_9thEdition%202016.pdf)

Figure 2: Ivory Coast exports – relative share of main products (%), 2016



(Source: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/civ/all/show/2016/)

Extract A

Cheap cocoa is costing farmers dear

The median annual income of cocoa farmers in the west African country, Ivory Coast, is just US$2 600. Research suggests that an annual income of US$6 133 is needed for this country's farmers to have a decent, living income. This situation is even worse for farmers who are not part of a Fairtrade scheme.

World cocoa prices fell by more than a third in 2017. Cocoa farmers have to accept all the risk from price volatility, putting a significant strain on their fragile incomes. On the other hand, cocoa processors and chocolate manufacturers are able to adapt or even make high profit and consumers continue to enjoy their chocolate.

This is still happening despite considerable investment in agriculture to build a sustainable cocoa sector. The focus has been on raising productivity and diversifying crops. The average cocoa farm in the Ivory Coast produces only around half of the output that could be achieved with training and resources such as fertilisers, equipment and replanting. If farmers diversify into other crops, livestock or non-farm activities, they lower the risk they face of fluctuating world cocoa prices.

Even tripling farm output would not provide the average cocoa farmer with a living income. Diversification alone will not always make farms more profitable. If we want farmers to earn a living income, we must also be willing to pay farmers more.

(Source adapted from: https://www.fairtrade.org.uk/Media-Centre/Blog/2018/October/Cheap-cocoa-is-costing-farmers-dear)

Extract B

Sub-Saharan Africa is becoming more integrated

After two years of negotiations, representatives of a large number of African countries signed the African Continental Free Trade Agreement (AfCFTA) in Kigali on March 21, 2018. This created a trading bloc of 1.2 billion people with a combined gross domestic product of more than US$2 trillion. The agreement committed countries to removing tariffs on 90% of goods and to liberalise services.

This can be seen as a sign of rapid and steady regional integration. Sub-Saharan Africa in particular is much more integrated today than in the past. The level of integration in sub-Saharan Africa is now similar to that in the world's other developing and emerging market economies.

However, the two largest African economies, Nigeria and South Africa, refused to sign the agreement. Nigeria's manufacturers and trade unions are concerned about the potential negative impacts of becoming more open to imports from other African countries with lower labour costs.

Greater interdependence can expose small economies to their partners' recessions. After nearly 20 years of strong economic activity, sub-Saharan Africa experienced the downside of integration in 2015. The collapse in commodity prices and the slowdown in economic activity in Nigeria and South Africa contributed to sub-Saharan African growth slowing sharply. Since 2017 growth has begun to recover. The recovery is mixed, though, and it is unclear to what extent the slow recovery of the larger economies is still affecting the rest of sub-Saharan Africa.

(Source adapted from: https://www.imf.org/ and https://www.pulse.ng/)

6 (a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

(5)

(b) Examine **two** ways, apart from Fairtrade schemes, in which cocoa farmers could boost their incomes despite the falling price of cocoa.

(8)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports. Refer to Figure 2 in your answer.

(12)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

(10)

(e) Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

(15)

(b) Examine **two** ways, apart from Fairtrade schemes, in which cocoa farmers could boost their incomes despite the falling price of cocoa.

(8)

SECTION B

Read Figures 1, 2, and 3 and extracts A and B before answering Question 6.

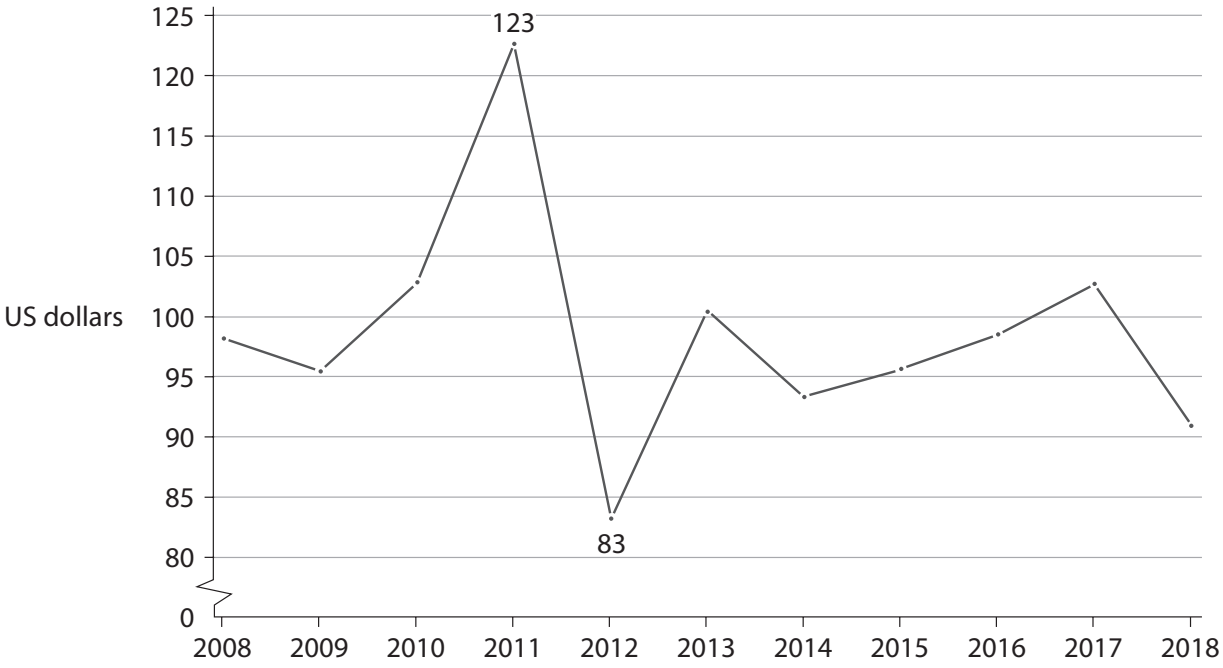
Write your answers in the spaces provided.

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Question 6

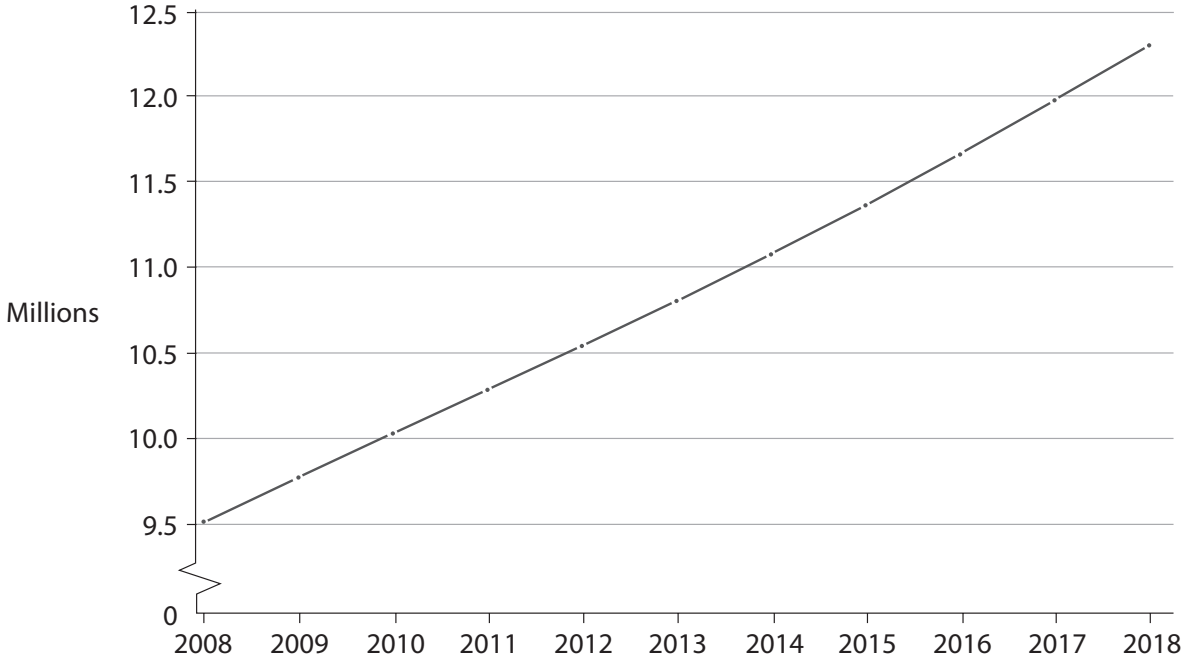
Trade and aid in Rwanda

Figure 1: Aid funding received by Rwanda (per capita, US dollars), 2008 to 2018



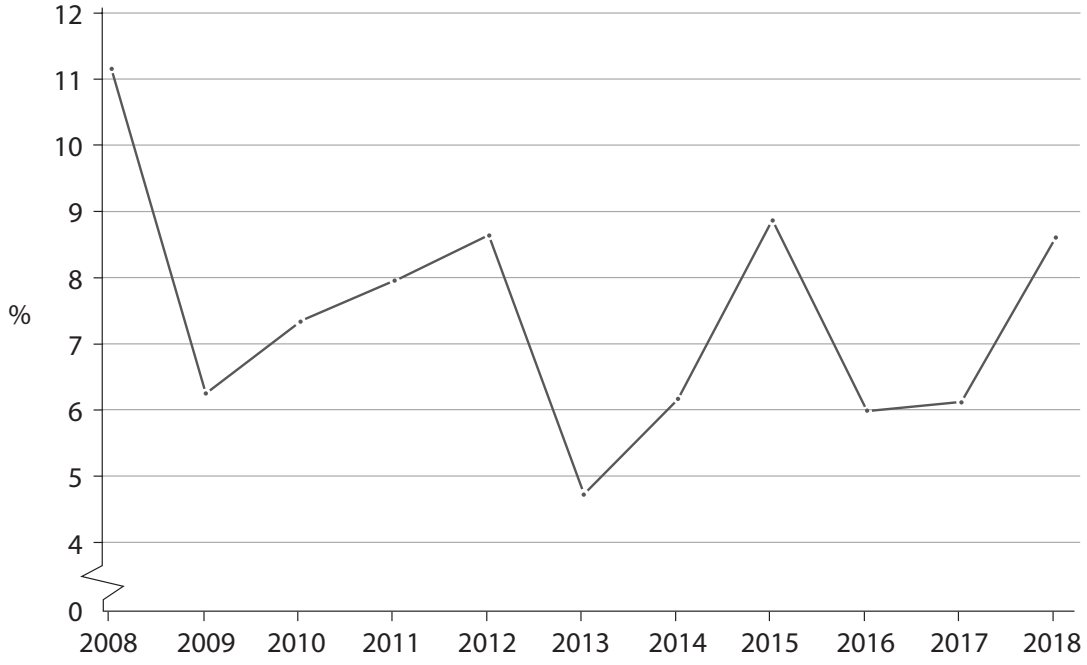
(Source adapted from: data.worldbank.org)

Figure 2: Population of Rwanda (millions), 2008 to 2018



(Source adapted from: https://tradingeconomics.com/rwanda/population)

Figure 3: Rwanda real GDP annual percentage growth rate, 2008 to 2018



(Source adapted from: African Development Bank Statistics accessed April 2020)

Extract A

Rwandan tariffs on imports of used clothing

In a market in Kigali, Rwanda's capital, an auction is under way. Sellers offer crumpled T-shirts and faded jeans; traders argue over the best picks. Everything is second-hand. A Tommy Hilfiger shirt sells for 5 000 Rwandan francs ($5.82); a plain one for a tenth of that. Afterwards, a trader sorts through the purchases he will resell in his home village. The logos hint at their previous lives: Kent State University, a rotary club in Pennsylvania, Number One Dad.

These auctions were once twice as busy, but in 2016 Rwanda's government increased import tariffs on a kilo of used clothes from $0.20 to $2.50. Now many traders struggle to make a profit. The traders are not the only ones who are unhappy. Exporters in the US claim the tariffs are costing jobs there. In March, the US President warned that he would suspend Rwanda's tariff-free access to US markets for its clothing exports after 60 days if it did not remove the tariff.

Globally, about $4 billion of used clothes crossed borders in 2016. The share from China and South Korea is growing, but 70% still come from Europe and North America. Many go to Asia and eastern Europe, but Africa remains the largest market. The trade enables poor people to afford clothes and creates retail jobs. However, governments worry that the trade undercuts their own clothing manufacturers.

Second-hand imports of clothing now dominate African markets. Researchers at the Overseas Development Institute, a British think-tank, estimate that Tanzania imports 540 million used items of clothing and 180 million new ones each year, while producing fewer than 20 million itself. African manufacturing is weak for many reasons, from ineffective privatisations to collapsing infrastructure. But second-hand clothing imports are a major factor: it is estimated that they accounted for half of the fall in employment in the African clothing industry between 1981 and 2000.

For example, a clothing factory in Kigali is operating at only 40% of capacity and employs 600 workers, down from 1 100 in the 1990s. It is hard to compete, says Ritesh Patel, its manager, when a used imported T-shirt sells for the price of a bottle of water. Instead, the company specialises in uniforms for police, soldiers and security guards, which cannot be bought second-hand.

The threatened suspension of tariff-free access to the US market would hurt Rwanda, but not very much. Last year Rwanda sold just $1.5 million of clothing to the US. Nor, with about 12 million people, is Rwanda a big market for US exports.

(Source adapted from: https://www.economist.com/finance-and-economics/2018/05/31/rwanda-refuses-to-remove-tariffs-on-imports-of-used-clothing)

Extract B

Development in Rwanda

Rwanda's strong economic growth has been accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on policies to encourage industrialisation and poverty reduction initiatives have contributed to significant improvements in access to services and human development indicators. Absolute poverty declined from 59% to 39% of the population between 2001 and 2014 but was almost stagnant between 2014 and 2017. The official inequality measure, the Gini index, declined from 0.52 in 2006 to 0.43 in 2017.

(Source adapted from: https://www.worldbank.org/en/country/rwanda/overview)

(c) With reference to the information provided, assess the likely impact on the Rwandan economy of the change in aid received between 2017 and 2018.

(10)

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

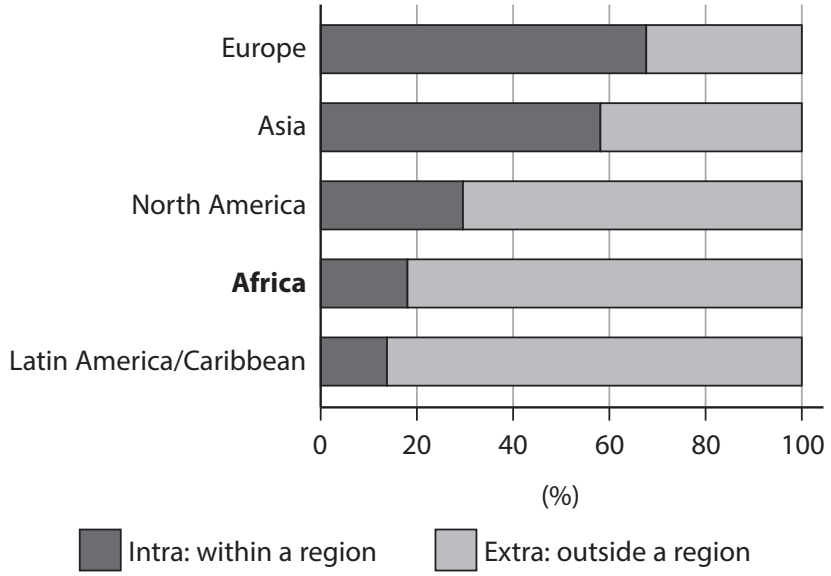
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and development in Africa

Figure 1: Intra- and extra-regional exports as a percentage of total exports, 2020



(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract A: Why it costs so much to move goods around Africa

Lorries carrying, among other things, cobalt from Congo, copper from Zambia and tea from Malawi queued for miles as they waited to cross the Limpopo river into South Africa. Many were there for days. Some drivers bribe their way to the front; 1 000 rand (£49) is the going rate. Others cannot afford to.

African politicians say they want to end such delays. The African Continental Free Trade Area (AfCFTA) regional trade agreement, so far agreed by 41 of Africa's 55 countries, could boost the region's economies by making it easier to trade between themselves. In 2020 just 18% of exports were to other African countries (see Figure 1), lower than the equivalent in North America (30%), Asia (58%) or Europe (68%). More trade within the region could lead to more jobs, higher wages and less poverty.

The AfCFTA pledges to improve trade in two ways. The first is by reducing tariffs. This could boost intra-African trade by 15% to 25%, says the IMF. The second is to reduce non-tariff barriers which could cause a 50% rise in intra-African trade.

Poor infrastructure is a major barrier to trade. Africa's land area is bigger than China, India, the United States and much of Europe combined. Yet its railway network is not very much bigger than France's and Germany's put together. Many lines were built by colonial companies to link mines to ports, rather than countries to one another. Newer Chinese-built railways across African borders are under-used, either because they struggle to compete on price with road transport or because they lack additional services such as storage yards.

Ports are small and slow. Cargo waits for more than two weeks on average, compared to less than a week in Asia, Europe and Latin America. Handling costs are around 50% higher than in other parts of the world.

Nearly 90% of transport of goods goes by road, of which there are not enough. Road quality is poor. Just 800 000 km of the total of 2.8 million km in sub-Saharan Africa are paved.

The IMF estimates that if the quality of Africa's infrastructure were brought up to the global average this would increase intra-African trade by 7%. However, even bigger gains could be made by improving how trade flows. The key problem is a lack of information. In much of the world large firms can buy space on trains or lorries as they need it. But in Africa, where markets for this do not exist, firms such as miners have to sign long-term contracts with larger transport firms in which they agree to pay for capacity, whether they use it all or not.

(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract B: Economic reform in Angola

When the new president, João Lourenço, took power in the southern African country of Angola in 2017, he pledged to reform the economy. This is a challenging task. The oil industry accounts for nearly all of Angola's exports and two-thirds of government revenues. The government is heavily involved in oil production along with significant foreign direct investment from international firms such as Chevron and Total. Declining production and falling oil prices brought about a collapse in GDP and rapidly rising debts to China and the IMF.

To reduce the cost of debt repayments, improve the country's fiscal position, and support a steadily declining debt-to-GDP ratio, the government of Angola has opted for debt relief. Together with a complete stop on debt repayments for the next three years, Angola will gain additional cash flow of $6.9 billion in 2020–22. This will help bring Angola's total annual borrowing to a much more manageable level of around 8.7% of GDP. With improved finances the government will have more money to spend supporting the economy and providing vital public services to its citizens, over 17 million of whom still live in absolute poverty.

The IMF, which has since 2018 agreed to lend $4.5 billion to Angola, is also encouraged by the country's fiscal policies. The finance minister, Vera Daves de Sousa, wants the state oil firm to sell shares to the public and for over one hundred state firms to be privatised. There have been delays – just 34 sales have taken place so far. But, she says, private firms must be the 'main driver' of growth and the economy must diversify away from oil.

Since 2019 Angola has ended government intervention in the foreign exchange market and moved towards a floating exchange rate. This led to a rapid depreciation in the kwanza (the Angolan currency) before stabilising after a few months.

(Sources: adapted from https://www.economist.com/middle-east-and-africa/2021/02/20/joao-lourencos-reforms-in-angola-are-pleasing-the-imf, https://www.cabri-sbo.org/en/blog/2021/country-spotlight-angolas-commitment-to-prudent-and-proactive-public-debt-management, and https://www.focus-economics.com/countries/angola/news/special/kwanza-dives-to-all-time-low-as-central-bank-floats-the-currency)

(d) Assess **two** likely benefits of debt relief to Angola. Refer to Extract B in your answer.

(10)

SECTION B

Read Figures 4 and 5 and the following extracts (D and E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

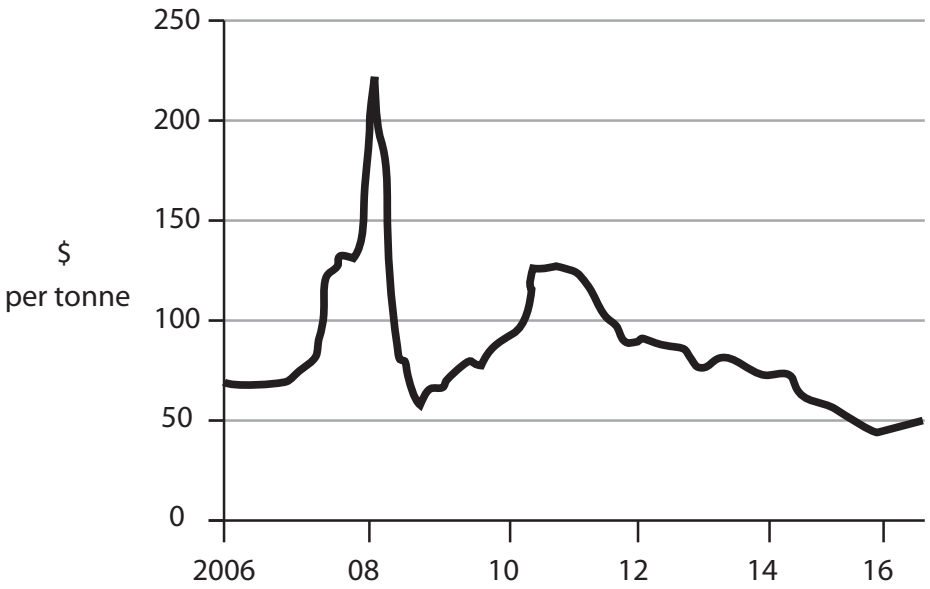
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Question 2

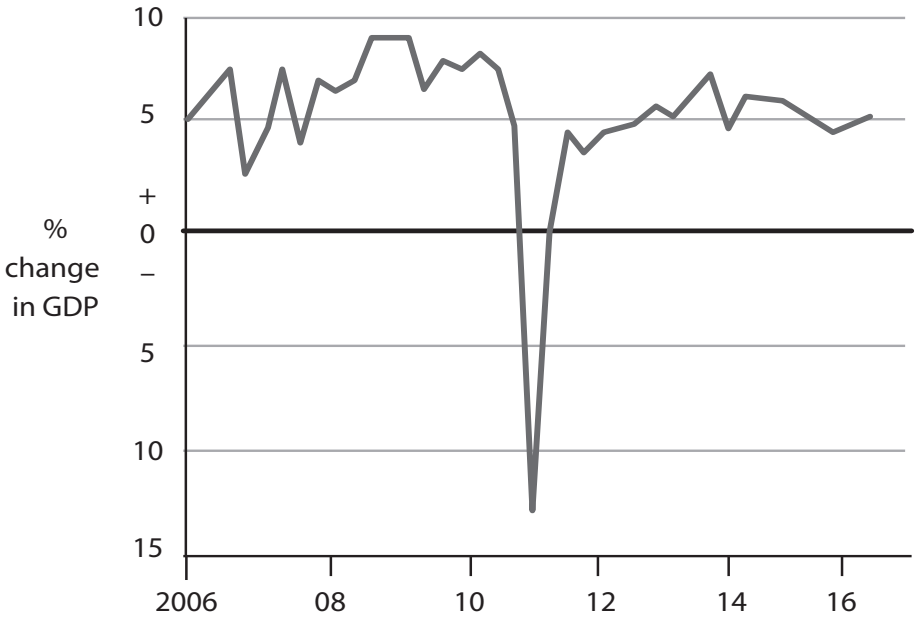
Indonesia

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Extract D

Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

Indonesia receives US$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US$14.37) a month. The World Bank has approved US$800 million in infrastructure loans to Indonesia, with another US$950 million as conditional loans. The Asian Development Bank has committed itself to lending US$2 billion. In December Japan's development agency lent Indonesia US$535 million to construct two power stations.

(Sources: adapted from http://country.eiu.com/Indonesia and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

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SECTION B

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Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	**21.75%**	**18.0%**
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399)

Extract E

Mozambique's economic stability is being put to the test

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line.

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1.

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability.

(Source: adapted from http://www.africaneconomicoutlook.org/en/country-notes/mozambiqua and https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test 6 October 2017 Dr Alex Vines OBE)

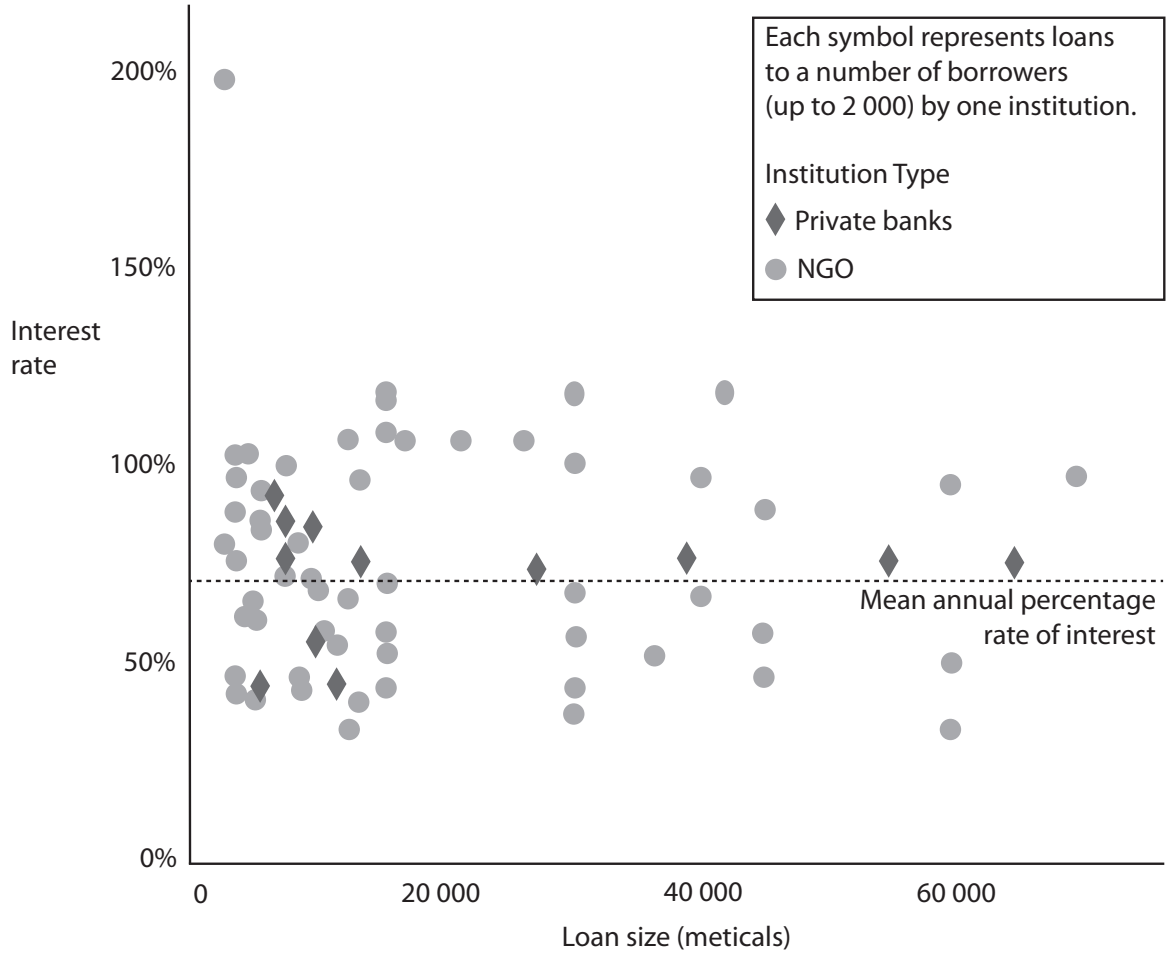
Extract F

Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion.

(Source: adapted from http://www.mftransparency.org/microfinance-pricing/mozambique/)

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: http://www.mftransparency.org/microfinance-pricing/mozambique/)

(c) Discuss whether borrowers benefit from microfinance. Make reference to Mozambique in your answer.

(12)

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

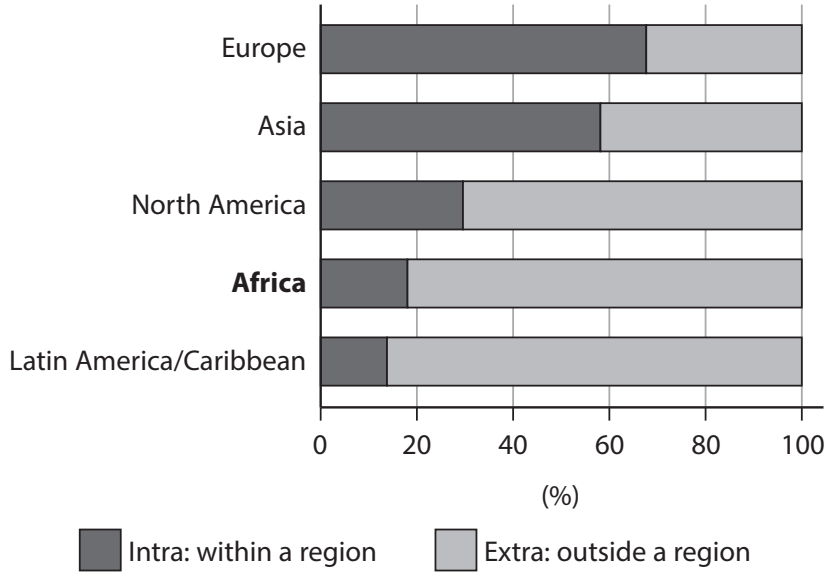
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and development in Africa

Figure 1: Intra- and extra-regional exports as a percentage of total exports, 2020



(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract A: Why it costs so much to move goods around Africa

Lorries carrying, among other things, cobalt from Congo, copper from Zambia and tea from Malawi queued for miles as they waited to cross the Limpopo river into South Africa. Many were there for days. Some drivers bribe their way to the front; 1 000 rand (£49) is the going rate. Others cannot afford to.

African politicians say they want to end such delays. The African Continental Free Trade Area (AfCFTA) regional trade agreement, so far agreed by 41 of Africa's 55 countries, could boost the region's economies by making it easier to trade between themselves. In 2020 just 18% of exports were to other African countries (see Figure 1), lower than the equivalent in North America (30%), Asia (58%) or Europe (68%). More trade within the region could lead to more jobs, higher wages and less poverty.

The AfCFTA pledges to improve trade in two ways. The first is by reducing tariffs. This could boost intra-African trade by 15% to 25%, says the IMF. The second is to reduce non-tariff barriers which could cause a 50% rise in intra-African trade.

Poor infrastructure is a major barrier to trade. Africa's land area is bigger than China, India, the United States and much of Europe combined. Yet its railway network is not very much bigger than France's and Germany's put together. Many lines were built by colonial companies to link mines to ports, rather than countries to one another. Newer Chinese-built railways across African borders are under-used, either because they struggle to compete on price with road transport or because they lack additional services such as storage yards.

Ports are small and slow. Cargo waits for more than two weeks on average, compared to less than a week in Asia, Europe and Latin America. Handling costs are around 50% higher than in other parts of the world.

Nearly 90% of transport of goods goes by road, of which there are not enough. Road quality is poor. Just 800 000 km of the total of 2.8 million km in sub-Saharan Africa are paved.

The IMF estimates that if the quality of Africa's infrastructure were brought up to the global average this would increase intra-African trade by 7%. However, even bigger gains could be made by improving how trade flows. The key problem is a lack of information. In much of the world large firms can buy space on trains or lorries as they need it. But in Africa, where markets for this do not exist, firms such as miners have to sign long-term contracts with larger transport firms in which they agree to pay for capacity, whether they use it all or not.

(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract B: Economic reform in Angola

When the new president, João Lourenço, took power in the southern African country of Angola in 2017, he pledged to reform the economy. This is a challenging task. The oil industry accounts for nearly all of Angola's exports and two-thirds of government revenues. The government is heavily involved in oil production along with significant foreign direct investment from international firms such as Chevron and Total. Declining production and falling oil prices brought about a collapse in GDP and rapidly rising debts to China and the IMF.

To reduce the cost of debt repayments, improve the country's fiscal position, and support a steadily declining debt-to-GDP ratio, the government of Angola has opted for debt relief. Together with a complete stop on debt repayments for the next three years, Angola will gain additional cash flow of $6.9 billion in 2020–22. This will help bring Angola's total annual borrowing to a much more manageable level of around 8.7% of GDP. With improved finances the government will have more money to spend supporting the economy and providing vital public services to its citizens, over 17 million of whom still live in absolute poverty.

The IMF, which has since 2018 agreed to lend $4.5 billion to Angola, is also encouraged by the country's fiscal policies. The finance minister, Vera Daves de Sousa, wants the state oil firm to sell shares to the public and for over one hundred state firms to be privatised. There have been delays – just 34 sales have taken place so far. But, she says, private firms must be the 'main driver' of growth and the economy must diversify away from oil.

Since 2019 Angola has ended government intervention in the foreign exchange market and moved towards a floating exchange rate. This led to a rapid depreciation in the kwanza (the Angolan currency) before stabilising after a few months.

(Sources: adapted from https://www.economist.com/middle-east-and-africa/2021/02/20/joao-lourencos-reforms-in-angola-are-pleasing-the-imf, https://www.cabri-sbo.org/en/blog/2021/country-spotlight-angolas-commitment-to-prudent-and-proactive-public-debt-management, and https://www.focus-economics.com/countries/angola/news/special/kwanza-dives-to-all-time-low-as-central-bank-floats-the-currency)

(c) Discuss the impact of improved transport links between African countries on economic growth rates.

(12)

SECTION B

Read Figures 1, 2, and 3 and extracts A and B before answering Question 6.

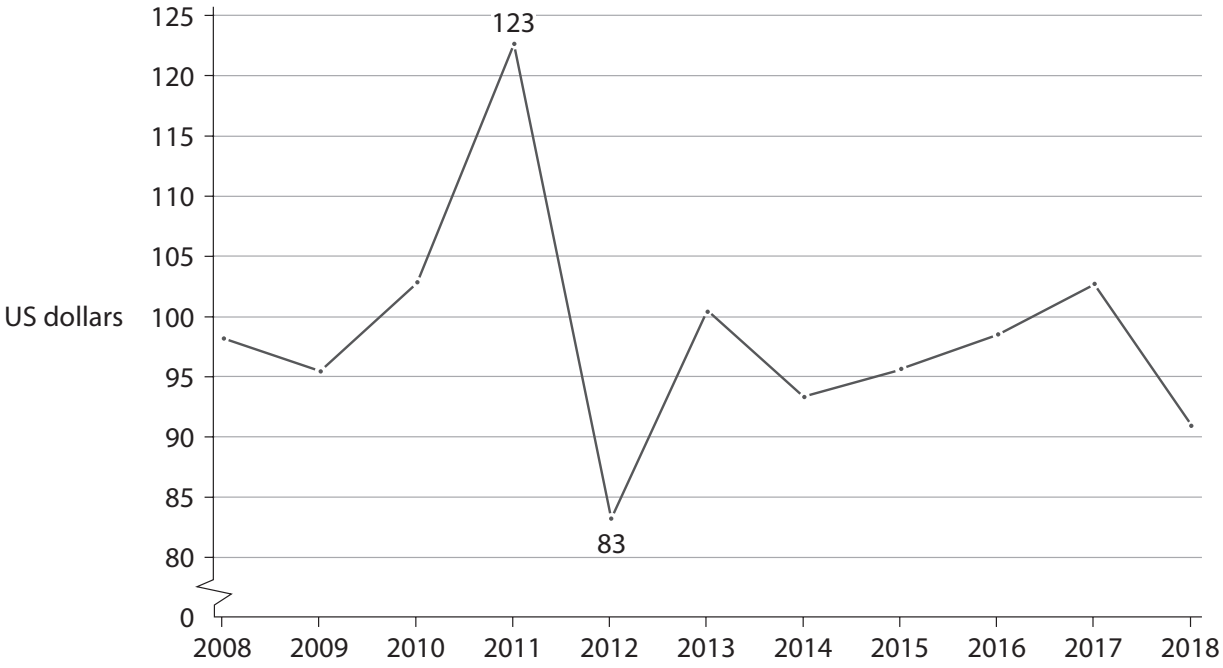
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

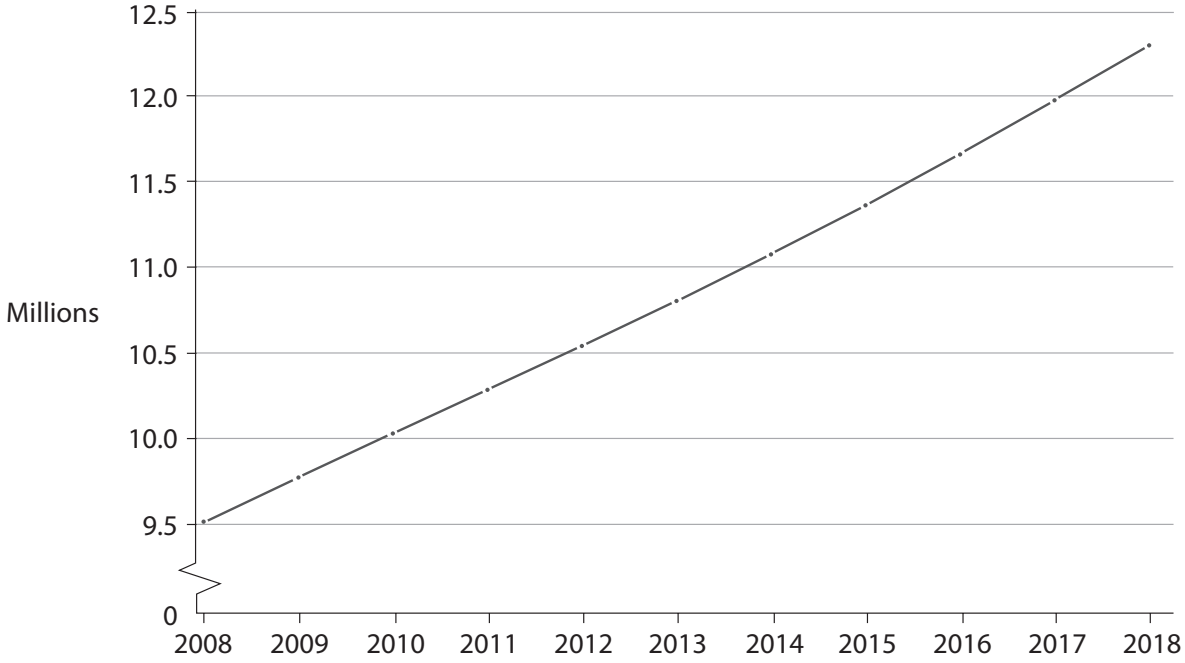
Trade and aid in Rwanda

Figure 1: Aid funding received by Rwanda (per capita, US dollars), 2008 to 2018



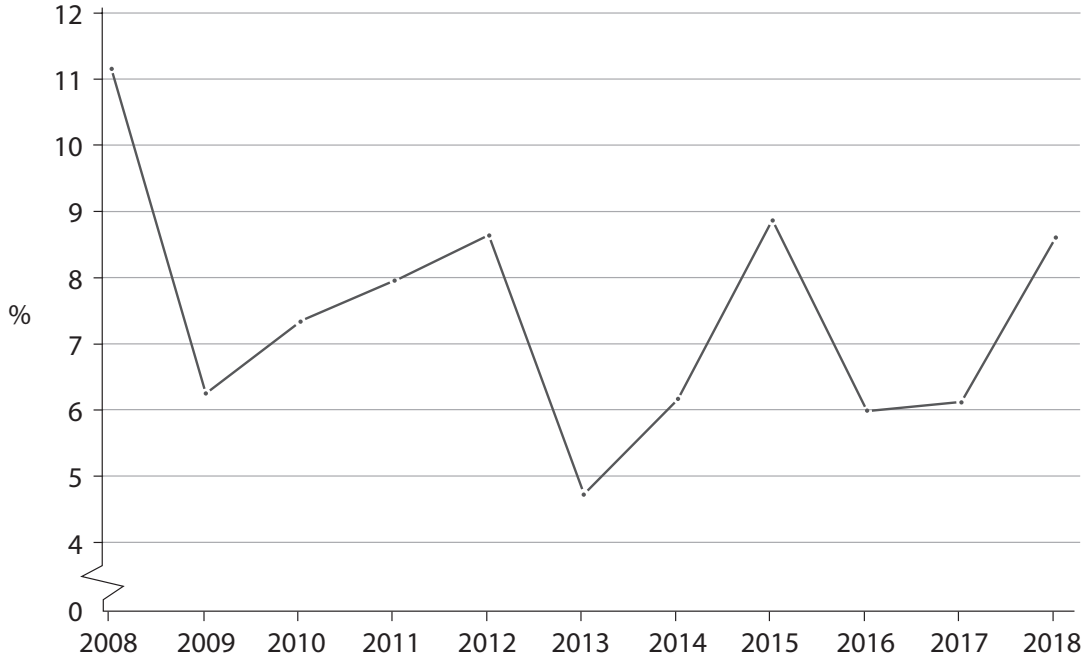
(Source adapted from: data.worldbank.org)

Figure 2: Population of Rwanda (millions), 2008 to 2018



(Source adapted from: https://tradingeconomics.com/rwanda/population)

Figure 3: Rwanda real GDP annual percentage growth rate, 2008 to 2018



(Source adapted from: African Development Bank Statistics accessed April 2020)

Extract A

Rwandan tariffs on imports of used clothing

In a market in Kigali, Rwanda's capital, an auction is under way. Sellers offer crumpled T-shirts and faded jeans; traders argue over the best picks. Everything is second-hand. A Tommy Hilfiger shirt sells for 5 000 Rwandan francs ($5.82); a plain one for a tenth of that. Afterwards, a trader sorts through the purchases he will resell in his home village. The logos hint at their previous lives: Kent State University, a rotary club in Pennsylvania, Number One Dad.

These auctions were once twice as busy, but in 2016 Rwanda's government increased import tariffs on a kilo of used clothes from $0.20 to $2.50. Now many traders struggle to make a profit. The traders are not the only ones who are unhappy. Exporters in the US claim the tariffs are costing jobs there. In March, the US President warned that he would suspend Rwanda's tariff-free access to US markets for its clothing exports after 60 days if it did not remove the tariff.

Globally, about $4 billion of used clothes crossed borders in 2016. The share from China and South Korea is growing, but 70% still come from Europe and North America. Many go to Asia and eastern Europe, but Africa remains the largest market. The trade enables poor people to afford clothes and creates retail jobs. However, governments worry that the trade undercuts their own clothing manufacturers.

Second-hand imports of clothing now dominate African markets. Researchers at the Overseas Development Institute, a British think-tank, estimate that Tanzania imports 540 million used items of clothing and 180 million new ones each year, while producing fewer than 20 million itself. African manufacturing is weak for many reasons, from ineffective privatisations to collapsing infrastructure. But second-hand clothing imports are a major factor: it is estimated that they accounted for half of the fall in employment in the African clothing industry between 1981 and 2000.

For example, a clothing factory in Kigali is operating at only 40% of capacity and employs 600 workers, down from 1 100 in the 1990s. It is hard to compete, says Ritesh Patel, its manager, when a used imported T-shirt sells for the price of a bottle of water. Instead, the company specialises in uniforms for police, soldiers and security guards, which cannot be bought second-hand.

The threatened suspension of tariff-free access to the US market would hurt Rwanda, but not very much. Last year Rwanda sold just $1.5 million of clothing to the US. Nor, with about 12 million people, is Rwanda a big market for US exports.

(Source adapted from: https://www.economist.com/finance-and-economics/2018/05/31/rwanda-refuses-to-remove-tariffs-on-imports-of-used-clothing)

Extract B

Development in Rwanda

Rwanda's strong economic growth has been accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on policies to encourage industrialisation and poverty reduction initiatives have contributed to significant improvements in access to services and human development indicators. Absolute poverty declined from 59% to 39% of the population between 2001 and 2014 but was almost stagnant between 2014 and 2017. The official inequality measure, the Gini index, declined from 0.52 in 2006 to 0.43 in 2017.

(Source adapted from: https://www.worldbank.org/en/country/rwanda/overview)

(e) Discuss policies, other than import tariffs, that the Rwandan government could use to develop its manufacturing industries.

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION B

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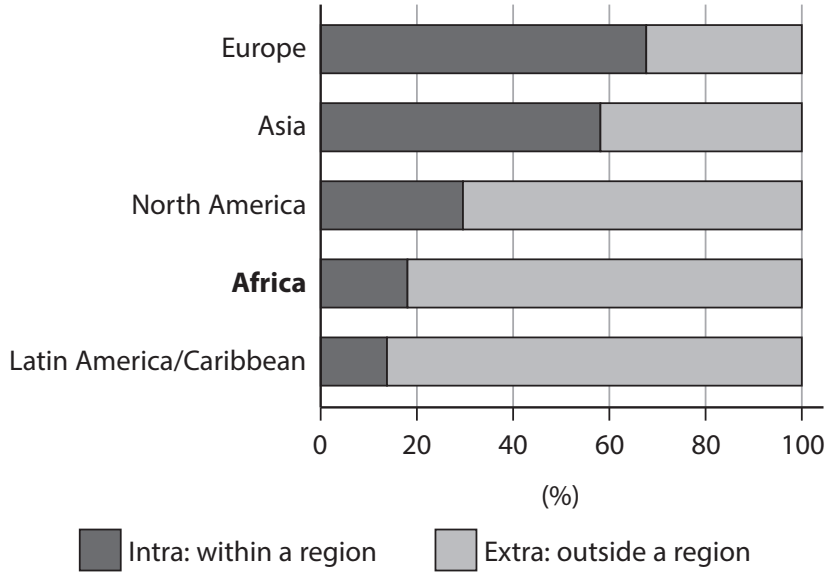
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(e) Discuss market-orientated strategies the Angolan government could use to improve development.

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION A

Read Figures 1 to 3 and the following extracts (A and B) before answering Question 1.

Answer ALL questions 1(a) to 1(c), and EITHER Question 1(d) or 1(e).

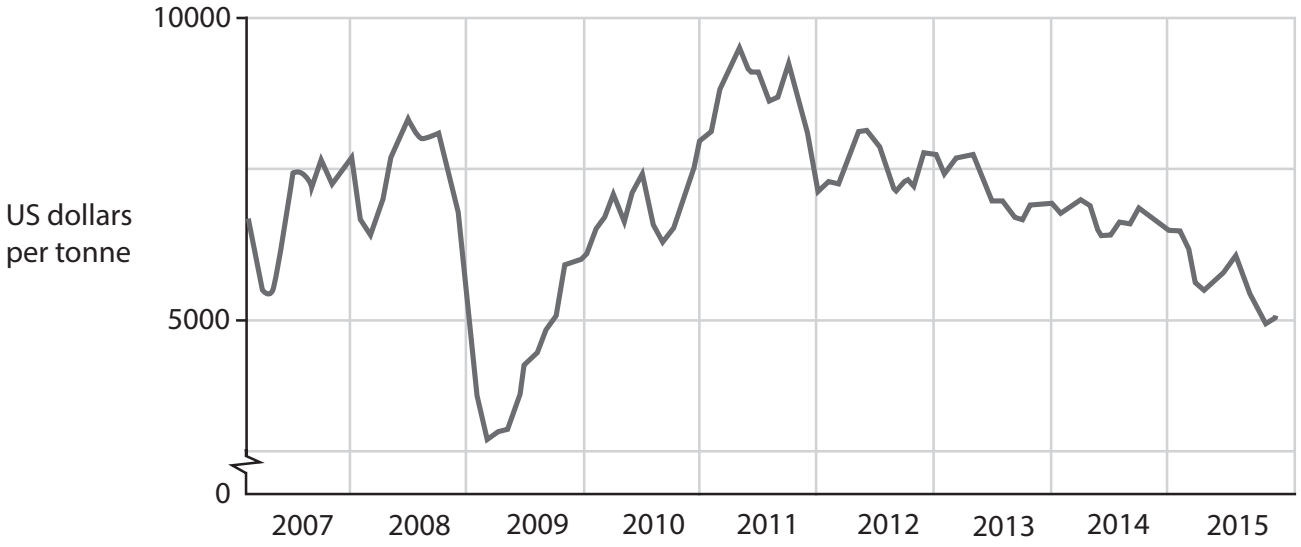
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Chile

Figure 1: Copper prices, US dollars per tonne, 2007–2015



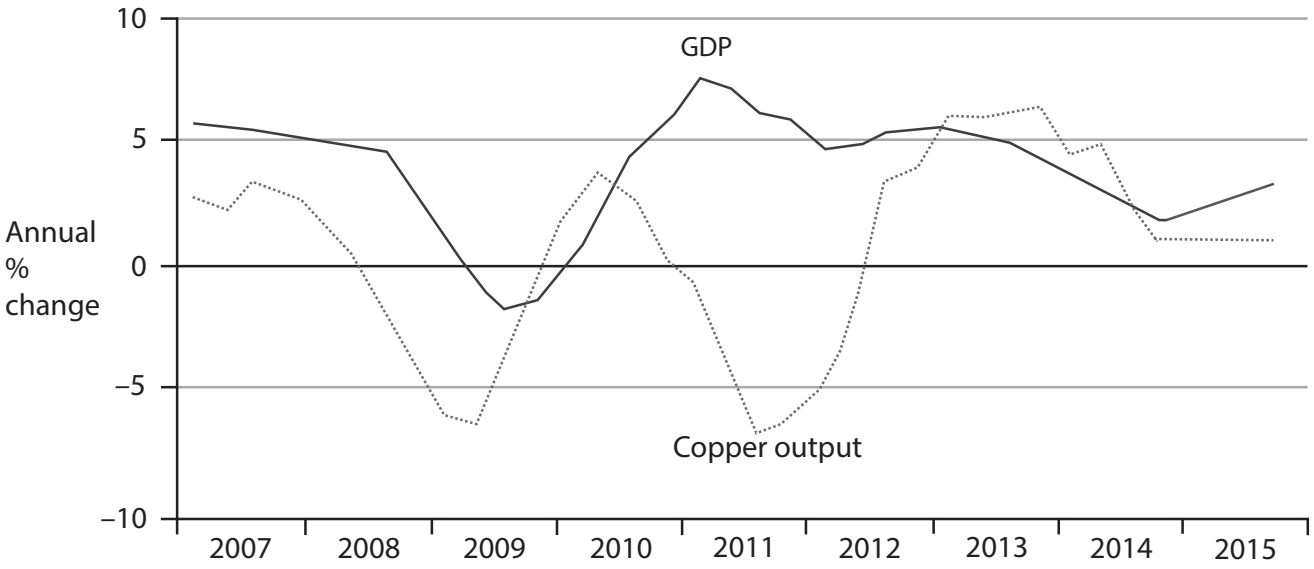
(Source: adapted from http://www.indexmundi.com/commodities/?commodity=copper&months=120)

Figure 2: US dollar per 100 Chile pesos exchange rate, 2007–2015



(Source: https://www.google.co.uk/finance?q=CLPUSD&ei=OGEvVun-AoulU6awjugF)

Figure 3: Chile: copper output and real GDP growth, 2007–2015



(Source: adapted from FT.com sources below)

Extract A

Chile's economic outlook brightens

Chile has been hit hard by a worldwide fall in commodity prices since 2011. Copper accounts for 20% of Chile's GDP and 60% of its exports; one third of the world's copper is produced by Chile. China purchased 40% of the world's copper, so a slowdown in China combined with increased global over-supply has meant copper prices have collapsed (see Figure 1). Chilean government income from copper exports had reached $11.5 billion a year before copper prices fell, but now tax revenues from this source have fallen drastically. Growing numbers of copper mines struggle to break even at current prices.

Chile's GDP is now growing, helped by a weak currency that has boosted export industries outside the mining sector, such as its successful wine and salmon industries. There are strengths in tourism and high-tech products. Public services are good in Chile, and poverty rates have been falling fast. On top of this, a large and diversified financial sector with high domestic savings provides a useful safety net, given high levels of corporate debt and the government's need to finance a fiscal deficit of 3% of GDP.

Chile's economy is often regarded as the best run in the region. This is attributed to the credibility of its financial institutions, relatively low levels of national debt (about 15% of GDP) and its free-trade model, which is unrestricted by government interventionism that has distorted the economies of countries such as Argentina and Venezuela. "Chile is an example of how credible institutions can smooth the economic cycle and make adjustments less traumatic," said Mr Valdés, the minister of finance in Chile, pointing to its widely respected and independent central bank and a well-established fiscal rule that give officials the freedom to implement counter-cyclical policies.

However, there are worries that without enough spare capacity in the economy, expansionary fiscal and monetary policies could end up increasing inflation rather than economic growth. Meanwhile monetary policy is restricted by inflation that has reached 5%, well outside the central bank's 2–4% target range, fuelled by a weaker exchange rate. Crucially, investment remains low because of uncertainty over the outcome of the Prime Minister's reforms, which are aimed at reducing inequality. A recent rise in corporation tax from 20% to 25% and labour market reforms that strengthen the power of trade unions may have a negative effect on business confidence.

Despite a "mildly contractionary" budget, Valdés insisted that the government would continue with costly reforms. Increased taxes on those on higher incomes are considered by the government to be necessary to sustain economic development in Chile. "We do want to change society, while recognising all the good things that have been done in the past 25 years," said Mr Valdés, referring to an average growth rate of 5.3% over the past three decades, but under 2% in 2015. There is broad consensus that investment in education is the key to unlocking Chile's growth potential.

(Sources: adapted from http://www.ft.com/cms/s/0/89926ce8-df96-11e4-a6c400144feab7de html#axzz3pCnzT3PC FT 20 April 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 all by Benedict Mander)

Extract B

Chile's copper mining on a downward track

There was a time when investing in Chilean mining meant guaranteed success. After 1990, when military rule was replaced by an elected government, market reforms and restored relations with the US and UK meant foreign companies were keen to exploit vast copper reserves. The existence of large copper reserves in a stable country with a business-friendly government is rare, making Chile much more attractive to investors than countries such as Zambia.

By mid-2015, however, the copper price hit a six-year low. Chilean mines are becoming less productive. After 20 years of heavy digging, the ore is lower grade, and much further down. The deeper pits take longer to mine, and use more fuel. Wages are high, and trade unions are powerful. A mining truck driver earns $70 000 a year, $10 000 more than the US equivalent. Many mining projects that were planned are being postponed, and investors are looking to Peru; even the US copper mining industry is becoming more competitive.

Energy supply is also a worry as Chile produces virtually no fossil fuels and relies on imported coal and liquid natural gas to power its mines. Energy costs account for 18% of the cost of copper production.

Water supply is also becoming a major problem. Farmers and communities accuse mining companies of causing water shortages to keep their operations running. A prolonged drought has not helped. Mining firms are turning to desalination plants or using untreated seawater. However pumping water 200 kilometres from the Pacific Ocean to the copper mines is costly.

Chile's environmentalist movement has forced the government to tighten regulations. In 2001, it took 236 days to get an environmental impact assessment of a new mine approved. By 2013, this had increased to 506 days.

(Source: adapted from http://www.ft.com/cms/s/0/ea060ef4-6ae2-11e5-8171-ba1968cf791a.html#axzz3p20if45k Gideon Long September 27, 2015)

Q) 1 (d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of policies that could be used to stimulate economic growth and development in Chile.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

Read Figures 4 and 5 and the following extracts (D and E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

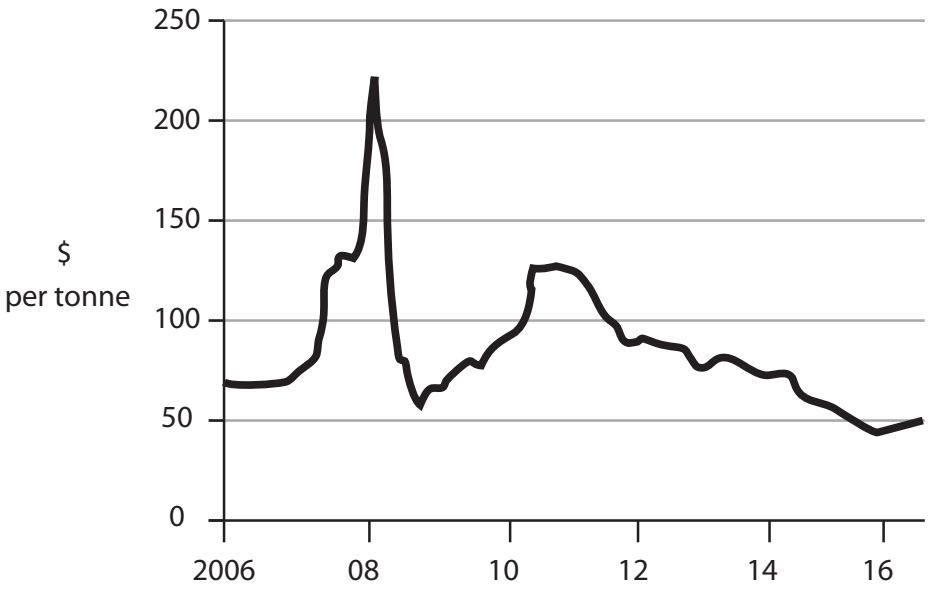
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

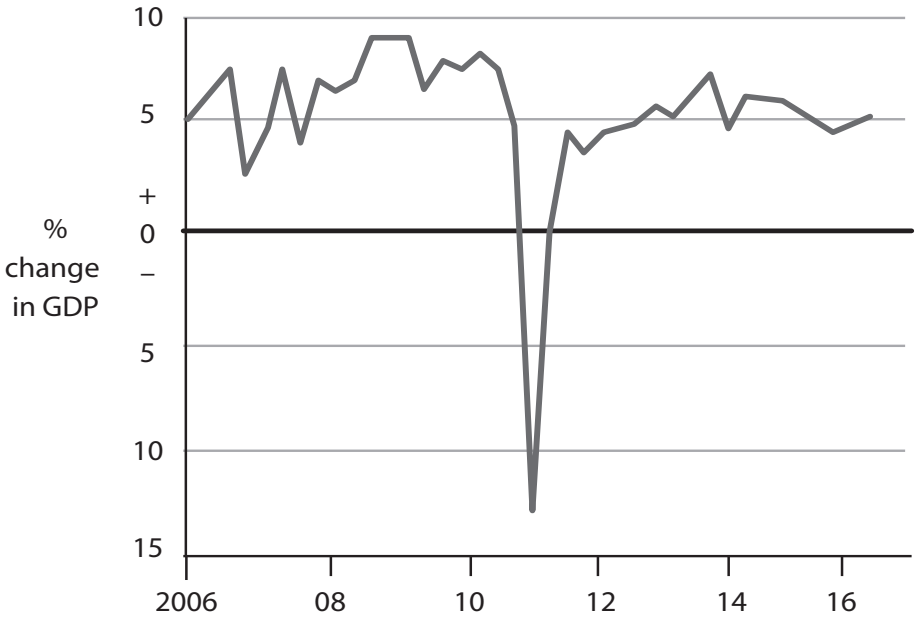
Indonesia

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Extract D

Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

Indonesia receives US$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US$14.37) a month. The World Bank has approved US$800 million in infrastructure loans to Indonesia, with another US$950 million as conditional loans. The Asian Development Bank has committed itself to lending US$2 billion. In December Japan's development agency lent Indonesia US$535 million to construct two power stations.

(Sources: adapted from http://country.eiu.com/Indonesia and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

Extract E

Indonesia's economic policies as commodity prices collapse

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US$50 per tonne, against US$125 in 2011.

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly.

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP.

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones.

The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target.

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports. In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment. Indonesia has plans for 65 dams, 16 of which are already under construction. In 2015 work started on the Keureuto Dam, designed to boost agricultural productivity in Aceh. Recently fields

were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

(Sources: adapted from http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

2 (a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer.

(8)

(c) Discuss the benefits of aid to Indonesia.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

(25)

OR

(e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

(25)

Q) 2 (e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

Read Figure 2 and the following extracts (D to G) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

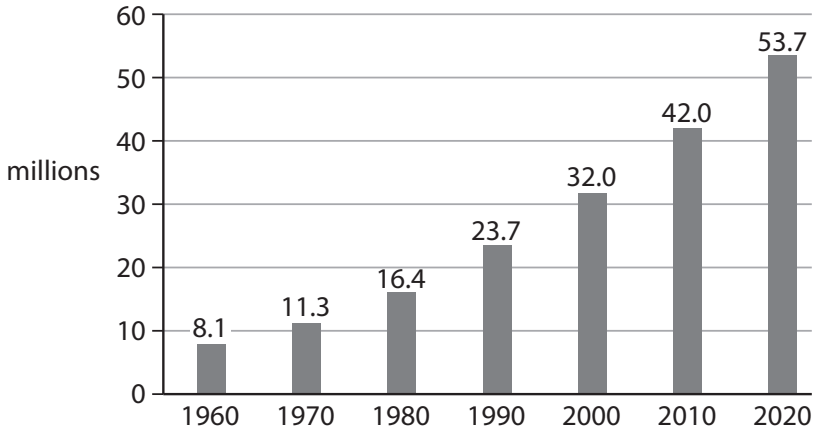
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Sub-Saharan Africa – growth and development

Figure 2: Kenya population, millions, 1960 to 2020



(Source: adapted from Population, total - Kenya | Data (worldbank.org))

Extract D

Growth and development in Africa: 'Africa has a massive opportunity as a low-cost provider of services'

The outlook for Africa's economies is not as simple as the Lewis model of growth and development implies: do more manufacturing or stay poor. Many countries are expanding into areas that economists are starting to call 'industries without smoking chimneys'. Some, such as flower-exports, may not be classified as manufactured goods in export statistics. But the process of producing flowers looks a lot like factory work and demands many of the same management skills. These industries also deliver many of the benefits of normal manufacturing, including many well-paid jobs, and greater opportunities.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/many-of-africas-economies-are-doing-well)

Extract E

The demography of Kenya – 'Demography will shape Africa's future'

Falling birth rates, when accompanied by rising literacy, can help kick-start growth. In Kenya 39% of the population is below the age of 15, falling from 43% in 2009. The labour force (15–64 years) is 57% and is the fastest growing population group. 6% of the population is over the age of 60. The number of children per family has fallen sharply, from 8.1 children in 1978 to 4.6 children in 2008, and it is projected to possibly reach 2.4 children by 2050.

In the 1970s little more than half of children in sub-Saharan Africa were enrolled in primary school. That share has shot up to almost 100%. The statistic is slightly misleading, since the percentage of children regularly attending schools is nearer 60%.

Why does Kenya's population continue to rise rapidly, while family size declines? There are two reasons. First, due to high fertility in previous decades, there are many more families in Kenya today. So even though families are smaller, the total number of children continues to grow. Second, Kenyans are living longer, with better healthcare – for example, polio was eradicated in 2014. Life expectancy is projected to increase from 54 years today to 68 years by 2050.

28% of Kenya is urbanised, and is becoming rapidly more so. By the 2030s it is expected that 36% of Kenyans will live in towns or cities rather than the poorer rural areas. Rich countries are urban countries. No country has ever reached high income levels with low urbanisation. Large urban centres have two distinct economic advantages. First, as more people interact, there is more scope for innovation. Young people need jobs, but they also create jobs. Kenya has an educated workforce and a dynamic service industry, which typically has lower barriers of entry than agriculture or manufacturing, and provides opportunities for young entrepreneurs. Second, larger groups of population living in close proximity allow for economies of scale.

In light of these facts, Kenya's future pattern of population growth can be a force of good. A large urbanising and well-educated population tends to generate a strong middle class and vibrant private sector. Economic development may be easier to achieve and sustain – though it is not guaranteed.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050 and https://kenya.unfpa.org/sites/default/files/pub-pdf/state_of_kenya_population_report_2020.pdf and https://www.worldbank.org/en/news/opinion/2010/04/28/demographic-transition-growth-kenya)

Extract F

Kenya has an absolute advantage in cut flowers

In the UK, 80% of cut flowers come via the Netherlands, although a significant proportion come from Kenya. Some Kenyan flowers come straight to the UK on direct flights from Nairobi, where entire terminals at certain airports are dedicated to flights exporting flowers.

Kenya flower production has three major advantages over the Netherlands: areas of high altitude with cool nights, which many flowers benefit from, proximity to the equator for maximum hours of sunlight, and cheaper labour. This means an end to seasonal production and the beginning of a 365-day-a-year absolute advantage. The Netherlands has cost advantages in machinery and transport equipment, not flowers.

Cut flowers are now Kenya's second largest export after tea, contributing around 1% of the country's GDP. They are also one of the country's largest sources of employment, with over 100 000 people working directly in the flower industry and an estimated two million indirectly.

(Source: adapted from: https://www.economist.com/middle-east-and-africa/2021/02/11/kenyas-floral-exports-are-blooming-once-more)

Extract G

Changes in interest rates in sub-Saharan Africa

When Robert Matsiko was a young man his grain-milling business in eastern Africa was destroyed by fire. Now, after building it back up from the ashes, he is being hurt by high interest rates. To buy a new machine he must borrow from a bank at an annual rate of 22%. 'You fear to do that,' Mr Matsiko says. Many other entrepreneurs feel the same, which stops their businesses from growing, although very small firms can get help from microfinance schemes.

Kenya's central bank rate has fallen from over 20% to 7% in the last decade, but the rates charged to small businesses and individuals are much higher than the central bank interest rate. In sub-Saharan Africa, the gap between saving and borrowing rates is higher than anywhere else. The average bank lends at 6.8% above the central bank interest rate. Mobile banking, credit-information sharing and innovation have helped to bring borrowing costs down. But until birth rates fall, interest rates will stay relatively high, because families with many children cannot afford to save.

(Source: adapted from https://www.economist.com/finance-and-economics/2020/05/21/why-interest-rates-are-so-high-in-africa)

Q) 2 (d) Evaluate the microeconomic and macroeconomic effects of decreasing interest rates in Kenya, or another developing country of your choice.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

Read Figure 2 and the following extracts (D to G) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

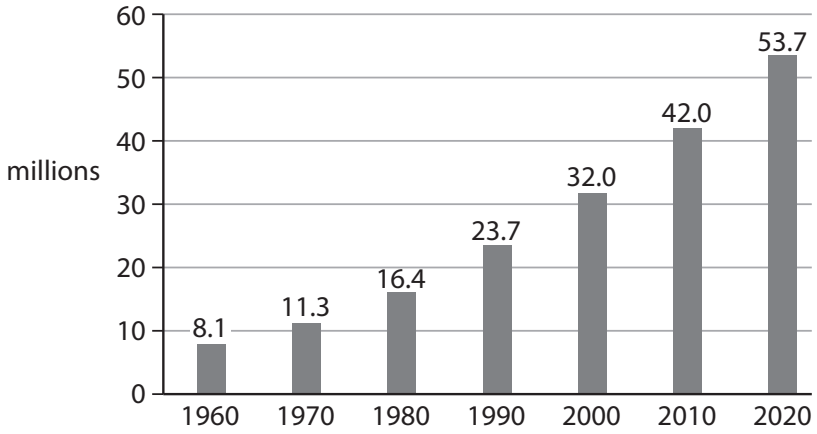
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(Source: adapted from https://www.economist.com/finance-and-economics/2020/05/21/why-interest-rates-are-so-high-in-africa)

Q) 2 (e) Evaluate the microeconomic and macroeconomic strategies that could be used to promote development in Kenya, or another developing country of your choice.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.4.1

ROLE OF FINANCIAL MARKETS

Sub-topic 4.4.1 · 13 questions · 51 marks · lowest tariff first

5 UK total bank lending to individuals, percentage change on previous year

2014	2.5%
2015	3.2%
2016	4.0%

(Source: Bank of England 2017)

(b) Which **one** of the following is most likely to result from an increase in bank lending to individuals?

(1)

- ☒ **A** An improvement in net trade (X–M)
- ☒ **B** An increase in consumption
- ☒ **C** An increase in unemployment
- ☒ **D** Deflation

(Total for Question 5(b) = 1 mark)

SECTION A

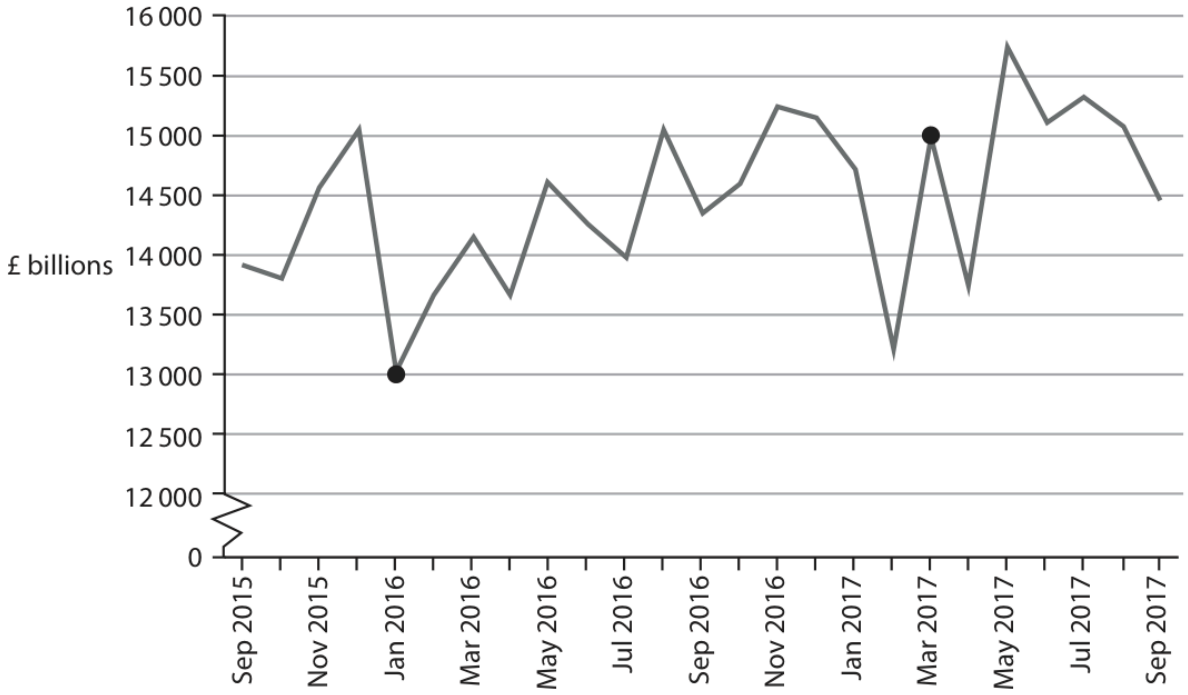
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 Monthly additions to UK credit card lending, £ billions, 2015 – 2017



(Source: https://www.ukfinance.org.uk/statistics/cards/)

(a) Which **one** of the following would be **most** likely to cause an increase in credit card lending?

(1)

- ☒ **A** A fall in interest rates
- ☒ **B** A fall in investment
- ☒ **C** An increase in the deficit on the current account of the balance of payments
- ☒ **D** An increase in savings

(Total for Question 1(a) = 1 mark)

3 A group of banks, including Barclays and JP Morgan, have been fined more than €1 billion by the EU's competition authorities for rigging the foreign exchange market after the Global Financial Crisis of 2008. The EU found that traders at the banks had used online chat rooms to share information about customers' orders, prices and other trading activities in order to manipulate the currency markets.

(Source: adapted from https://www.ft.com/content/73163fa0-77c5-11e9-bbad-7c18c0ea0201)

(b) Which **one** of the following is a role of financial markets?

To:

(1)

- ☒ **A** discourage saving
- ☒ **B** promote moral hazard
- ☒ **C** provide forward markets
- ☒ **D** restrict free trade

(Total for Question 3(b) = 1 mark)

5 UK total bank lending to individuals, percentage change on previous year

2014	2.5%
2015	3.2%
2016	4.0%

(Source: Bank of England 2017)

(a) Explain **one** likely reason why consumer demand for bank loans has increased.

(2)

(Total for Question 5(a) = 2 marks)

5 UK total bank lending to individuals, percentage change on previous year

2014	2.5%
2015	3.2%
2016	4.0%

(Source: Bank of England 2017)

(c) Calculate the index number for the total value of bank lending in 2016 using 2015 as a base year.

(2)

(Total for Question 5(c) = 2 marks)

SECTION A

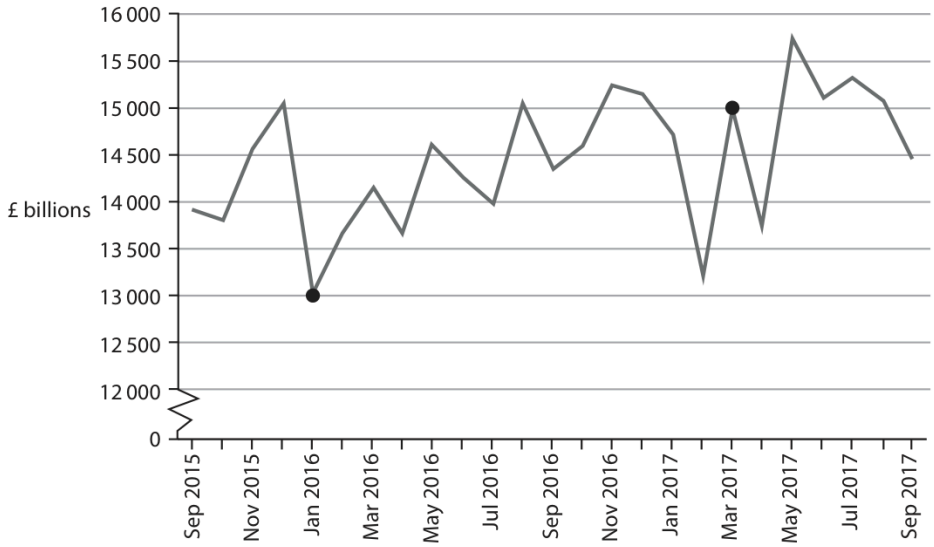
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 Monthly additions to UK credit card lending, £ billions, 2015 – 2017



(Source: https://www.ukfinance.org.uk/statistics/cards/)

(b) Using the chart, calculate an index number for additions to credit card lending in March 2017, using January 2016 as the base. You are advised to show your working.

(2)

(Total for Question 1(b) = 2 marks)

SECTION A

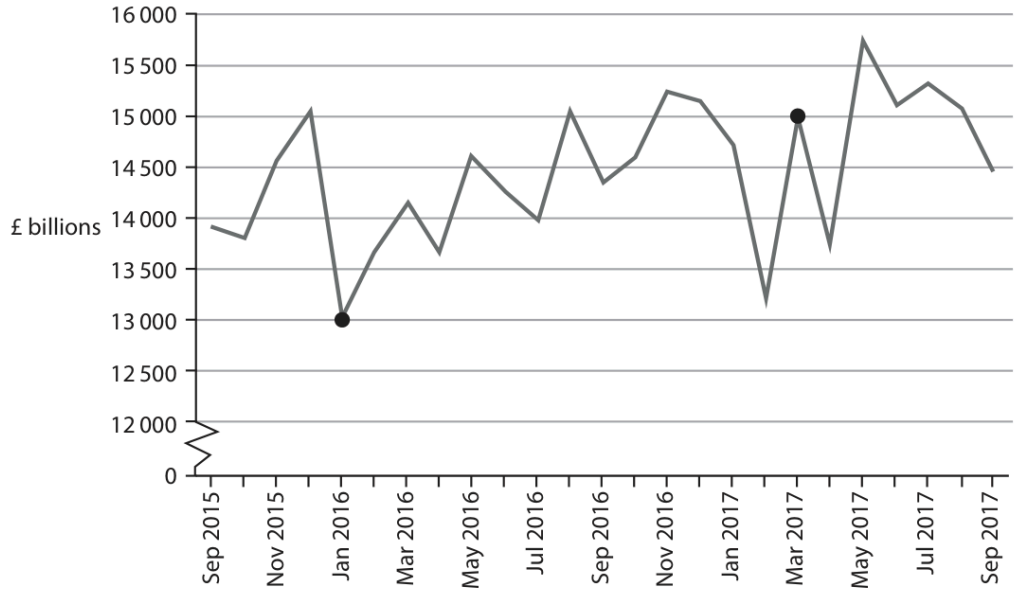
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You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 Monthly additions to UK credit card lending, £ billions, 2015 – 2017



(Source: https://www.ukfinance.org.uk/statistics/cards/)

(c) Explain **one** possible link between an increase in credit card lending and the rate of inflation.

(2)

(Total for Question 1(c) = 2 marks)

5 UK total bank lending to individuals, percentage change on previous year

2014	2.5%
2015	3.2%
2016	4.0%

(Source: Bank of England 2017)

(a) Explain **one** likely reason why consumer demand for bank loans has increased.

(2)

(b) Which **one** of the following is most likely to result from an increase in bank lending to individuals?

(1)

- ☒ **A** An improvement in net trade (X–M)
- ☒ **B** An increase in consumption
- ☒ **C** An increase in unemployment
- ☒ **D** Deflation

(c) Calculate the index number for the total value of bank lending in 2016 using 2015 as a base year.

(2)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION A

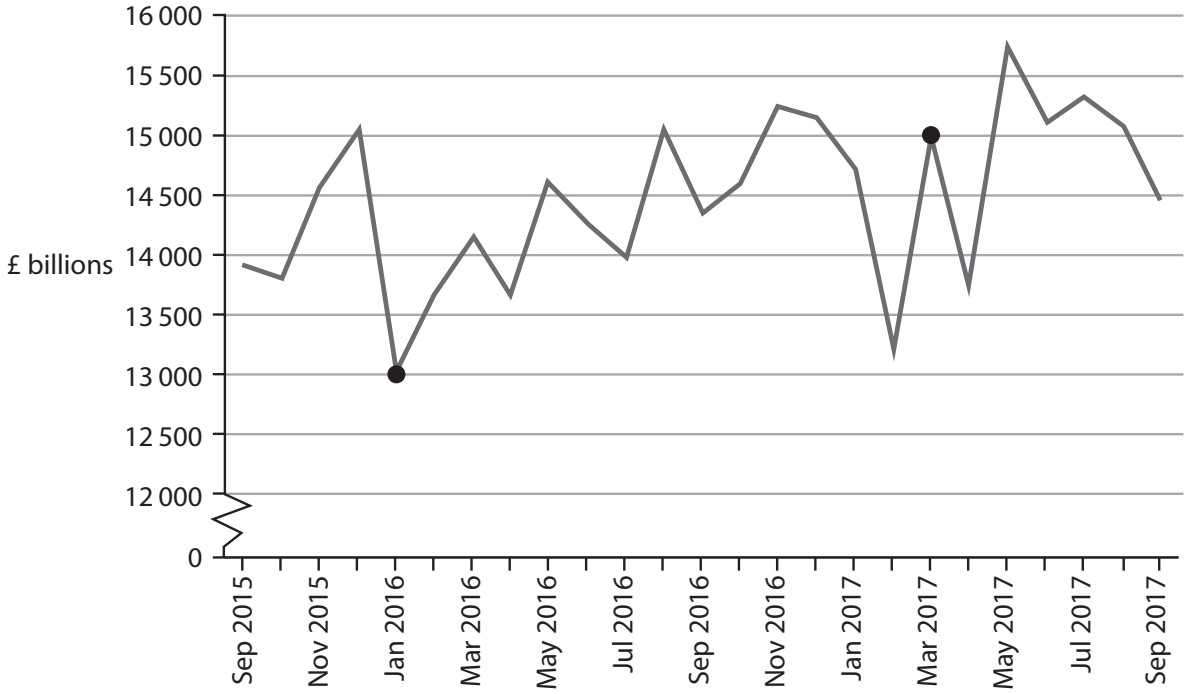
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(Source: https://www.ukfinance.org.uk/statistics/cards/)

(a) Which **one** of the following would be **most** likely to cause an increase in credit card lending?

(1)

- ☐ **A** A fall in interest rates
- ☐ **B** A fall in investment
- ☐ **C** An increase in the deficit on the current account of the balance of payments
- ☐ **D** An increase in savings

(b) Using the chart, calculate an index number for additions to credit card lending in March 2017, using January 2016 as the base. You are advised to show your working.

(2)

(c) Explain **one** possible link between an increase in credit card lending and the rate of inflation.

(2)

(Total for Question 1 = 5 marks)

SECTION B

Read Figure 1 and the following extracts (A to C) before answering Question 6.

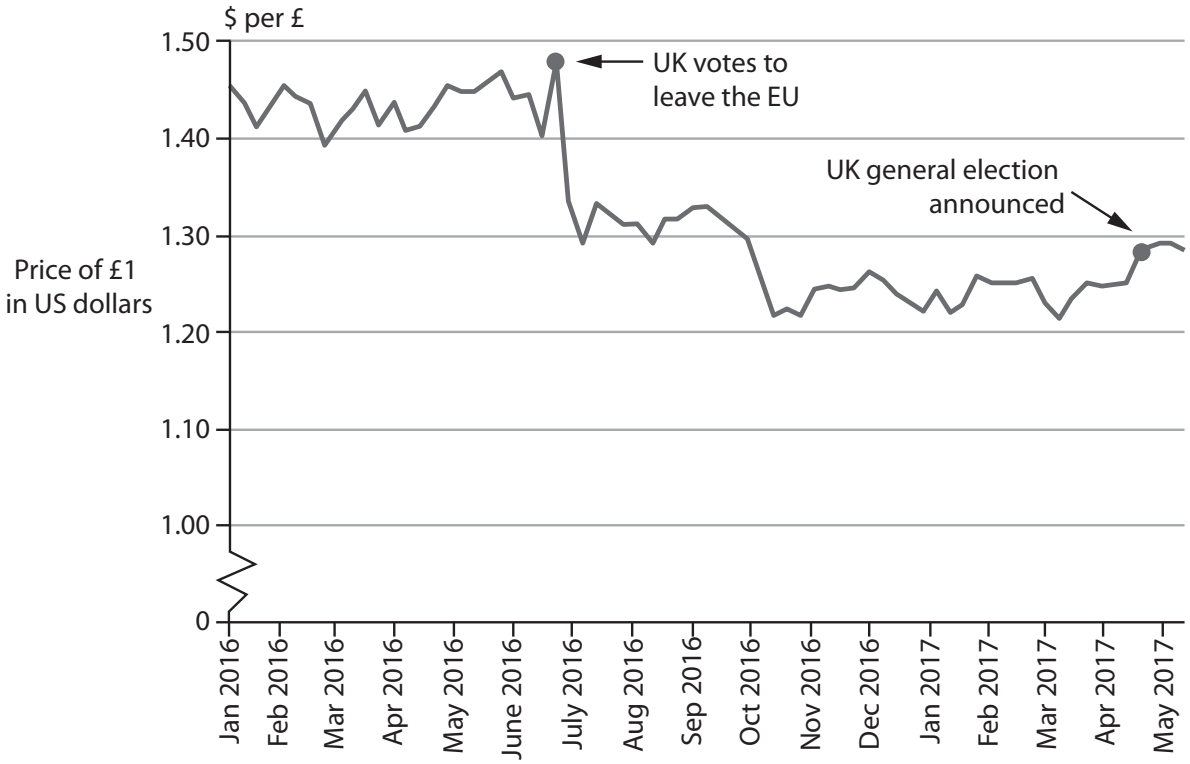
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The UK economy since the financial crisis

Figure 1: Pound sterling to US$ exchange rate, 2016-17



(Source: adapted from https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract A

UK companies use forward currency market

The Norfolk-based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency fluctuations. The pound's post-Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

(Source: adapted from 'UK companies use pound strength to hedge forex risk' by Roger Blitz, Markets, © FT.com, 16 May 2017. https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract B

Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find £116 billion of funding to ensure that taxpayers will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed £65 billion of taxpayer bailouts during the 2008 Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in 2017 and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

"Just like when other businesses fail, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently," said Cunliffe.

(Source: adapted from 'Bank of England tells lenders to find £116bn to help prevent bailouts', by Jill Treanor, 02 October 2017, Copyright The Guardian News and Media Ltd https://www.theguardian.com/business/2017/oct/02/bank-of-england-bailouts-rbs-lloyds and 'Lloyds bank bailout repaid in full, Philip Hammond claims', by Jill Treanor, Larry Elliott, 21 April 2017, Copyright Guardian News & Media Ltd 2017 https://www.theguardian.com/business/2017/apr/21/lloyds-bank-bailout-repaid-in-full-philip-hammond-claims)

Extract C

Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth £11.4 billion by the end of 2018 as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady level, even during an economic downturn. In 2017 the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to 0.5% and also forecast a further increase to 1% by the end of 2017.

The move is not intended to directly reduce consumer demand for credit, which in 2017 grew by 10.3% on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975.

(Source: adapted from 'Bank of England tells lenders to increase capital buffers by £11.4bn' by Caroline Binham, Gemma Tetlow and Martin Arnold © Financial Times 2017 https://www.ft.com/content/9bc99294-5b1b-11e7-9bc8-8055f264aa8b)

6 (a) With reference to Extract A, explain the role of forward markets in currencies.

(5)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10)

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12)

(e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.

(15)

(a) With reference to Extract A, explain the role of forward markets in currencies.

(5)

5 In May 2020, the UK government introduced a loan scheme to help small businesses survive the downturn in the economy. Small businesses could borrow up to £50 000 at an interest rate of 2.5% for up to 6 years from a bank. The government guaranteed 100% of the loans, to enable banks to issue them quickly, and only minimal checks were made on borrowers.

(Source: adapted from https://www.ft.com/content/1ca15db2-93e4-4e34-877d-110309cd9716)

(a) With reference to the information above, explain **one** role of financial markets.

(4)

(b) Which **one** of the following would be a risk if 'only minimal checks were made on borrowers' in this loan scheme?

(1)

- ☒ **A** Asymmetric information
- ☒ **B** Crowding out
- ☒ **C** Market rigging
- ☒ **D** Speculation

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION B

Read Figures 3 and 4 and the extracts (C to E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

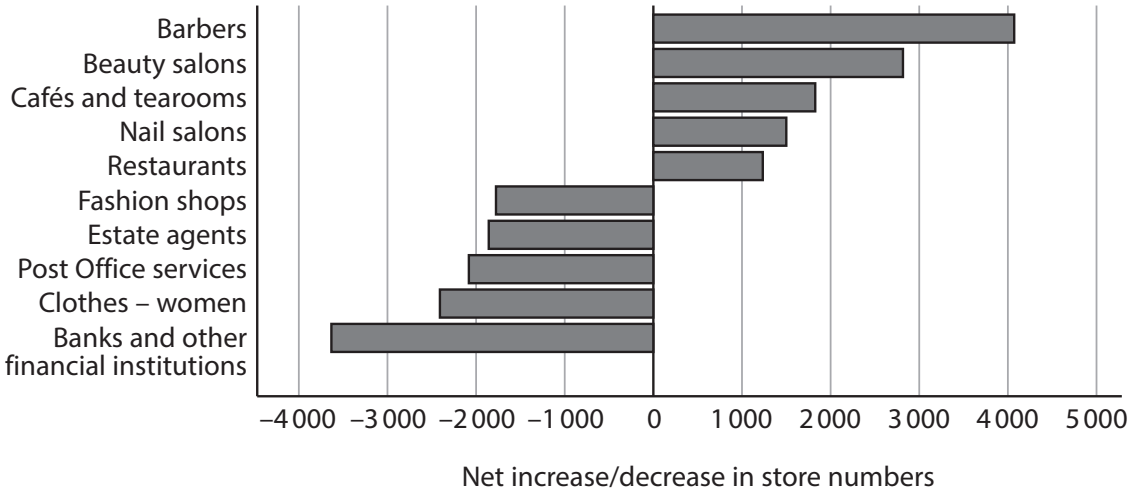
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

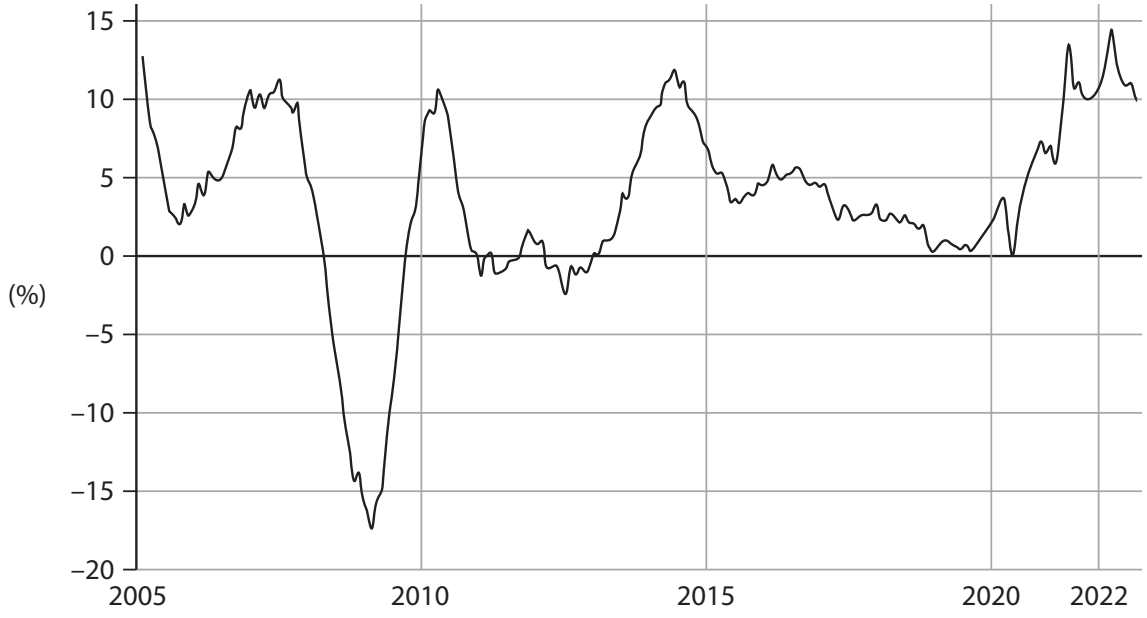
Changes in the nature of UK towns and cities

Figure 3: Growing and declining high street firms – net change in store numbers, 2013–2022



(Source: adapted from https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html)

Figure 4: House price changes in the UK (%), 2005 to 2022



(Source: adapted from https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts)

Extract C

What next for the high street?

A high street is typically found in all UK towns and cities. Shops normally encountered in a typical UK high street can include successful small firms such as independent food retailers, cafés, nail and beauty salons, restaurants and charity shops. They differ from out-of-town shopping centres by being more diverse, family-run and offering local or personalised services. Customers are often very loyal. However, the high street may often have limited access by car or expensive parking facilities.

The rise of online retailers such as Amazon and eBay have placed huge pressures on UK high streets, with many well-known shops – and even successful retail chains – forced to close due to lost business. Many high street firms cannot compete on price with online retailers who – because they frequently have very low fixed costs – can significantly undercut the high street shops on price.

Even before online shopping, competition was eroding high street activity, with out-of-town retail parks that were not necessarily cheaper but provide a larger range of shops and offer plentiful parking. They offer a shopping experience that other retailing cannot match – pleasant, safe pedestrian shopping, a clean environment, fun activities for children and spend-the-day-there potential.

While the list of retail and leisure failures might suggest that the high street does not have a future, some analysts argue the opposite. Many believe that the high street is ideally placed to reinvent itself in response to the structural shift in working and shopping patterns that has resulted from the global health crisis 2020–22. The perceived weaknesses of the high street model – its fragmented ownership, lack of centralised coordination and high vacancy rates – become strengths as they lower the barriers to entry for new concepts and operators. They also enable risk taking and innovation that will ultimately lead to a more flourishing and diverse environment on our local high streets.

It should be possible for small firms to flourish even when staff shortages are pushing up wages in the high street, and house price falls damage consumer confidence and spending on perceived luxuries.

(Source: adapted from https://www.designingbuildings.co.uk/ and https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html)

Extract D

UK house prices may fall up to 20%

Turmoil on the UK financial markets has prompted analysts to predict that house prices could fall dramatically, and many lenders in the mortgage sector are withdrawing deals. People coming to the end of their fixed-rate mortgages are seeing rises from 2% to over 5.5%, with increases in the cost of borrowing of over £5 200 a year by 2024 for the average mortgage in the UK. Many people think UK house prices will never fall, but analysts say the fall could be between 10% and 20%.

One mortgage lender said that a lack of housing supply will not keep house prices up when mortgage interest rates are somewhere between 5% and 7%. He claimed that 'the decade-long property bubble is about to burst […] It's a buyer's market now'. The greatest impact will be seen in the southeast of England.

(Source: adapted from https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts)

Extract E

UK job vacancies hit record 1.1 million as labour shortages increase

The ratio of jobless people to vacancies is 1.45 to 1, lower than at any point in the last 40 years. Social care for example has 300 000 current unfilled posts.

'Today's figures show that labour shortages are now affecting the whole economy,' said one analyst. 'There are almost a million people fewer in the labour market, largely due to younger people staying in education and older people dropping out of the workforce.' The inactivity rate is 21.1%, and many people are not returning to work after the global health crisis. 'People seeking work do not have the skills or availability that employers need,' said Kitty Ussher, chief economist at the Institute of Directors. Firms offering higher wages does not solve the issue.

(Source: adapted from https://www.ft.com/content/463f4fbd-3a50-45b5-891c-5cb5ba623df8)

(a) Using the data provided in Extract D, explain **one** role of financial markets.

(5)

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

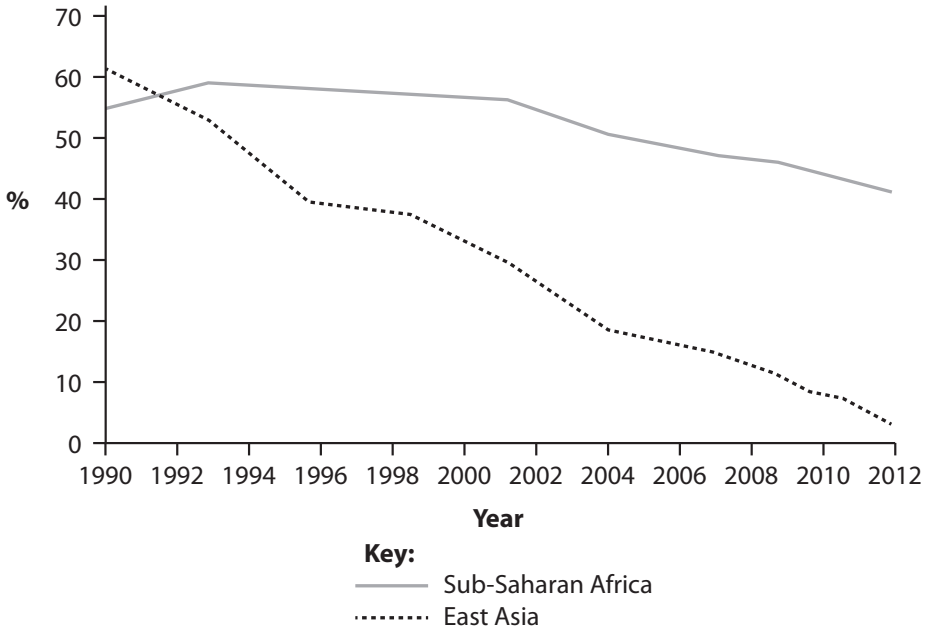
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US$1.90-a-day 2011 PPP)



(Source: https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

Extract A

Lessons from globalisation

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

(Source: adapted from https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism)

Extract B

Tackling inequality

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.

These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution.

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.

(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

(e) Discuss the role of the financial sector in the growth and development of developing countries.

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SUB-TOPIC 4.4.2

MARKET FAILURE IN THE FINANCIAL SECTOR

Sub-topic 4.4.2 · 3 questions · 31 marks · lowest tariff first

5 In May 2020, the UK government introduced a loan scheme to help small businesses survive the downturn in the economy. Small businesses could borrow up to £50 000 at an interest rate of 2.5% for up to 6 years from a bank. The government guaranteed 100% of the loans, to enable banks to issue them quickly, and only minimal checks were made on borrowers.

(Source: adapted from https://www.ft.com/content/1ca15db2-93e4-4e34-877d-110309cd9716)

(b) Which **one** of the following would be a risk if 'only minimal checks were made on borrowers' in this loan scheme?

(1)

- ☒ **A** Asymmetric information
- ☒ **B** Crowding out
- ☒ **C** Market rigging
- ☒ **D** Speculation

(Total for Question 5(b) = 1 mark)

3 A group of banks, including Barclays and JP Morgan, have been fined more than €1 billion by the EU's competition authorities for rigging the foreign exchange market after the Global Financial Crisis of 2008. The EU found that traders at the banks had used online chat rooms to share information about customers' orders, prices and other trading activities in order to manipulate the currency markets.

(Source: adapted from https://www.ft.com/content/73163fa0-77c5-11e9-bbad-7c18c0ea0201)

(a) With reference to the information above, explain what is meant by 'market rigging'.

(4)

(b) Which **one** of the following is a role of financial markets?

To:

(1)

- ☒ **A** discourage saving
- ☒ **B** promote moral hazard
- ☒ **C** provide forward markets
- ☒ **D** restrict free trade

(Total for Question 3 = 5 marks)

SECTION B

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Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

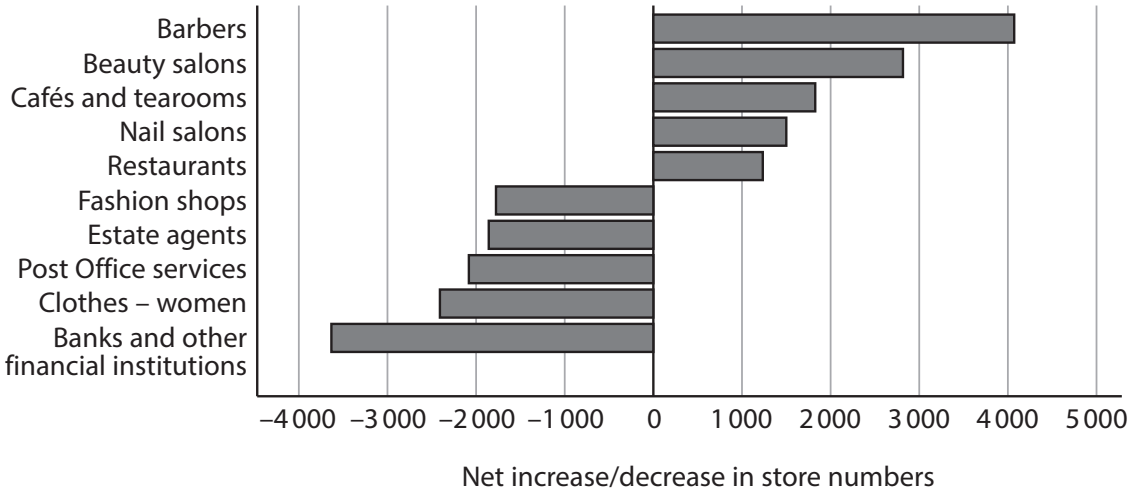
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Question 2

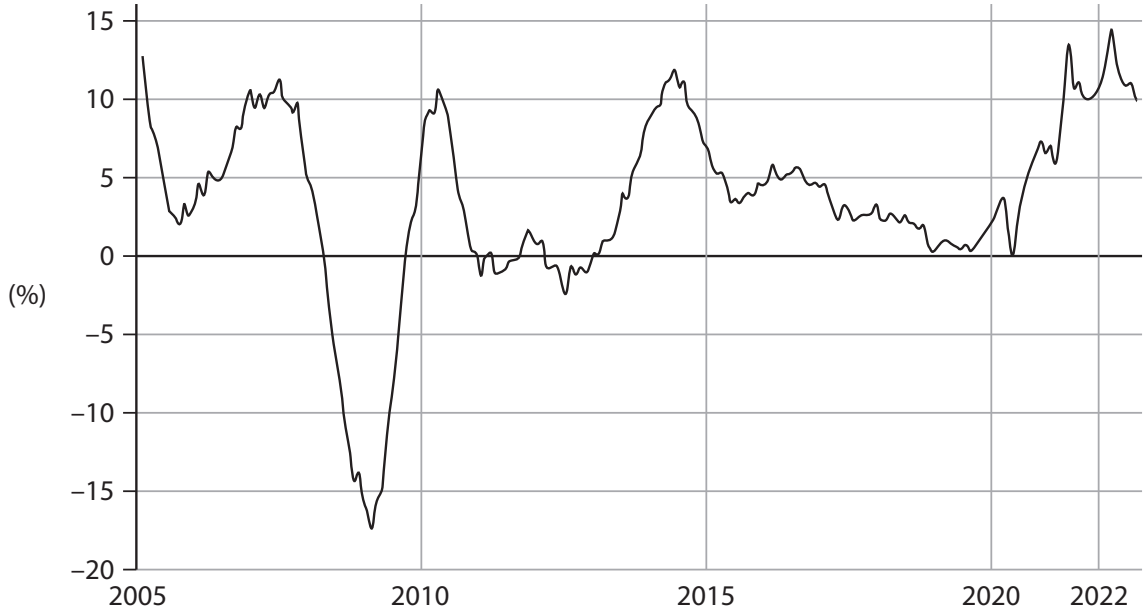
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Extract D

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Extract E

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'Today's figures show that labour shortages are now affecting the whole economy,' said one analyst. 'There are almost a million people fewer in the labour market, largely due to younger people staying in education and older people dropping out of the workforce.' The inactivity rate is 21.1%, and many people are not returning to work after the global health crisis. 'People seeking work do not have the skills or availability that employers need,' said Kitty Ussher, chief economist at the Institute of Directors. Firms offering higher wages does not solve the issue.

(Source: adapted from https://www.ft.com/content/463f4fbd-3a50-45b5-891c-5cb5ba623df8)

Q) 2 (d) Evaluate the microeconomic and macroeconomic effects of falling house prices.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.4.3

ROLE OF CENTRAL BANKS

Sub-topic 4.4.3 · 1 question · 15 marks · lowest tariff first

SECTION B

Read Figure 1 and the following extracts (A to C) before answering Question 6.

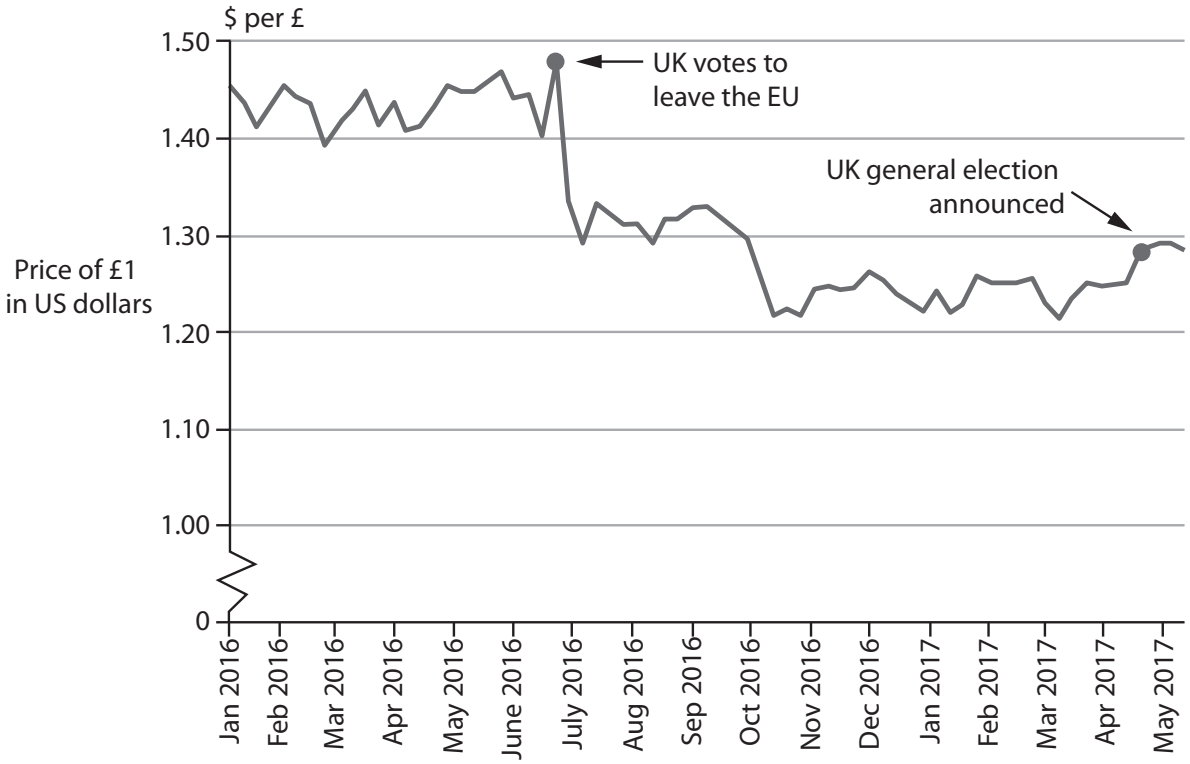
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The UK economy since the financial crisis

Figure 1: Pound sterling to US$ exchange rate, 2016-17



(Source: adapted from https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract A

UK companies use forward currency market

The Norfolk-based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency fluctuations. The pound's post-Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

(Source: adapted from 'UK companies use pound strength to hedge forex risk' by Roger Blitz, Markets, © FT.com, 16 May 2017. https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract B

Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find £116 billion of funding to ensure that taxpayers will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed £65 billion of taxpayer bailouts during the 2008 Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in 2017 and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

"Just like when other businesses fail, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently," said Cunliffe.

(Source: adapted from 'Bank of England tells lenders to find £116bn to help prevent bailouts', by Jill Treanor, 02 October 2017, Copyright The Guardian News and Media Ltd https://www.theguardian.com/business/2017/oct/02/bank-of-england-bailouts-rbs-lloyds and 'Lloyds bank bailout repaid in full, Philip Hammond claims', by Jill Treanor, Larry Elliott, 21 April 2017, Copyright Guardian News & Media Ltd 2017 https://www.theguardian.com/business/2017/apr/21/lloyds-bank-bailout-repaid-in-full-philip-hammond-claims)

Extract C

Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth £11.4 billion by the end of 2018 as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady level, even during an economic downturn. In 2017 the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to 0.5% and also forecast a further increase to 1% by the end of 2017.

The move is not intended to directly reduce consumer demand for credit, which in 2017 grew by 10.3% on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975.

(Source: adapted from 'Bank of England tells lenders to increase capital buffers by £11.4bn' by Caroline Binham, Gemma Tetlow and Martin Arnold © Financial Times 2017 https://www.ft.com/content/9bc99294-5b1b-11e7-9bc8-8055f264aa8b)

6 (a) With reference to Extract A, explain the role of forward markets in currencies.

(5)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10)

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12)

(e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.

(15)

(e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SUB-TOPIC 4.5.2

TAXATION

Sub-topic 4.5.2 · 3 questions · 22 marks · lowest tariff first

SECTION B

Read Figures 1, 2, 3 and 4 and the following extracts (A and B) before answering Question 6.

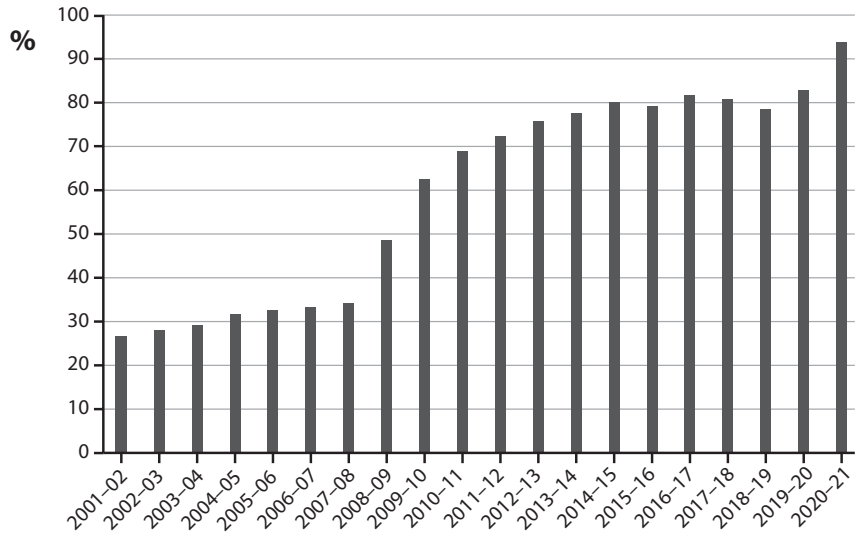
Write your answers in the spaces provided.

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Question 6

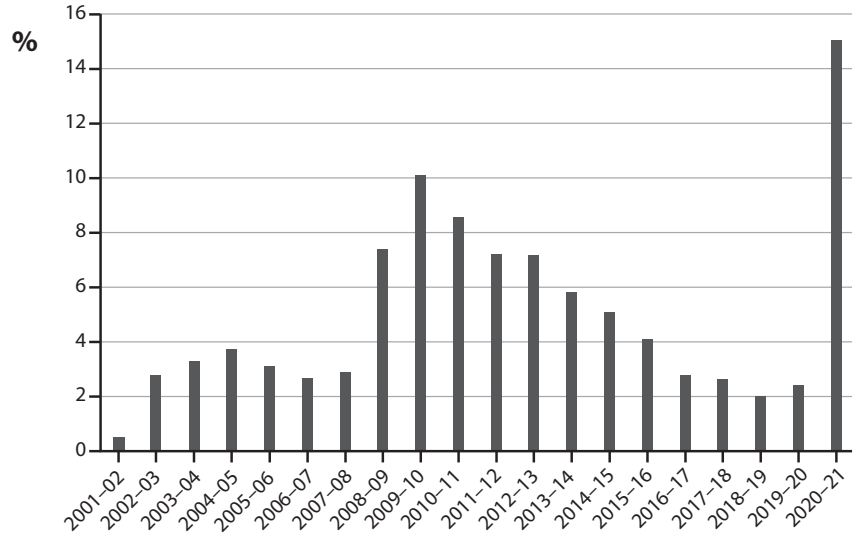
The UK Economy

Figure 1: UK national debt, percentage of GDP, 2001–2021



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

Figure 2: UK fiscal deficit, percentage of GDP, 2001–2021



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

Figure 3: Interest rate on a 10-year UK government bond, July 2022 to March 2023



(Source: https://www.ft.com/content/ece962c3-b7e5-48c6-a0b1-06f9823a4853#post-ad2ac225-0543-49e7-9ed5-af9907e83697)

Figure 4: Income tax rates for 2023–24, compared to 2022–23

	2022–23		2023–24	
Tax band	**Income threshold**	**Tax rate**	**Income threshold**	**Tax rate**
Personal allowance	Up to £12 570	**0%**	Up to £12 570	**0%**
Basic rate	£12 571–£50 270	**20%**	£12 571–£50 270	**20%**
Higher rate	£50 271–£150 000	**40%**	£50 271–£125 140	**40%**
Additional rate	Over £150 000	**45%**	**Over £125 140**	**45%**

(Source: Gov.uk)

Extract A

Freeze in income tax thresholds from 2023 onwards

The freeze on the personal allowance, and the basic and higher-rate income tax bands in England, Wales and Northern Ireland will be extended to April 2028. While this freeze may not look like a tax rise on the face of it, having thresholds that fail to rise in line with salaries, people will still end up paying more tax on their income – particularly if they end up in a higher tax band as a result.

The biggest change announced in the Autumn Statement 2022 was the reduction of the additional-rate income tax threshold, dropping from £150 000 to £125 140 from 6 April 2023. It is estimated around 250 000 taxpayers will be pushed into the additional rate tax band, paying 45% tax on any income above the new limit.

The Chancellor said lowering the additional rate threshold means that a person earning £150 000 will pay an extra £1 200 income tax per year.

(Source adapted from: https://www.which.co.uk/news/article/6-tax-changes-to-watch-out-for-in-2023)

Extract B

UK Monetary Policy Decisions

At a special meeting on 19th March 2020, the monetary policy committee of the Bank of England announced further measures to help support the UK economy during the global health crisis. It voted to reduce the base rate of interest to 0.1% and restart the quantitative easing programme by buying £200 billion of UK government bonds and corporate bonds. This followed a number of announcements by the UK government to try and limit the damage of the deep recession the country was facing and reduce the chances of deflation occurring in the UK. Government borrowing grew massively during 2020 and 2021 to fund support for businesses and workers.

However, since then the monetary policy committee has rapidly increased the base rate of interest – which reached 4% in February 2023. The UK government's long-term borrowing costs are higher today than they were before former prime minister Liz Truss's £45 billion proposed tax cuts caused the interest rate on 30-year government bonds to briefly rise above 5%, which almost caused a financial crisis.

The Bank's use of quantitative easing (QE) has also come in for criticism, with former governor of the Bank of England Mervyn King saying that the decision to keep pumping money into the economy during the global health crisis was a mistake that fuelled inflation. He said: 'central banks decided it was a good time to print a lot of money. That was a mistake [as] we had too much money chasing too few goods'.

Experts have argued this pushed inflation higher in the UK by stimulating aggregate demand. However, critics say QE does not cause inflation as most of the extra money is contained in the financial system and does not affect consumption and investment.

Higher interest rates on the national debt may limit the ability of the UK government to increase spending on supply-side policies needed to boost economic growth, such as a £20 billion plan to transform carbon capture in the UK, which would create jobs and support a move to cleaner electricity generation and technology.

(Source: adapted from: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/monetary-policy-summary-for-the-special-monetary-policy-committee-meeting-on-19-march-2020 and https://www.ft.com)

6 (a) With reference to Figure 4 and your own knowledge, explain the distinction between a progressive and a regressive tax.

(5)

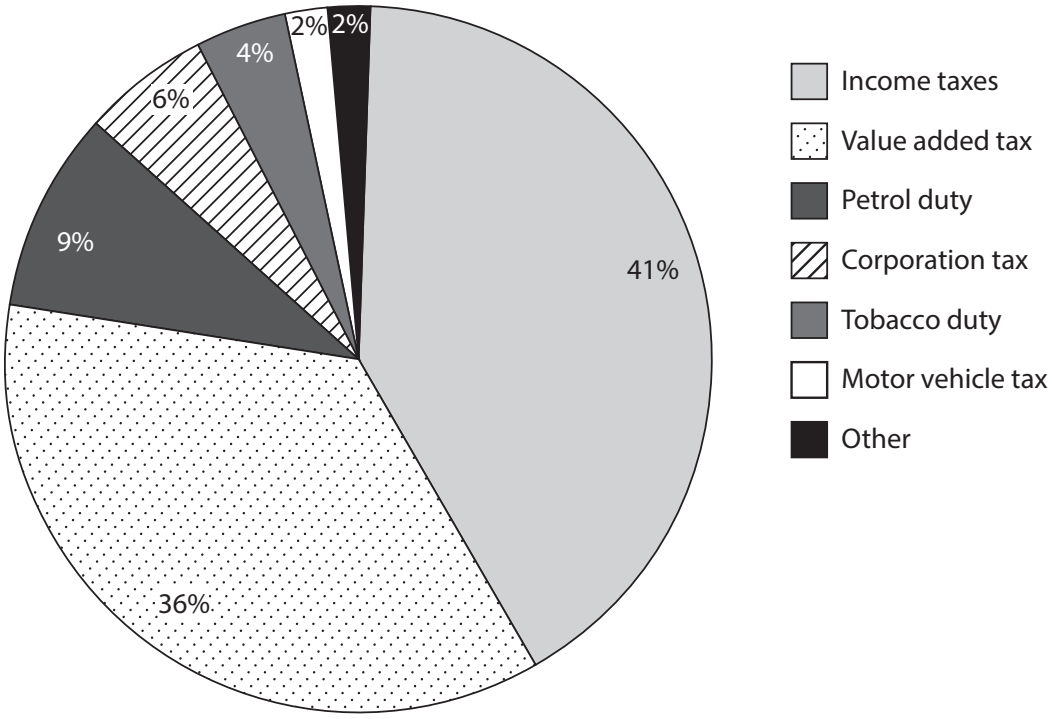
Sources for use with SECTION B

Read the following figures (1–2) and extracts (A and B) before answering Question 6.

Question 6

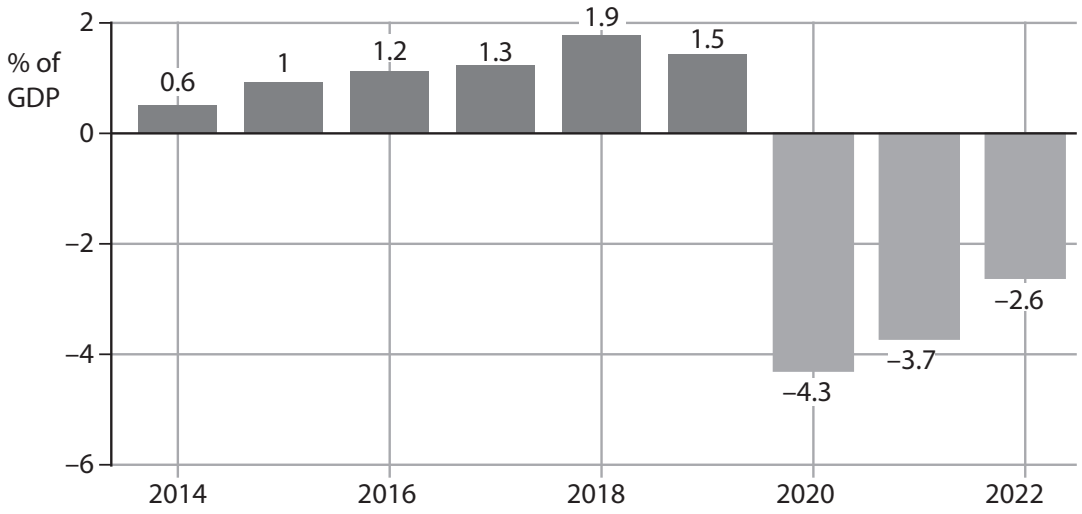
The German economy

Figure 1: German government tax revenue, % of total revenue, 2022



(Source adapted from: https://www.bundesfinanzministerium.de)

Figure 2: German government budget, % of GDP, 2014–2022



(Source adapted from: https://tradingeconomics.com/germany/government-budget)

Extract A

The opportunities and challenges facing the German economy

The German economy entered a recession in 2023, and business confidence in the country fell at the fastest pace since 2021. German growth was the lowest among major economies in 2023. The future, however, is a greater concern owing to external factors such as global conflicts and restrictions on free trade.

The German government has been trying to improve its economic performance, with an aim to have renewables account for 80% of its energy supply. However, this would be a major shift for Germany where fossil fuels such as coal and gas still provide 75% of the energy needs and exposes it to volatile global energy prices. The rapid building of liquid natural gas terminals has helped to secure energy supplies in the short term.

The German government needs to remove a number of problems that have long held back its economy. Infrastructure projects in renewable energy production, such as wind farms, have been delayed by lengthy planning procedures. Business leaders complain of excessive bureaucracy and lack of technological advances. Labour shortages are another issue. Germany is expected to be short of up to 7 million workers by 2035, partly due to an ageing population. There is a lack of skilled workers in the building trade, electrical engineering and professional services, which are important for the country's economic ambitions. The German government needs to introduce effective policies such as planning reforms to speed up construction projects or reforms to increase the flexibility of the labour market.

The German economy has long been one of the biggest exporters in the world. It has trade surpluses with all its major trading partners except China and in 2021 its current account surplus was 7.7% of GDP. However, this has caused tensions with the governments of other countries, in particular the USA, which sees Germany's surplus as partly a cause of the USA's huge current account deficit. Having said that, a weakening euro caused by higher interest rates in the USA compared to the Eurozone is beginning to have an effect in reducing Germany's current account surplus – which dropped to 4.2% in 2022.

(Source adapted from: https://www.ft.com/, https://www.cnb.cz/en/monetary-policy/inflation-reports/boxes-and-annexes-contained-in-inflation-reports/The-German-economy-and-the-dollar-euro-exchange-rate, and https://tradingeconomics.com/germany/current-account-to-gdp)

Extract B

US technology firm Intel invests in German semiconductor factories

Intel is to double its investment in semiconductor factories in eastern Germany to €30 billion. This is the largest foreign direct investment in Germany's history. Intel acquired the land for the factories in November 2022 and the first factory is expected to start production within four to five years. The site is expected to create 7 000 construction jobs during the building phase, about 3 000 permanent high-tech jobs and tens of thousands of additional jobs across the semiconductor industry.

(Source adapted from: https://www.ft.com)

6 (a) With reference to Figure 1, explain the distinction between direct and indirect taxation.

(5)

SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

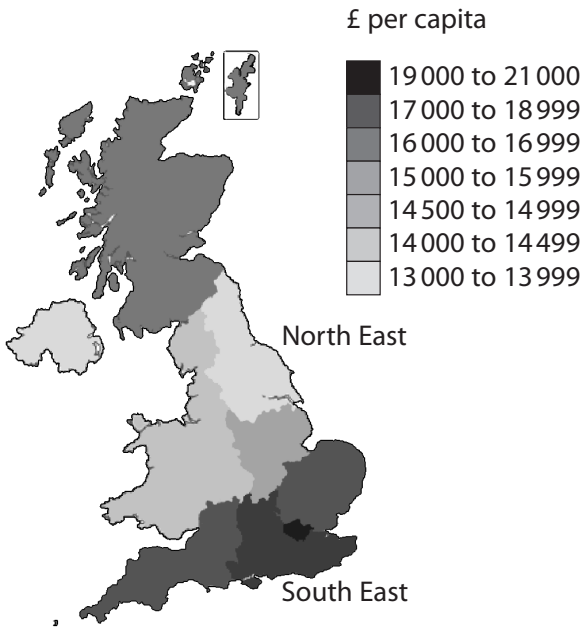
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

UK Government spending and inequality

Figure 1: UK regional gross disposable household income per capita, 2018



(Source: adapted from University of Sheffield/Office for National Statistics: https://www.sheffield.ac.uk/news/nr/uk-higher-regional-inequality-large-wealthy-country-1.862262)

Figure 2: UK subjective happiness by income, April 2021

Answer to the question: 'On a scale of 1–10, how happy did you feel after yesterday?' (0 = not at all, 10 = completely)

Less than £10 000	£10 000–£20 000	£20 000–£40 000	More than £40 000
7.31	7.02	7.13	7.29

(Source: adapted from https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/datasets/incomegroupsplitestimatesonpersonalandeconomicwellbeingacrosstime)

Extract A

Regional inequality in the UK

Geographically, the UK is highly unequal in incomes. According to research from the University of Sheffield, the estimate of the Gini coefficient is 0.34. There are a number of different reasons for this. First, labour in poor places tend to develop too few skills, with a lack of education holding people back. In Rotherham in the north of England, for example, 21% of disadvantaged 18-year-olds from state schools and colleges go on to higher education compared to 41% in London. Secondly, there is a lack of infrastructure spending in northern cities compared to London. In 2017–18, 28% of public expenditure on transport – and 46% of capital expenditure on railways – was spent in London. The argument for this is that London gets a lot of public money because a lot of people take public transport. This has angered many people in the North.

These problems cannot be solved quickly. They compound each other. Just as people are rarely poor for one reason, regions do not fall behind only because they have poor transport, poor schools or poor policy making, but for all those reasons and more. Ideally, the UK would develop a bold plan for regional development that could be followed by future governments, as Germany did for its eastern part. Tera Allas of McKinsey, a consultancy firm, argues that improving education is crucial, even if the returns are not immediately obvious. It is easier to improve schools than to persuade businesses to move to a poorer part of the country.

(Source: adapted from https://www.economist.com/britain/2020/07/30/why-britain-is-more-geographically-unequal-than-any-other-rich-country)

Extract B

Public sector spending on infrastructure

Economic differences across the UK are large and have grown. The government is looking at reducing this inequality partly through spending on transport infrastructure. Public sector capital spending is due to rise from just over 2% of GDP to 3%. That amounts to around £20 billion of additional spending per year on new capital projects. The government is looking to take advantage of current low interest rates to finance the expansion without worsening its fiscal position.

The government is determined to focus this spending on the north of England, Wales and the Midlands. Planned schemes include a new Trafford Park tram line in Manchester and reopening train lines and stations closed back in the 1960s, including stations in Haxby in Yorkshire and Blyth in Northumberland. Progress has already been made in Wales with the reopening of Bow Street station near Aberystwyth. This project has taken 11 years to become a reality and cost £8m. It is estimated that it will generate a boost to the economy of £24m through boosting local trade, creating new jobs in the local area, and easing pressure on congested roads heading into Aberystwyth.

(Source: adapted from https://www.economist.com/britain/2020/01/09/the-coming-splurge-on-northern-infrastructure and https://www.wales247.co.uk/transport-for-wales-delivers-new-bow-street-station)

Extract C

Options for UK tax rises in the future

There are a number of options for raising additional tax revenue in the future. These include:

- increasing council tax on houses: this annual charge paid to local government is currently based on estimated house prices in 1991 and so is very out of date. This would negatively affect areas where house prices have risen the most since 1991
- a one-off wealth tax: a 5% tax on property and pension wealth of more than £500 000 would raise £260 billion to help pay for the global health crisis in five years, according to proposals from the Wealth Commission
- increasing corporation tax: at the 2021 Budget the Chancellor announced that the top rate of UK corporation tax would be increased to 25% by 2023. This will remain the lowest rate in the G7 group of the world's largest advanced countries, but will raise £17.2 billion in 2025–26.

(Source: adapted from https://www.telegraph.co.uk/tax/income-tax/five-tax-rises-rishi-sunak-considering-chances-happening-budget/, and https://home.kpmg/uk/en/home/insights/2021/03/tmd-corporation-tax-rate-to-increase-to-25-percent.html)

(d) With reference to Extract C and your own knowledge, discuss methods the UK government could use to increase tax revenue.

(12)

SUB-TOPIC 4.5.3

PUBLIC SECTOR FINANCES

Sub-topic 4.5.3 · 1 question · 25 marks · lowest tariff first

SECTION B

Read Figures 4 to 6 and the following extracts (C and D) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) or 2(e).

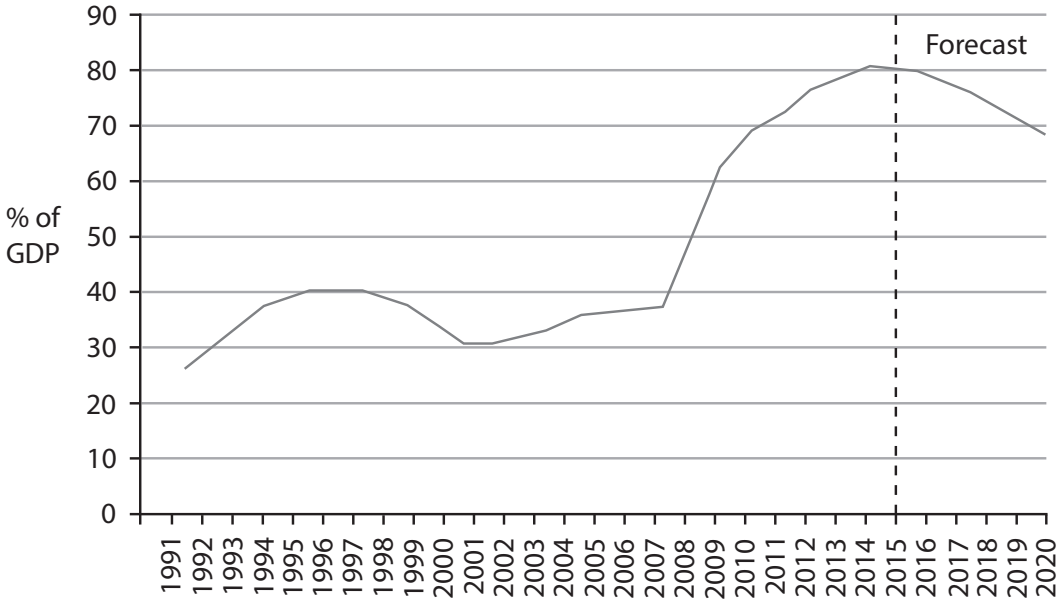
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

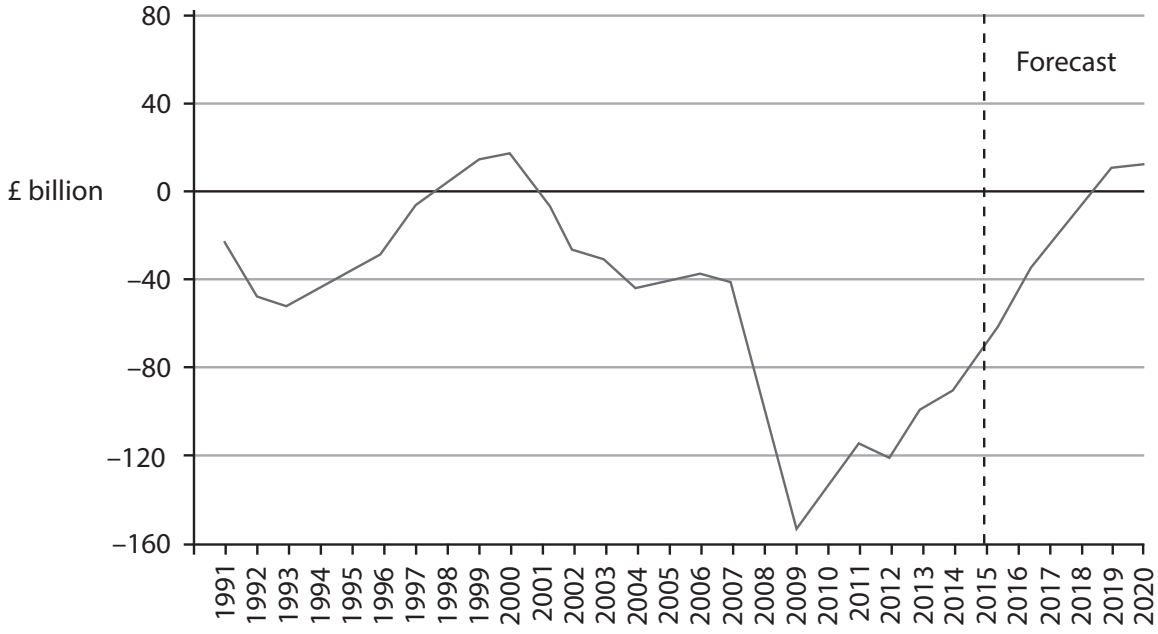
The UK economy

Figure 4: UK national debt as a percentage of GDP



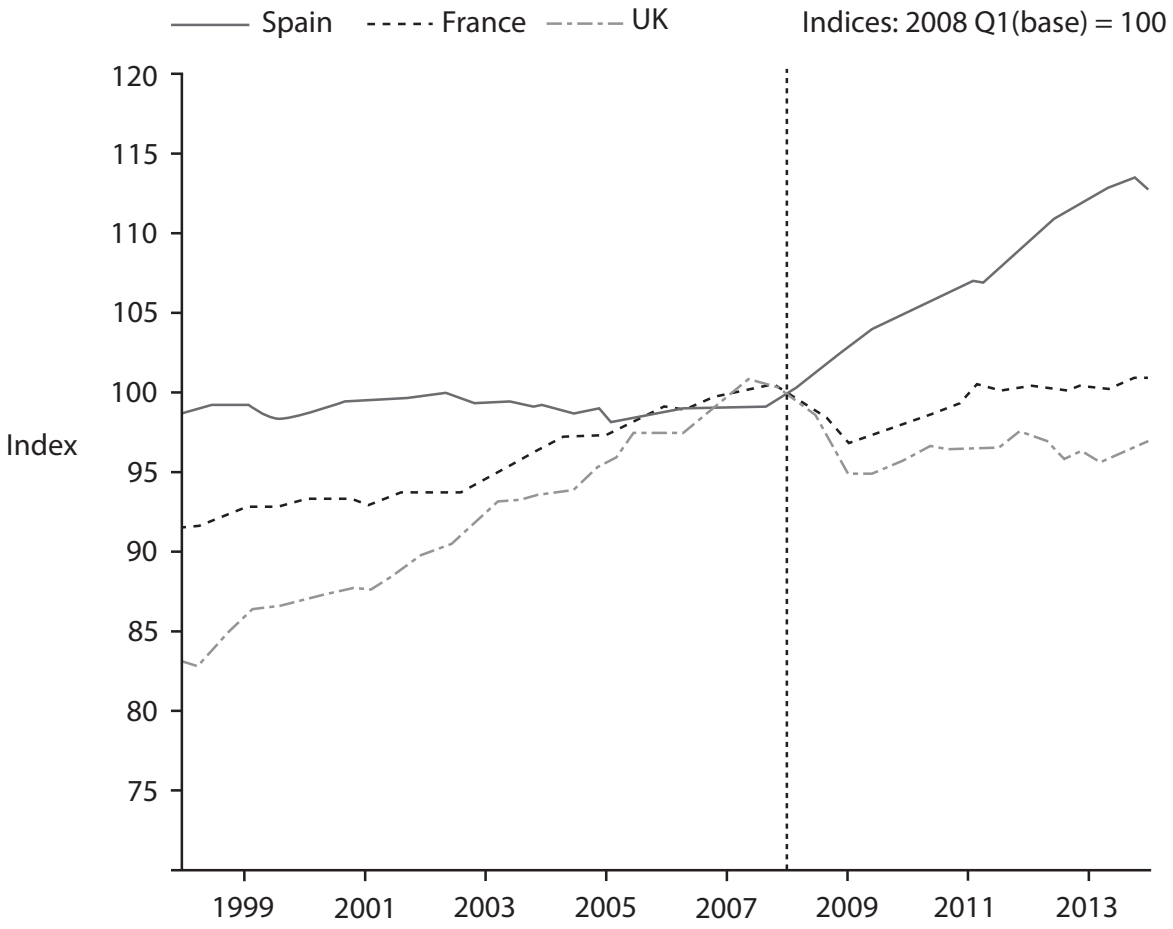
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 5: UK fiscal deficit, public sector net borrowing (PSNB)



(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 6: Labour productivity per head, selected countries



(Source: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf)

Extract C

The National Living Wage (NLW)

The Government has announced that from 2016 it will introduce a Living Wage Premium that will apply on top of the National Minimum Wage (NMW) for employees aged 25 and over to deliver a National Living Wage (NLW) for those people. The main NMW will continue to be set for all employees aged 21 and over, so that those aged 21 to 24 will continue to be subject only to that rate.

The effective minimum wage for the 25+ age group will therefore be over 13% higher in 2020 than would otherwise have been the case, and result in a 0.3% increase in wage costs overall. Further impacts on real GDP are estimated to be higher productivity (+0.3%) but lower average hours worked (-0.2%) and higher unemployment. Overall real GDP is forecast to fall by 0.1% as a result of the NLW. However these forecasts depend on estimates of the likely elasticity of demand for labour.

Academic evidence suggests that changes to the NMW since 1999 have led to only limited effects on demand for labour in the UK. The types of work that will be affected are relatively labour intensive, which may limit the scope for firms to substitute towards using capital. Firms may also be expected to shift demand in favour of the under-25s given that they will not be subject to the NLW, which all else being equal would lead to a smaller reduction in overall labour demand. Some of the reduction in employees could also be partially offset by a rise in self-employment. But increasing the NLW to a higher proportion of median earnings may lead to bigger effects than have been experienced in the past.

(Sources: adapted from http://cdn.budgetresponsibility.independent.gov.uk/July-2015-EFO-234224.pdf and http://budgetresponsibility.independent.gov.uk/)

Extract D

The productivity puzzle in the UK

Since the onset of the 2007–2008 financial crisis, labour productivity growth in the UK has been exceptionally weak. Despite some modest improvements in 2013, whole-economy output per hour remains around 16% below the level implied by its pre-crisis trend. Even taking into account possible measurement issues and changes in the size of the service sector, this shortfall is large and is often referred to as the 'productivity puzzle'.

Measures of productivity can be used to inform estimates of an economy's ability to grow without generating excessive inflationary pressure, which makes understanding recent movements important for the conduct of monetary policy. During the initial phases of the recession, companies appear to have acted flexibly by holding on to labour and lowering levels of capacity utilisation in response to weak demand conditions. But the protracted weakness in productivity and the strength in employment growth over the past two years suggest that other factors are likely to be having a more persistent impact on the level of productivity. These factors are reduced investment in both physical and intangible capital, such as innovation and training, and failings in the labour market such as immobility of labour and under-employment of skilled workers. Some economists explain this by using the concept of an output gap.

(Source: adapted from http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf)

Q) 2 (e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of a government policy of cutting public expenditure rather than raising taxes as a means of reducing a fiscal deficit.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 4.5.4

MACROECONOMIC POLICIES IN A GLOBAL CONTEXT

Sub-topic 4.5.4 · 1 question · 25 marks · lowest tariff first

8 It has been estimated that if climate change led to the world's temperature rising 2.5 °C compared to the temperature in 2010, then global GDP per capita would be 15% lower by 2100. If temperatures rise by 4 °C compared to the temperature in 2010, then by 2100 global GDP per capita would decline by more than 30%.
(Source adapted from: https://www.nature.com/articles/s41586-018-0071-9)

Q) Evaluate the potential trade-offs between environmental protection and other macroeconomic objectives.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

MARK SCHEMES

official mark schemes

Question Number	Indicative Content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 4** Possible policies might include e.g.: • Fiscal policy: increase people's disposable incomes, increase employment and so reduce downsides of low wages and unemployment due to foreign competition. A more redistributive tax/welfare system to reduce inequality/poverty caused by globalisation. • Expansionary monetary policy: cut in interest rates, rise in availability of credit, allows businesses to borrow for investment to help combat increased foreign competition. • Supply side policies, e.g. improved education, healthcare, infrastructure, etc.: Improvements in these will boost productivity and this boost GDP as well as meaning firms would be more likely to be able to pay higher wages. Higher productivity would enable firms to better compete with foreign competition in the form of lower prices. Candidates may discuss in the context of developed or developing countries **NB To access Level 3 there must be reference to two valid macroeconomic policies, apart from protectionism**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
6(c) continued	**Evaluation 4** • Impact of expansionary fiscal policy on budget deficit • If business confidence is low, expansionary monetary policy may not lead to increased borrowing for investment • Supply side policies may not be effective in the short run or have public sector cost implications • Effectiveness of policies, e.g. lack of consumer confidence	**(4)**

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

Question Number	Indicative content	Mark
1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **Microeconomic influences may include:** • Level of demand or expected demand, prospect for profit • Cost of labour, minimum wage, spare capacity in the labour market • Rent/land prices • Contestability of market/barriers to entry e.g. how long and it takes and ease of setting up business • Legal system and other legislative issues • Property rights • Extent of regulation • Existing PED • Brand loyalty • Sunk costs **Macroeconomic influences may include:** • Levels of competitiveness e.g. price and non-price, which might relate to competitiveness ranking, e.g. infrastructure, human capital, institutions • Macroeconomic environment, e.g. inflation • Membership of EU or other trade bloc issues • Value of currency • Level of corporation tax. • Transfer pricing possibility, as outlined in Extract A, as impact on profitability (not costs) • Level/rate of national income/economic growth and spare capacity/unemployment • Growth of household incomes in different countries, e.g. Chinese coffee shops are the most profitable, growing quickly in number • Strength and stability of local economy • Political and social stability **NB competitiveness, corporation tax, incomes, unemployment and contestability can be seen as a micro or macro approach.** • Possible evaluation points include: • Factors might balance each other out • Changes in tax rates, e.g. government cutting corporation tax significantly • Starbucks is starting to report UK profits – perhaps it has had too much negative publicity from the low profit tax paid, Extract A reduction by a third in sales at Starbucks. Also it is moving headquarters from Netherlands to UK • Different influences affect different firms	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

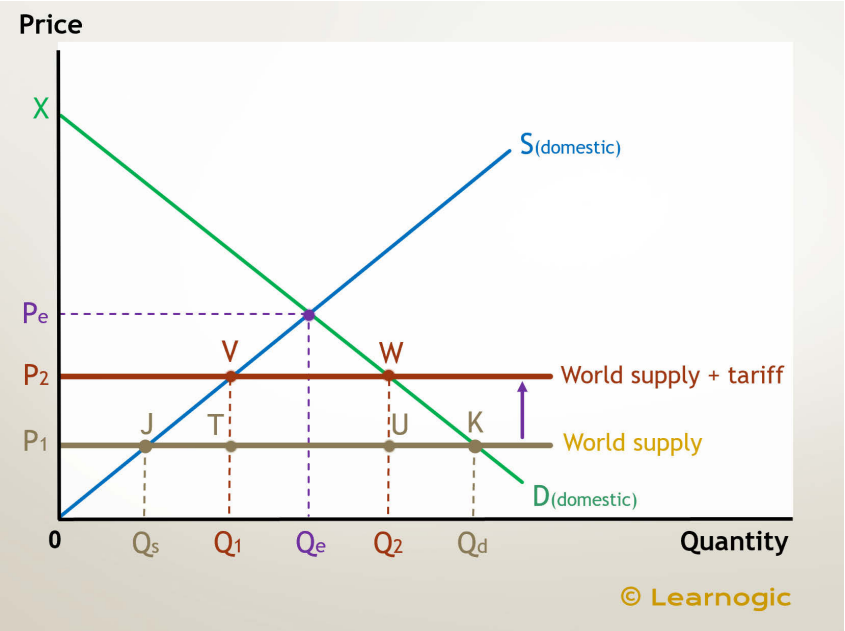
Question Number	Indicative content	Mark
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Likely impact includes: • Increased global trade • Increased global output with reference to comparative advantage • Increased incomes in developing countries due to growth of export industries/investment from MNCs • Increased global competition between firms leading to lower prices for consumers globally • Increased supply globally leading to less global inflationary pressures • Growth of multinational corporations • Increased migration reducing unemployment globally as people move to where jobs are available/where their skills are in need • Diagrammatic analysis e.g., using PPF Evaluation might include e.g.: • Growth of protectionism may restrict global trade and/or limit comparative advantage • Problems with over-reliance on imports encouraging more firms/countries to look at domestic production • Increased production in countries with lower labour costs may help to reduce global inequality • Greater global integration of supply chains increases chances of delays in transport/delivery around the world • Increased inequality as some industries close down due to competition from abroad • Structural unemployment in some countries if industries more abroad • Increased exploitation by MNCs of workers in countries with weak regulations • Increased pollution from increase in transport of goods around the world **NB for KAA Level 4 candidates must refer to the global economy**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** • Reduced cost of transport: technical efficiencies through containerisation; increase in fuel efficiency; better transport infrastructure • Trade liberalisation: reduction in trade barriers linked to the work of WTO; application of law of comparative advantage and link to specialisation • Increased number and size of trading blocs: may apply to trade creation • Reduced costs of communication: e.g. internet, mobile technology and technological advances have made it easy to communicate; introduction of new electronic payment systems • Political change: opening up of previously closed economies to the world market, e.g. breakdown of the Soviet system and opening up of China • Increased significance of TNCs / use of FDI: have entered new markets and invested significantly in expanding abroad to increase profits through offshoring and outsourcing to benefit from lower labour costs • Increased interconnectedness of global supply chains as firms produce different parts of their finished products in different countries Evaluative comments may include e.g.: • Deglobalisation as a more recent trend, for example recent increases in US tariffs on Chinese cars • Significance/magnitude of factors discussed • Combination of factors will be more significant • Different factors important for different countries • Reduced cost of transport: countries that have poor infrastructure/landlocked will not benefit • Reduced cost of communications: many people in developing countries excluded from benefits from internet or mobile technology due to being poor • Countries leaving trading blocs e.g. UK and the EU • Political change: trade wars between countries e.g. China and USA have reduced global trade • Increased significance of TNCs: delays/uncertainty in global shipping are encouraging some firms to reshore production or simplify their supply chains • Increased automation reduces importance of labour costs in firms decision regarding where to locate its production facilities • Trade diversion • Limited scope for further tariff removal	**(25)**

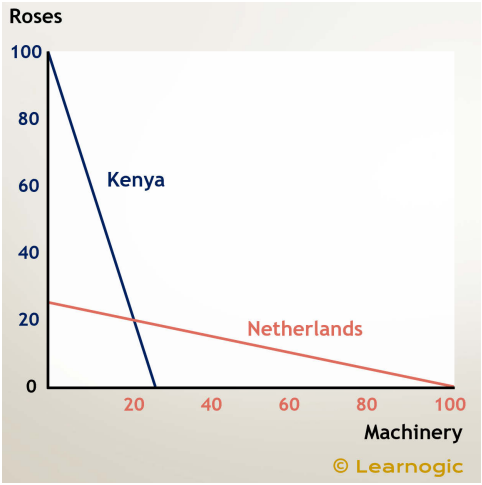
Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

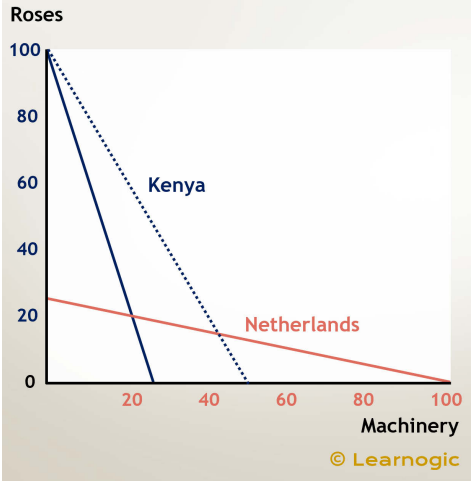
Question Number	Answer	Mark
5(a)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/Analysis up to 3 marks for e.g.:** • Increase in the price of steel (1) • Reduced imports of steel from the UK (1) • Protects domestic steel industries (1) • Reduced current account deficit of the US (1) • Higher domestic supply of steel/ growth of market (1) • Lower domestic demand for steel (1) But higher domestic demand for US steel (1) • Higher domestic employment (1) • Higher USA growth (1) • Retaliation by the UK if linked to impact on the US • US steel firms gain extra producer surplus from the tariff as they can now sell at a higher price (1) • US consumers lose out due to the higher prices/ lower consumer surplus (1) • Deadweight loss in the market (1) • Government gain additional tariff revenue (1) • Higher revenues/ profits for US steel producers (1) **Application (1):** • 25% tariff on steel imports (1) • steel imports from the UK (1) • can be shown on a diagram e.g. an increase in price, increase in domestic production, increase in government revenue (1) **NB:** Marks can be awarded for these points illustrated on a diagram, e.g.:  	**(4)**

Question Number	Answer	Mark
5(b)	**The only correct answer is C** ***A*** *is not correct because higher corporation tax would increase costs and therefore reduce comparative advantage* ***B*** *is not correct because higher economic growth would likely increase inflation, therefore reducing comparative advantage* ***D*** *is not correct because higher wages would increase costs and therefore reduce comparative advantage*	**(1)**

Question Number	Answer	Mark
1(a)	**The only correct answer is D** ***A*** *is not correct because this is likely to increase* ***B*** *is not correct because this is likely to increase* ***C*** *is not correct because this is likely to increase*	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding:** 2 marks for e.g. • Countries specialise in the goods in which they have a comparative advantage (1) lower opportunity cost (1) • Through trade each country can now consume more in total as they focus on what they can produce more efficiently (1) • Identification of concept with numerical or diagrammatic example (1) • Movement to freer trade thanks to CETA agreement (1) **Application:** 1 mark for e.g. • Related to Europe/Canada, e.g. Canadian timber exports, EU car exports, or other relevant examples (1) • Use of numerical or diagrammatic example (1) • Reference to data, e.g. increase trade by 20% (1) **Analysis:** Linked development 1 mark for e.g. • Countries are now producing/consuming more so this means an increase in GDP (1) • Explanation of numerical or diagrammatic example (1)	**(4)**

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • more flowers with a lower average cost than another country **Application** • heating costs make Dutch flowers more expensive to produce despite lower transport costs to the UK • high altitude with cool nights • proximity to equator and sunlight hours • cheaper labour • end to seasonal production • 365-day a year absolute advantage • application marks may be awarded on the diagram/table • Creates additional employment (100,000 directly and two million indirectly) **Analysis** Example of analysis:  Diagram showing outward shift in Kenya's PPF e.g.	**(8)**



Numerical analysis e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	25
Netherlands	25	100

Output, after specialisation:	Flowers	Machinery
Kenya	200	0
Netherlands	0	200

Leads to growth: this might be shown by an outward shift of the PPF, or use of output table, e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	100
Netherlands	100	100

NB for a Level 3 response there must be at least one valid diagram or numerical example clearly linked to costs absolute or comparative advantage (i.e. relative costs/opportunity costs)

Other analysis:

- countries can focus all of their production in one product and swap/trade it for a greater quantity of the other good.
- Kenya may benefit from economies of scale as they produce more
- enables larger exports and GDP
- example of before and after output and then gains from trade e.g. pre-trade 125F and 125M, after trade (full specialisation) 200F and 200M, so gains from trade = 75F and 75M

	• terms of trade lie between opportunity cost ratios • calculation of a suitable terms of trade e.g. F=2M, meaning Kenya can swap 200F for 400M **NB allow reference to comparative advantage also countries could have both absolute and comparative advantage. Allow diagrams/tables showing both concepts.**	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2(c) continued	**Evaluation 4** • limitations of the model e.g. immobility of factors/trade barriers, transport costs, more products/trade conflicts or dependence between countries in the world/can average costs be easily compared/are there constant returns to scale? • if energy costs change then the absolute advantage might be eroded • monopsony buyers e.g. supermarkets make a huge advantage and erode any benefits for Kenya • global health crisis has reduced international flights so costs have risen/no spare capacity on flights • other factors that could have a more significant impact on growth e.g. interest rates • only 1% of GDP so may not be that significant • short run/long run considerations e.g. in changing from one type of production to another	**(4)**

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

1(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic advantages may include: ● Firms experience increased efficiency/ economies of scale ● Lower costs for firms and higher profits (might be shown using cost/revenue diagram) ● Greater revenue for firms from greater exports ● Greater revenue for firms due to specialism adding value/demand more inelastic ● Less dependence on energy imports ● Efficient allocation of resources: refer to PPF ● Consumers get energy at lower prices: impact on consumer surplus ● External benefit ● Impact on demand for labour & wages in the sector Macroeconomic advantages may include: ● Export-led economic growth (link to AD) and multiplier effects ● Benefits of comparative (Ricardo) or absolute advantage (Smith) ● Greater output and living standards ● More employment opportunities ● Greater tax revenue to the government ● Reduced inequality within the country ● Energy security and supply stability ● Impact on current account ● Attracting Foreign Direct Investment boosts capital inflows ● Lower costs increase short-run aggregate supply ● Impact on inflation **NB for a Level 4 response there must be use of both micro and macroeconomics and use of given data with reference to gas. Changes in growth, trade for example, can be used as either micro or macroeconomics.**	

	9 marks for evaluation – points might include: ● Magnitude of use of gas by the country ● Short run vs long-run considerations / finite resource ● Depends on the availability of substitutes ● Profits depend on both revenues and costs, ● Comparative advantage arguments ignore the transport costs and the diseconomies of scale/ diminishing returns to scale arguments ● Impact on economic growth depends on where the AD lies on Keynesian LRAS / level of spare capacity in the economy/size of multiplier ● Over-reliance on imports for other goods could make a country vulnerable to supply disruptions or price fluctuations; can result in trade deficits ● Job displacement in industries where a country does not have a comparative advantage ● Specialisation in resource-intensive industries may lead to environmental degradation ● Gas prices subject to price volatility ● Declining terms of trade	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
3(b)(ii)	**Knowledge 1, Analysis 1** Identification of **one** likely disadvantage for 1 mark with linked development for 1 mark, e.g. • Reduction in tax revenue (1) as fewer people are likely to be working so less income tax (1) • Reduction in tax revenue (1) as consumers spend less (1) • Increase in expenditure on welfare payments (1) due to an increase in unemployment (1) • Worsened fiscal position (1) as firms are making less profits so less corporation tax (1)	**(2)**

Question Number	Answer	Mark
4(a)	**Knowledge 2** Explanation/formula of terms of trade, e.g. Terms of trade compares the average price of a country's exports to the average price of its imports (2) Index of average export prices x 100 Index of average import prices Or $P_{exports}/P_{imports}$ (x 100) (2) Or How much (volume) imports (1) an economy can buy for a unit of export (1) 1 mark for partially correct explanation e.g. comparing price of a country's imports & exports (1) measures international competitiveness (1)	**(2)**

Question Number	Answer	Mark
4 (b)	**The only correct answer is C** ***A*** *is not correct because this is subtracting one number from another* ***B*** *is not correct because this is if you divide 12 by the value for 2020 instead of the value for 2012* ***D*** *is not correct because this is the value for 2020*	**(1)**

Question Number	Answer	Mark
4(c)	**Knowledge 1, Analysis 1** **Knowledge:** • Identification of a worsening of China's current account (1) **Analysis:** Linked development 1 mark for e.g. • As export prices are rising faster than import prices (1) • As export prices are falling slower than import prices (1) • As the terms of trade have improved (1) • Demand for (or revenue from) exports would be likely to fall (1) • Demand for (or spending on) imports would be likely to rise (1)	**(2)**

Question Number		Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** • Terms of trade definition or formula e.g. index of export prices / index of import prices x 100 (1) • Import prices have risen (1) (e.g. because exchange rate fell) relative to export prices (1) • Import prices stay constant (1) relative to main export prices falling (1) • Fewer imports can be bought for the same amount of exports (2) **Application** 2 marks for e.g. • It is likely to have worsened (1) • Coal is the main export (1), 11% of revenues (1) • Export prices/commodity prices have fallen Figures 4 & 5 e.g. coal prices have fallen Fig 4 (1+1) • Export price of coal has fallen from US$125 to US$50 per tonne (1+1) • The exchange rate (rupiah) has fallen (1) 30% (1) **NB award application if the answer says that the terms of trade falls, goes down, or that it is a negative change**	**(5)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Analysis:** Up to 3 marks for, e.g. • Countries agree to reduce trade restrictions between members; countries aiming to promote/increase trade between each other (1) • Trade liberalisation between countries (1) • Will lead to reducing tariffs between member countries (1) • Reduced subsidies (1) • Reduced quotas (1) • Will lead to reduced non-tariff barriers (1) • Will lead to trade creation e.g. diagram (1) **Application (2):** Up to 2 marks for reference to Extract A and/or own knowledge, for e.g. • African Continental Free Trade Area (AfCFTA) (1) • Agreed by 41 of Africa's 55 countries (1) • Could boost intra-Africa trade by 15% to 25% (1) • A diagram e.g. showing a fall in tariffs (1)	**(5)**

Question Number	Indicative Content	Mark
6 (d)	**Knowledge 2, Application 2, Analysis 2,** Possible policies might include e.g.: • Supply-side policies to improve productivity such as improved education or healthcare will make workforce more efficient and thus reduce per unit costs to better compete with cheaper imports (allow more than one supply-side policy) • Deregulation policies (e.g. labour laws) to reduce production costs for firms and therefore they will be able to compete on price with other African countries better • Investment in infrastructure to reduce transport costs for exporters • Subsidies provided by the government to help firms adjust to new competition, e.g. could be used to purchase new, more efficient machinery • Demand-side policies such as reduction in taxes on businesses to reduce their costs and increase competitiveness on price	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
6 (d) continued	**Evaluation 4** • Education investment will take a long time until those students enter the workforce • Opportunity cost for the government of investment • Potential side effects of wage-related policies	**(4)**

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

Question Number	Indicative content	Mark
6 (e)	**Knowledge 3, Application 3, Analysis 3** • Trade creation as a result of joining the trading bloc • Increased specialisation & trade for countries & their firms, following theory of comparative advantage so total output of the economy can increase. Could potentially be explained diagrammatically or with a numerical example • Higher incomes for workers in the countries thanks to increased demand for the country's exports pushing up wages • Increase in jobs as domestic firms now have much larger market to sell their products to, improving standard of living for citizens of the countries **NB For a Level 3 response candidates must refer specifically to benefits for sub-Saharan African countries**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6 (e) continued	**Evaluation 6** • Trade diversion resulting in loss of efficiency as trade switches to less efficient producers within the trading bloc • More integration means financial crises will spread more quickly across the trading bloc • Loss of output due to cheaper competition from lower wage cost countries	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8 Evaluation 9** Effects might include: • Trade creation: domestic production is replaced with more efficient imports from a member of the trading bloc • More trade within the trade bloc • Increased exports due to the larger market firms can now enjoy • Increased imports due to removal of protectionist barriers that previously existed between member countries • Increased specialisation/economies of scale as can now sell to a larger market • Use of comparative advantage to support argument Diagrammatic analysis may be used to aid explanation e.g. tariff diagram Evaluation points might include: • Trade diversion: Due to protectionist measures imposed on non-member countries, countries may purchase imports from less efficient countries within a trading bloc instead of more efficient ones outside of the bloc • Products may still be cheaper from outside the trading bloc due to economies of scale/lower production costs • Possibility for countries to benefit from bilateral trade deals without needing to join a trading bloc • Other factors affect ability to import/export such as quality of infrastructure at airports/ports • Possible conflict with WTO rules • Only within Africa so effect may be limited **NB For a level 4 answer candidates must use examples of real trading blocs** **NB For a level 4 answer candidates must make explicit reference to trading patterns**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: • Increase in firms' revenue/reduction in firms' costs, increasing profits (may be shown by cost/revenue diagram) • Firms are more able to benefit from economies of scale • Consumers have access to greater choice and variety of goods at lower prices, increasing consumer surplus • More employment opportunities for workers- increasing supply of labour • Greater availability of labour - link to wages/costs • Greater technology and skills transfer • Impact on the environment – externalities • Greater competition between firms from different countries/increasing efficiency • Change in regulations for businesses Macroeconomic effects may include: • Greater economic growth with multiplier effects (may be shown by an AD/AS diagram) • Reduction in unemployment • More tax revenue to the government • Trade creation and reference to comparative advantage, specialisation and trade due to lower trade barriers • Trade diversion/effect on global inequality • Changing patterns of trade • Reduced relative poverty and inequality • Impact on current account • Greater weight in trade negotiations with other countries/trade blocs • Increased FDI from MNCs **NB for a Level 4 answer there must be reference to Ghana joining the AfCFTA.** **NB Some effects e.g. inequality, environment, employment, could be counted as macro or micro** **NB positive effects can be taken as KAA and negative effects as evaluation (and vice versa)**	

	9 marks for evaluation – points might include: • Depends on the size of the AfCFTA • Domestic firms can lose out to large powerful MNCs • Consumers may not have access to high quality goods • Trade diversion and reference to the distortion of comparative advantage • Impact on economic growth depends on where AD lies on the Keynesian LRAS/level of spare capacity/size of the multiplier • The largest country may have the greatest say in any trade negotiations, limiting Ghana's decision making • Depends on ability to address infrastructure difficulties between countries • Intra-African trade is still relatively small - Ghana mainly exports its cocoa beans outside of Africa • Depends on the type of trading bloc e.g. common external tariff • Risk of retaliation	**(25)**

Knowledge, application and analysis

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.

Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 – 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

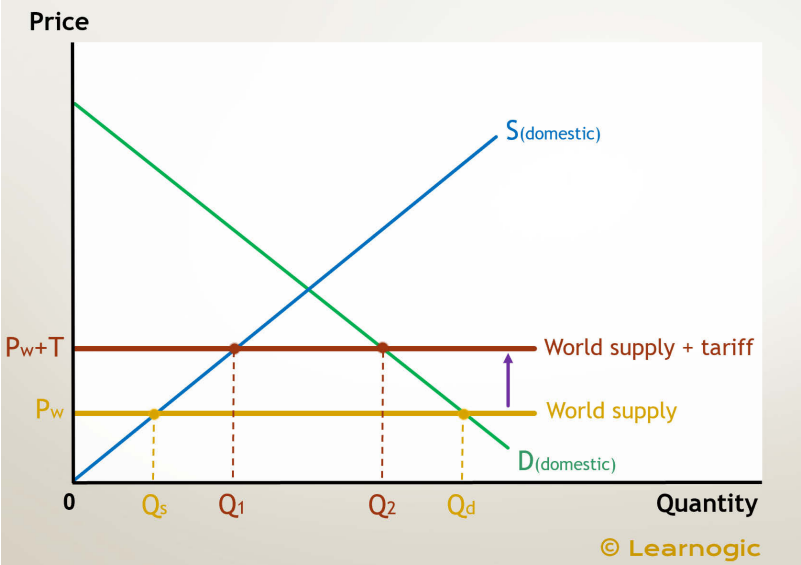
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
1(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effect(s) of a regional trade agreement Microeconomic effect(s) may include: • Higher revenues/retained profits for firms • Lower costs for business/economies of scale • Use of cost/revenue diagram to show impact on profit • Lower prices for consumers without tariffs • Higher disposable incomes for workers • More choice for consumers within EU / lower choice as less available from outside EU • Greater competition between firms • Labour market impact: supply of labour increases in certain occupations (incentive to work arguments) • Relocation of TNC arguments/regeneration of a specific area • Impact on welfare loss Macroeconomic effect(s) may include: • Lost government tax revenue from tariffs • Increase in foreign direct investment • Impact on employment/unemployment • Impact on economic growth with multiplier effects • Impact on exports/net trade/current account of the balance of payments/trade creation • Use of AD/AS diagram to show impact on economy • Impact on comparative advantage and specialisation • Impact on the environment **NB for a Level 4 response there must be at least one micro and macro effect(s) and use of data with reference to a regional trade agreement (RTA) between the UK and EU. Employment / government tax revenues / tariffs could be seen as micro or macro effects.** **NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa** 9 marks for evaluation – points might include: • RTA has smaller impact that being in a customs union • Excessive administrative costs • Problems of not having free movement of workers	**(25)**

	• Impact depends on how many goods meet the 'rules of origin' criteria • Short-run v long-run consideration: time consuming and complex: effects not seen immediately but over time • Impact depends on the position of AD on LRAS • Tariff costs as a proportion of overall costs for the firm • Depends on the type of trading bloc e.g existence of common external tariff. • Trade diversion	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative Content	Mark
6(d)	**Knowledge 2, Application 2, Analysis 4** Likely impacts might include e.g.: • Increase in price of imported textiles • Lower standard of living • Loss of consumer surplus- e.g. higher prices of clothing for consumers • Increased producer surplus • Rwandan firms (e.g. factory in Kigali from extract A) able to sell at higher prices, therefore increased profits • tariff revenue can be used to subsidise clothing retailers/ provide consumers with healthcare and education • Risk of retaliation from other countries such as USA **NB To access Level 3 there must be an accurate diagram, for example:**  	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
6(d) continued	**Evaluation 4** • Depends on elasticity of demand for imports • Significance of increase in tariff • Increase in employment in domestic textile industry would benefit consumers • Domestic producers may still be unable to compete with significantly cheaper used clothing imports	**(4)**

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

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8 Evaluation 9** **NB Candidates may refer to countries imposing protectionist policies themselves or facing protectionist policies from other countries** Effects might include: • Falling output and living standards (analysis based on the law of comparative advantage and empirical evidence of countries following protectionist policies) • Prices increase for consumers and welfare (analysis based on tariff diagram) • Levels of unemployment • Economies of scale for firms • Analysis based on AD/AS – e.g. on inflation • Retaliation by other countries	

	Evaluation points • Depends on the type of protectionism. Quotas might be compared/contrasted with tariffs, for example • Depends on whether the country is in a trade bloc or is exporting to trade blocs. Award other consideration of changes in the patterns of trade • Short run/long run effects, e.g. dumping might have short term benefits and long term costs • Extent of the country's dependency on world trade • Extent of increase in protectionism for the particular country • After the recession the protectionism might start to fall again, or comparison with the 1930s protectionism after the Great Depression • Fear of WTO might mean that protectionism is more insidious. Answers might consider relative success of WTO because rulings are more closely adhered to even if there are more incidences of protectionism, numerically • Justification for protectionism, e.g. inability to change exchange rates, retaliation • Questioning the figure (from Global Trade Alert) – it includes forms other than traditional protectionism, e.g. subsidies to domestic researchers **NB For a Level 4 response, candidates must refer to developing economy in their answer.**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Likely impact includes: • Higher prices for consumers, especially on goods/services that can't be produced domestically, e.g. bananas in the UK, increasing inflation globally • Higher prices for consumers due to domestic firms facing less competition from abroad • Less choice for consumers as imports become too expensive • Fewer firms may decide to export due to increased cost/bureaucracy to abide by, reducing global competition and therefore lower global GDP, higher global inflation • Reduction in comparative advantage globally leading to less productivity and less output • Deadweight welfare loss Evaluation might include e.g.: • Depends on levels of tariffs that countries introduce • May only be short-term trade wars and countries such as US and China could agree new terms • WTO can enforce global trade rules to ensure countries don't distort international trade • Comparative advantage can encourage over-dependence for a country (perhaps primary product dependency) • Protection of domestic industries helps to protect domestic employment and income, helping to reduce global inequality • Protection of infant industries to allow them time to grow and expand in order to benefit from economies of scale to compete internationally • Protection of an economy from a foreign country dumping products on the country- loss of jobs, output, etc. **NB for KAA Level 4 candidates must refer to the global economy**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
3(a)	**Application 2** **Application:** 1 mark for correct appropriate calculation e.g. % change = change/original X 100 = 600/200 X 100 (1) Answer = **300%** or **300** Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
3(b)	**Knowledge 2** **Knowledge/understanding:** 1 mark for partially correct explanation e.g. • Referring to exports – imports • Exports of goods and services minus imports of goods and services 2 marks for correct explanation e.g. • Measures total value of exports – total value of imports • Inflows minus outflows in money terms • Reference to four parts of the current account ○ Trade in goods ○ Trade in services ○ Primary income ○ Secondary income	**(2)**

Question Number	Answer	Mark
3(c)	**The only correct answer is C** ***A*** *is not correct because the deficit increased* ***B*** *is not correct because there hasn't been a surplus* ***D*** *is not correct because there hasn't been a surplus*	**(1)**

Question Number	Answer	Mark
2(a)	**The only correct answer is B** ***A*** *is not correct because the current account is in deficit during the entire period shown* ***C*** *is not correct because the data isn't about the fiscal deficit* ***D*** *is not correct because the value of imports was greater than the value of exports in 2012*	**(1)**

Question Number	Answer	Mark
2(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding (2) e.g.** • Depreciation of the pound (1) leading to cheaper exports/more expensive imports (1) • Lower relative inflation rate in the UK compared to other countries (1) increasing competitiveness of UK's exports (1) • Increase in productivity in the UK (1) increasing competitiveness of UK's exports (1) • Global economic conditions (1) e.g. changing trade patterns (1) • Increased specialisation in services (1) reduces opportunity cost (1) **Application (1) e.g.** A correct reference to the figure e.g. • Largest deficit on the current account was in 2016 (1) • Smallest deficit on the current account was in 2021 (1) • Reduction in current account deficit (1) • Current account deficit fell by 4 percentage points from 2016 to 2021 (1) • Current account deficit in 2016 was approx. -5.5% of GDP (1) • Current account deficit in 2021 was approx. -1.5% of GDP (1) **Analysis (1) e.g.** Linked development 1 mark for e.g. • Increasing demand for exports (1) • Reducing demand for imports (1) • Value of exports rising (1) • Value of imports falling (1)	**(4)**

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Policies that could be used to reduce a current account deficit include: • Reducing external value of the currency e.g. through government intervention in currency markets or expansionary monetary policy by *reducing* interest rates or selling own currency such as the real • *Increase* in interest rates to reduce consumer spending on imports (could be evaluation of above) • Supply-side policies to improve the international competitiveness of the economy, market based and interventionist policies supply side policies e.g. on education and training, infrastructure, healthcare, tax breaks for R&D etc. • Increase income tax rates to reduce disposable incomes and hence marginal propensity to import • Protectionism: expenditure switching or reducing, the use of tariffs, quotas, subsidies to domestic producers and other non-tariff barriers • Measures to decrease inflation rate below that of competitors e.g. increasing interest rates • Diversification/industrialisation/deindustrialisation to produce exports with more value-added • Joining trade bloc Evaluation of these policies could include: • Limitations of the individual policies discussed e.g. in some countries such as the UK it would be unlikely that the Bank of England would manipulate the exchange rate or interest rate to reduce the deficit on current account • Magnitude of government spending/tax cuts/trade barriers/reduction in exchange rate • Time lags associated with individual policies • Conflicts with other macroeconomic objectives • Effectiveness of policies depends on the price elasticity of demand of a country's imports and exports, which might be developed using Marshall-Lerner / J-curve / long run implications • Interventionist supply-side policies could increase budget deficit/national debt, causing crowding out • Increase in income tax could reduce consumption; fall in economic growth/increase in unemployment • A tighter monetary policy will cause the currency to appreciate, reducing price competitiveness of exports • Protectionist policies distort comparative advantage, reducing specialisation/trade; can result in retaliation • Governments of countries with a floating exchange rate cannot lower the external value of the currency • Is there a need to address a current account deficit, e.g. in some countries it might not be a sign of weakness/might be counterbalanced by other components of the balance of payments e.g. net primary incomes **NB For Level 4 the answer must refer to at least one country**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
3 (a)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Enabling growth/prevent recession • Providing temporary loans/credit • Promoting economic stability • Promoting international monetary cooperation • Promoting exchange rate stability **Application:** 1 mark for relevant example e.g. • $57bn lent to Argentina • Money helps to stabilise currency • Money enables Argentinian government to continue repayments on its debt • Other relevant examples **Analysis:** Up to 1 mark for e.g. • Countries such as Argentina relied on IMF as it would be too risky for financial markets to lend to them • IMF will insist on reforms to economy as part of financial assistance	**(4)**

Question Number	Answer	Mark
3 (b)	**The only correct answer is B** ***A*** *is not correct because that refers to an increase in the value of the currency* ***C*** *is not correct because that refers to direct intervention in the currency markets* ***D*** *is not correct because that refers to an increase in the value of the currency*	**(1)**

Question Number	Answer	Mark
2(c)	**Knowledge 1, Analysis 1** **Knowledge/understanding (1):** Identification of likely impact: • Aggregate demand will fall/decrease **Analysis:** 1 mark for linked development, e.g. • Negative wealth effect • Reduction in consumer confidence and consumption	**(2)**

Question Number	Answer	Mark
3(a)	**The only correct answer is B** ***A*** *is not correct because the pound has fallen in value* ***C*** *is not correct because the pound-dollar is a floating exchange rate system* ***D*** *is not correct because the pound-dollar is a floating exchange rate system*	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 2, Application 1, Analysis 1** Knowledge 2 marks e.g. • UK current account would improve/reduction in deficit (1) • Increase in exports (1) • Decrease in imports (1) Application 1 mark e.g. • Accurate reference to data between 1st January 2018 to 1st January 2019 Analysis 1 mark for linked development e.g. • UK exports become more competitive • UK exports appear cheaper to US consumers Own answer rule Allow alternative responses referring to Marshall-Lerner Condition and/or J-Curve	**(4)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/Understanding:** Identifying data 0.95 & 0.75 (1) **Application:** • Correct percentage change formula (1) • Correct data inputted into formula (1) **Analysis:** Calculation of the percentage change in the exchange rate: 0.75-0.95 / 0.95 X 100 = -21% (2) **N.B. award full marks for correct answer between -21% and -21.1%** **NB If no reference to minus/fall/decrease then maximum 4 marks**	**(5)**

Question Number	Answer	Mark
1(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge:** 1 mark for identification of a possible reason and 1 mark for its relevance to a fall in the value of the currency. Possible reasons: • Fall in demand for peso (1) with reason (1) • Increase in supply of peso (1) with reason (1) • Current account balance: ○ Fall in the value of X (1) because export prices have fallen (1) ○ Rise in the value of M (1) because of economic growth (1) • Decrease in interest rates (1) in Chile relative to other countries (1) • Fall in FDI (1) with reason e.g. reduced foreign investment in Chilean mining (1) • Change in hot money flows (1) with reason e.g. speculative selling of peso (1) • Rise in value of other countries' exchange rates (1) with a change in relative rates (1) • Relatively high inflation in Chile (1) compared to other countries with which it trades (1) **Application:** 2 marks for data references e.g. • Copper prices have fallen, Fig. 1 (1) e.g. to $5000 (1) • The Chilean peso has decreased in value (1) • Calculation based on data (award a range of answers because the data is given for the whole year) e.g. 0.2 to 0.14 = 30% fall (or similar) (1 + 1) • Inflation 5% in Chile (1)/above 2-4% target (1)/ e.g. because of higher unit labour costs (implied by high truck drivers' wages, Extract B) (1) • Fall in FDI as mining dries up, therefore reduced demand for peso • Application of an exchange rate diagram e.g. with peso on vertical axis with shift (1) **Analysis:** • 1 mark for explanation of the process linking to the cause to the identified change e.g. fall in copper prices means that the value of exports fall because demand is price inelastic (1) or imports rise in value because of economic growth sucking in imports (1) diagram showing shifts in demand or supply of pesos linked to correct explanation (1) **NB only award 1 mark in total for use of a diagram**	**(5)**

Question Number	Answer	Mark
1 (a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge:** 2 marks for identification of how intervention might work e.g. • Raising/lowering interest rates (1) which affects exchange rates/hot money flows (1) • Buying/selling foreign currencies (1) which affects their exchange rate (1) • Buying/selling domestic currencies (1) which affects their exchange rate (1) • Quantitative easing/changing the money supply might be used (1) • Sets a ceiling and floor (1) **Application:** 2 marks for data references e.g. • Use of Figure 1 to show interest rate changes: e.g. central bank rose rates to 6.25 percentage points in 2018 (1) which caused the lira to appreciate 11% (1) lira has lost a third of its value against the dollar in 2018 (1) • Use of text to give example of Turkish government buying and selling: e.g. the country is highly indebted on foreign currency (1) • This might be shown by an exchange rate diagram (1) **Analysis:** 1 mark for explanation e.g. • Process by which the intervention affects exchange rate/interest rate e.g. the government buys US dollars to decrease the price of Turkish lira (1) by increasing the supply of lira on the forex market (1) or raises interest rate in increase the price of Turkish lira (1) **NB a diagram can be seen as application or analysis, if used in a valid context.**	**(5)**

Question Number	Indicative content	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** **Up to 3 marks; points might include:** • Managed exchange rates have some government intervention/limited market forces (1) • Prevent volatility (1) to encourage investment (1) • Encourage stability (1) to increase economic growth (1) • Controlling inflation (1) e.g. via impact on import prices (1) • Maintain competitiveness of exports (1) to improve current account (1) • Governments might buy a foreign currency, increasing it's demand (1) to increase its price (1) • Governments might sell a currency (1) to decrease its price (1) • Supply & Demand diagram showing impact of change in supply/demand of currency (2) • Diagram illustrating keeping fluctuations of currency within acceptable range (2) • Increase in interest rate (1) to increase value of the country's currency (1) (or vice versa) • Exchange rate floats due to market forces (1) when within an acceptable range (1) **Application (2 marks for 1 point, or 1 + 1)** Award valid data use only e.g. • 'Substantial swings' (line 4 Extract D) (1) • 'On average the cedi has depreciated 98% against the US dollar' (1) • 'The cedi to US dollar rate has been very volatile' (1) • 'From 1983 to 1992 it operated a managed exchange rate' (1) • Other relevant application (1)	**(5)**

Question Number	Indicative content	Mark

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/understanding:** 1+1 marks for identification of likely impacts of a fall in the value of sterling, e.g. • Import inflation change in cost of production for firms • Export/demand pull inflation • Changes in FDI • A change in unemployment • Economic growth • The will be an impact in the current account **Analysis:** 2 marks for linked explanation of these impacts (1+1 or 2 marks for one well developed explanation), e.g. • Fall in the value of sterling makes UK good appear cheaper to consumers in foreign countries when converted into their own currency (1) • Fall in the value of sterling makes UK imports more expensive to UK consumers when converted into pounds (1) **Application:** (1+1) or 2 marks for reference to figure 1 and/or extract A, e.g. • Pound fell from around $1.50 (1) rapidly to $1.30 (1) after the Brexit vote • Pound fell further to a low over the period shown of just over $1.20 (1) in October/November 2016 (1) • 'pound's post-Brexit referendum depreciation' (1) • Pound fell by approximately 12% after the vote to leave the EU (2) • Trend of depreciating pound (1) **Evaluation:** 2 marks for evaluation (1+1 or 2 marks for one well developed explanation) • Short-term impact - both figure 1 and extract A show how pound has risen towards mid/late 2017 • Price elasticity of demand for UK imports/exports • J-curve effect • Marshall-Lerner condition **NB If the answer relates to a small rise in exchange rates e.g. since March 2017 then full marks can be awarded for a rise in exchange rate**	**(8)**

Question Number	Answer	Mark
1 (b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/ implicit understanding:** 2 marks (1+1) for each reason and explanation e.g. a lower exchange rate can: • Reduces financial risks • To bring stability/security in the economy • Harms borrowers who have borrowed in foreign currency • Causes inflation as import costs rise • Worsens the terms of trade • Worsens living standards • Short term J-curve effects on current account of the Balance of Payments **Application:** (2 marks: 1+1 or 2) • Turkish inflation 25% • Lira has lost a third of its value of US dollar 2018 (1) • Turkey is highly indebted in foreign currency (1) • Government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks (1) • The financial market faces difficulties in trying to restore *foreign investors'* confidence (1) **Analysis:** 2 marks (1+1) for linked development of each point e.g. • A weaker currency can lead to cost push inflation as import prices rise • A weaker currency worsens the terms of trade as export prices fall relative to import prices • There will be less investment if there is a loss of foreign investors' confidence/AD shift	

	Evaluation (2 marks: two points 1+1 or 2). Points might include: • Inflation is very high (25%) so this should be main reason not to allow a fall in the exchange rate • Inflation is showing signs of reversing so a fall in the exchange rate may be less problematic • Problems caused by inflation might be outweighed by the other benefits such as export-led growth/improved competitiveness • Benefits of weak exchange rate, e.g. exports cheap, • Other benefits of weak currency e.g. stimulus of economy, increased competitiveness, higher employment and FDI	**(8)**

Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2,** Likely impacts on the current accounts include: • Reduced demand for Eurozone exports as they appear more expensive when converted into other currencies. • Increased demand for Eurozone imports as they appear cheaper when converted into other currencies.	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(c) continued	**Evaluation 4** • Euro may not have appreciated against all currencies. • Euro may have appreciated against currencies of countries who do not receive many Eurozone exports. • Magnitude discussion • May change in the long term • Marshall-Lerner condition • J-curve effects • Non-price factors may be more important	**(4)**

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

Question Number	Indicative content	Mark
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Likely impacts include: • UK exports are now cheaper when priced in dollars, so should mean an improvement in UK price competitiveness leading to increased demand for UK exports and AD *However depends on quality of UK exports or if US firms/consumers demand what we are producing* • UK imports from the US are now more expensive so likely to lead to less demand for US imports which improves net trade and therefore AD *However, depends if there are domestic alternatives to the US imports. If not prices will simply rise* • Imported inflation: as prices of imports rise, particularly of necessities, then UK inflation will increase. • Lower exchange rate might attract inward investment with multiplier effects on AD • Other factors which cause growth might be considered as more than one factor • Diagrammatic analysis may be used (e.g. AD/AS) Other evaluative comments may include e.g.: • Imported inflation will be a particular problem if wages do not increase in line with inflation. • Depends if this is a temporary fall or a permanent adjustment to the exchange rate • Depends on UK exchange rate with other currencies as well • US is a significant trade partner for the UK so the impact is likely to be significant • Consideration of the Marshall-Lerner condition and J curve effect • Other factors which cause growth might be considered as evaluative comments • EU is a very significant trading partner for the UK and thus the impact is likely to be significant	**(25)**

Question Number	Indicative content	Mark
1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of depreciation may include: • higher cost of imports of food and therefore higher cost of production for hospitality sector • lower profits for firms in hospitality • higher prices of food for consumers • consumers have lower standards of living if they are on fixed incomes/ • falling real incomes so demand for restaurant meals and food delivery services might shift left • workers have higher incomes if working in exporting firms in other industries, so might use more delivery services • restaurants might begin to use more locally produced food Macroeconomic effects of depreciation may include: • capital in-flows, e.g. benefits to multinational firms such as Just Eat for investment in the US using other currencies/ AD and/or LRAS shift out • cost push inflation/SRAS shifts in • more injections and fewer withdrawals leading to rise in AD and multiplier effect • increased employment • incentive to use transfer pricing • UK tourism might be boosted by depreciation which would improve local restaurants **NB for a Level 4 response there must be micro and macro effects and use of data with reference to restaurants or other food delivery services. Higher costs, changes in competitiveness, environmental changes could be seen as micro or macro, for example, can be used as either micro or macroeconomics.** **NB Effects in KAA could be used as evaluation and vice-versa.**	**(25)**

	9 marks for evaluation – points might include: • depends on the nature of the restaurant. Some try to use locally sourced ingredients • the pound has recovered significantly since 2016 • food costs are a small cost relative to other costs, e.g. rent and delivery • some restaurants are specialised in UK food so cost effect very low • other factors are more important, e.g. the heavy fiscal spending in response to the global health crisis • other factors determining capital inflows • relative depreciation or trade weighting of other currencies • offsetting costs with altering portion sizes or changing menu options • impact on tourism small relative to the increase in the production of food • regional differences with the UK e.g. whether there is a local food supply option • Marshall Lerner • J-curve	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
3(a)	**Knowledge 1, Analysis 1** **Knowledge/understanding (1):** Identification of relevant reason, e.g. • Faster economic growth in Estonia • Lower unemployment in Estonia • Lower labour productivity in Estonia • Increase in the national minimum wage • Power of trade unions • Shortage of labour **Analysis**: 1 mark for linked development, e.g. • Workers able to negotiate higher pay due to low unemployment	**(2)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Analysis 1** **Knowledge/understanding (1):** Identification of reduced competitiveness for Estonia **Analysis**: 1 mark for linked development, e.g. With rapidly rising labour costs Estonia's exports may become more expensive than those of other countries such as France	**(2)**

Question Number	Answer	Mark
3(c)	**The only correct answer is C** ***A, B and D*** *are not correct because they give incorrect answers to the calculation:* *Base year 2010=100. Austria's figure for 2017 is 113. 113-100=13*	**(1)**

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **This mark scheme is based on a decrease in competitiveness, but answer can be given from the point of view of an *increase*** Microeconomic influences may include: • Productivity – physical and human e.g. use of Figure 6 to show worsening of UK international competitiveness • Unit labour costs – in terms of relative wages • Market structure, e.g. low level of competition between firms • Effectiveness of competition policy • Non-price factors e.g. quality • Labour market factors e.g. strength of trade unions, national minimum wage, labour market regulation, • Taxes and subsidies on firms can be seen as micro or macro • Regulation e.g. green taxes and other environmental policies Macroeconomic influences may include: • Physical and human capital • Level of inflation • Level of indirect taxation, including tax on labour, corporation tax • Real exchange rates • Infrastructure • Supply side policies, including protectionism if explicitly linked to competitiveness • Comparative advantage • Membership of trading blocs • Levels of protectionism/tariff barriers Possible evaluation points include: • Degree to which the factor influences competitiveness e.g. ULCs more significant in countries where production has a strong manufacturing base • There may be a discussion of the degree to which wages influence competitiveness • Use of other countries in data e.g. to observe conflicting evidence • Difficulties in measuring productivity or competitiveness, productivity puzzle • Diagram might be used to show different labour market supply and demand and elasticities • Data might be used to make observations, e.g. that Germany is very competitive but has higher wages. • Relative significance of price vs non-price factors • Problems of being competitive in non-tradables, e.g. many services are hard to trade **NB do not award effects unless linked to further changes in competitiveness**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2 (d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic policies to improve competitiveness may include: • Labour force policies e.g. changing NMW will affect ULCs • Increased level capital by making investment more profitable/subsidy • Infrastructure spending e.g. Crossrail • Investment in education/skills or cutting/capping university fees • Joint ventures with global companies e.g. Dyson Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness. Also award policies that are protectionist. • Tax and benefit changes e.g. corporation tax • Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation • Actions of other institutions e.g. banks, schools • Control of price level e.g. stop QE **NB for a Level 4 response there must be micro and macro policy (s). Some factors could be seen as micro or macroeconomics, such as labour market changes, supply side policies** Possible evaluation points include: • Degree to which the policies might be a success • Depends on other countries (relative competitiveness issue) • Depends on the value of the currency which cannot be directly controlled in the UK. • Depends on relationship with the EU after Brexit • opportunity costs of funds • government failure- lack of information to know where to focus funds	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
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Evaluation		
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Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Policies that could be used to increase international competitiveness include: • Reducing business taxes to encourage an increase in investment in improving productivity • Lowering income taxes or other taxes to encourage entrepreneurs from abroad to move to the UK • Increased government spending on education to create a more skilled and therefore more productive workforce • Increased infrastructure spending to improve the geographical mobility of workforce • Increased immigration to fill shortages in the labour market holding back firms from investing in expansion • Reduction in non-tariff barriers to trade to make it easier and cheaper for UK firms to export their goods and services • Subsidies to domestic producers to reduce their costs of production, enabling them to charge lower prices and increase their competitiveness • Allowing the currency to depreciate e.g. through lower interest rates • Trade agreements leading to removal of protectionist barriers against exports such as tariffs or non-tariff barriers • Reduce unit labour costs e.g. freeze in minimum wage • Increased deregulation of businesses • Improving ease of doing business e.g. simplify tax regulations Evaluation of these policies could include: • Reduction in business taxes would leave the government with less money to spend on other things such as education or infrastructure that may be necessary to improve competitiveness • Less tax revenue will also increase fiscal deficit/ national debt which may reduce confidence in the UK economy • Spending on education/infrastructure has a very long time lag- students need to work through the education system/construction projects take a long time from initial idea through to planning and opening, can be decades • Immigrants may not wish to work in the UK, depending on other factors such as wages, quality	

	of public services, etc. • Reduction in non-tariff barriers requires making trade agreements with foreign countries/trading blocs such as the EU which can be very time-consuming • Deregulation may lead to unintended consequences e.g. monopoly power of firms • Increased inequality from tax changes	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question	Indicative content	Mark

Question Number	Answer	Mark
5 (c)	**Application 2** **Application:** 1 mark for correct appropriate calculation/formula e.g. Base year 2015 = 100 (1) **OR** 4% (1) Answer = **104** Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Absolute poverty: Lacking basic necessities to survive (1) • Relative poverty: Relatively poor compared to rest of your country (1) **Application:** Up to 2 marks for e.g. (1+1 OR 2) • Absolute poverty: World Bank definition: $1.90 a day (1) PPP values (1) • Relative poverty: 60%/50% (1) below median household income in your country (1) • Reference to Figure 1 or Extract A/B (1+1) **Analysis:** Up to 1 mark for e.g. • Absolute poverty can decline at the same time as relative poverty is increasing (1) • There may be relative poverty in a country but not necessarily absolute poverty (1)	**(5)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/Understanding:** Relevant factors identified (1+1), e.g. • Level of education • Level of healthcare • Level of infrastructure • Level of trade • Capital flows • Civil war • Drought • Poor governance • Liberalisation of trade/tariff cuts **Analysis:** Linked development of each factor (1+1), e.g. in Sub-Saharan Africa • Relative lack of education means a less skilled and therefore less productive workforce (1) • Relative lack of healthcare means people spend more time absent from work with illnesses and therefore reduces productivity (1) • Relative lack of infrastructure makes it more difficult and therefore expensive to move goods around the country to markets (1) **Application:** 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g. • Extract B: two thirds of 780 million illiterate adults are women • Extract B: poor people- more malnutrition, lower odds of receiving health care • Absolute poverty has declined far more rapidly in East Asia than Sub-Saharan Africa **Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1), e.g. • Significance of different factors • Improvements will only occur in the long term	**(8)**

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **135 million Indians escape absolute poverty out of a population of 1.4 billion (55.1% 2006 to 16.4% in 2021)** Microeconomic reasons may include: • wage rates/ minimum wages • social benefits/welfare payments • occupational/geographical mobility of labour • access to clean water and nutritious food / sanitation/ banking services/drinking water/ electricity • cost of living eg cost of cooking oil fallen due to subsidies • ownership of/prices of assets • property rights • climate change • opening up to the private sector Macroeconomic reasons may include: • economic growth • investment/FDI • education and training • infrastructure • healthcare • reduction in inequality • reduction in unemployment • aid/debt relief • fair trade schemes • availability of finance • conflict resolution and greater political stability • actions of organisations eg IMF/WTO/NGO • better macroeconomic policies and governance • demographic dividend eg decline in dependency ratio **NB for a Level 4 response, there must be at least one micro and macro effect(s). For e.g. education and training, climate change, subsidies, infrastructure, investment, labour market issues, cost of living and taxes can be seen as either micro or macro** **NB for a Level 4 answer there must be reference to India**	**(25)**

	NB for evaluation that does not address the reason for the fall in poverty there is a maximum of level 2 EV. 9 marks for evaluation – points might include: • Magnitude of the fall • Combination of factors • Difficulty in measuring poverty eg absolute vs relative poverty • Prioritisation of the most significant factor • Discussion of falling v rising at a slower rate • Consideration of regional variations of poverty • Different factors impact different developing countries • Short run v long run: significance of factors change over time	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
4(a)	**Application 3, Analysis 1** **Application**: 3 marks for: e.g. • Gini coefficient/inequality fell (1) from 0.36 in 2007 to 0.34 in 2010 (1) • Global Financial Crisis began in 2008 (1) • Changes in taxation and/or government policies (1) **Analysis:** 1 mark for inferences from data, e.g. • Inequality fell due to falling incomes at top of the distribution (top quintiles) (1) • Inequality fell due to increases in benefits at very bottom (quintile). (1) • Inequality constant due to wage/benefit freezes (1).	**(4)**

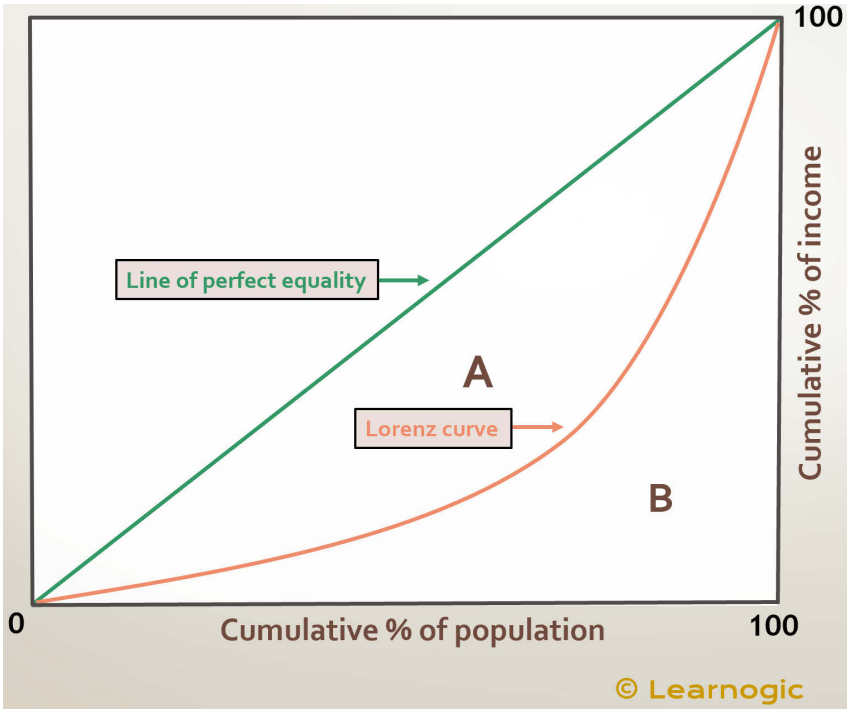
Question Number	Answer	Mark
4(b)	A	**(1)**

Question Number	Answer	Mark
5(a)	A	**(1)**

Question Number	Answer	Mark
5(a)	**Knowledge 2** **Knowledge** 1+1 mark e.g. Definition of income (1) and/or wealth (1) • Income is a flow (1) whereas wealth is a stock (1) • Income can create wealth (1) and/or wealth can create income (1) • Income comes from salaries/wages/dividends/profits/interest/rent (1) whereas wealth is the value of assets (1)	**(2)**

Question Number	Answer	Mark
5(b)	**Knowledge 1, Analysis 1** **Knowledge/understanding:** Identification of one reason (1), e.g. • Rise in asset prices • Lack of education • Lack of healthcare • Inheritance entrenches inequality • Rise of MNCs • Lack of government intervention to reduce inequality • Government policy e.g. regressive taxes, corruption • External shocks **Analysis:** Linked development relating to wealth (1), e.g. • Poor education means people lack the skills to take on higher-paying jobs which could lead to wealth creation	**(2)**

Question Number	Answer	Mark
5 (c)	**The only correct answer is B** ***A*** *is not correct because that would affect imports/exports, not income inequality* ***C*** *is not correct because that would increase the Gini coefficient* ***D*** *is not correct because that would increase the Gini coefficient*	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Gini coefficient is A/(A+B) (1) • Correct labelling of axes on Lorenz curve as % cumulative share of income & % households by income distribution (or similar wording) (1) **Application:** Up to 2 marks for e.g. • UK's Gini coefficient is 0.34 (1) • Correct drawing of Lorenz curve on diagram (labelled/referred to in text) (1) **Analysis:** Up to 1 mark for e.g. • Further away from the line of perfect equality, the more unequal a country/region is (1) • The higher the Gini coefficient value, the more unequal a country/region is (1) Diagram (1+1) e.g.:  **NB If no Lorenz Curve diagram award maximum of 3 marks**	**(5)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/ implicit understanding: (1+1)** marks for reason e.g. • Educational/skills/wage differences • Changing patterns of trade/globalisation • Government policy/austerity/universal credit • Income generated from inheritance • Payments generated from debt • Race, gender, age, geographical issues • Changes in direct tax • Stage of the economic cycle/Financial Crisis 2008 • House prices (must relate to income not wealth) • Weakened power of trade unions • Level of unemployment/underemployment • Irrational behaviour/information gaps/myopia **Application (1+1 or 2):** • Any valid application to **causing inequality** in the UK or other developed country, e.g. unaffordable house prices in the UK mean the younger generation has little income after rent (1); cut in the top rate of income tax, rise in NICs, change in tax thresholds; university fees at £9250 a year is widening the income gap if fewer low income households go to university (1); pensions rising below average incomes (1); educational differences such as an economics degree has a higher impact on future earnings than other degrees (1) **Analysis (1+1):** • Linked development of the **two** points made **Evaluation (1+1 or 2)**. Points might include discussion of: • The role of transfer payments/minimum wages in narrowing/failing to narrow inequality • Changes rather than levels of income inequality, absolute vs relative issues • Relationship with wealth e.g. as a more significant inequality issue • Relative significance of different factors e.g. direct taxes more proportional than indirect taxes (regressive) • Time lags e.g. education has effects as yet unfolded, government policy might change, Brexit has not yet happened. **NB Do not allow indirect taxes or subsidies as KAA** **NB Use of Gini coefficient or Lorenz curves could be used as application or analysis**	**(8)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/Understanding:** Relevant reasons identified (1+1), e.g. • Level/quality of education • Level/quality of healthcare • Level of infrastructure spending • Unequal access to job opportunities across the UK • Progressive nature of taxation • Degree of employment protection • Strength of trade unions • Differing wage rates • Globalisation **Analysis:** Linked development of each factor (1+1), e.g. in the UK: • Less education means the workforce may be less skilled & therefore receive lower average pay (1) • Relative lack of healthcare means people spend more time absent from work with illnesses and therefore reduces productivity (1) • Relative lack of infrastructure makes it harder for people to get to work/will discourage firms from investing in the region (1) • Jobs in London/South-East may be more skilled and therefore higher paying when compared to jobs in the North-East (1) **Application:** 2 marks (1+1 or 2), e.g. • Gross disposable household income was £19 000-£21 000 in London (1) • Gross disposable household income was £13 000 - £13 999 in North East (1) • UK's Gini coefficient is 0.34 **Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1 or 2), e.g. • Infrastructure investment in the North of England is increasing so this may change in the future • Education levels across the UK are improving • Higher education may not lead to higher incomes- depends on degree/qualifications • Relative significance of different reasons • It is hard to be definite about specific reasons as it is a combination of factors that causes inequality	**(8)**

Question Number	Indicative Content	Mark
6(d)	**Knowledge 2, Application 2, Analysis 2,** • Incentive to work hard in order to receive higher reward will help increase economic growth which can result in reduced absolute poverty • More innovation due to the profit motive for firms and inventors leads to more competitive industry and faster economic growth • Lower taxes or less redistribution may encourage entrepreneurs to relocate to the country • Reference to rising living standards in a largely market based economy, e.g. UK, US **NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation**	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
6(d) continued	**Evaluation 4** • Inequality reduces consumer confidence so less consumption, increase in saving. Aggregate demand may fall as a result. • Excessive inequality can lead to more crime, poorer healthcare, etc. • Low pay can act as a disincentive to seek employment and economic growth suffers as a result. **NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation**	**(4)**

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

Question Number	Indicative content	Mark
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Likely causes include: • High levels of corruption leading to government inefficiency/failure to act in best interests of general population • Lack of redistributive fiscal policy • High indirect taxes which tend to be regressive • Inequality in access to or quality of education/healthcare for different people in a country • Rural/urban divide with people in urban areas having a much greater variety of job opportunities and higher wages than in rural areas • Weak trade unions reduce power of workers to insist on higher wages • High levels of inheritance that is not significantly taxed being passed on to future generations • Ownership of financial assets concentrated amongst the wealthy, with a lack of public share ownership Evaluative comments may include e.g.: • Significance/magnitude of specific causes • Causes may be solved over time as the economy grows and income levels rise • Significance of competing causes could be discussed • Consider whether there is a link between the two types of inequality **N.B. For a level 4 response, candidates must make reference to causes of both income and wealth inequality**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Policies to reduce inequality might include Microeconomic policies may include: • grants/subsidies to attract individual firms to create jobs in deprived areas • subsidies to reduce price of specific goods e.g. - food • maximum prices on essential goods e.g. food/fuel • raising national minimum wage • maximum wages e.g. - caps on bankers' bonuses • employment legislation/control of monopsony employers • uprating of benefits at least or more than the rate of inflation • benefits in kind e.g. childcare vouchers, free school meals • greater means testing of benefits • energy policy - targeted support at low income households Macroeconomic policies may include: • relevant supply side policies e.g. education, infrastructure, mobility of labour • regional policies e.g. attraction of FDI to create jobs in low-income regions • progressive taxes - increase rates on high earners • raise corporation tax • raise government spending • increase public sector wages • cutting interest rates • trickle down policies - policies to create growth and create more jobs/enable greater tax revenues available to redistribute **NB for a Level 4 response there must be at least one micro and macro policy and use of UK data with reference to inequality.** **Tax and benefit changes, investment changes, education, national minimum wage, migration, for example, could be seen as micro or macro policies.**	

	NB negative effects can be seen as evaluation of positive effects and vice versa 9 marks for evaluation – points might include: • adverse effects of some policies • short run vs. long run arguments	
	• likely effectiveness of policies • inability to ever remove all inequality from society • incentive effects • government failure arguments • conflict with other objectives • prioritisation arguments • policies might be different depending on whether it is income or wealth inequality	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.

1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic factors may include: • Social factors • Discrimination • Gender stereotyping/unconscious bias • Education and training • Work experience and skills • Glass ceiling in some TNCS • Productivity/demand for labour arguments • Differences in working patterns/types of contracts • Career breaks more likely for women • Information gaps • Ineffective legislation/regulation • Differences in wage elasticity of supply between male and female due to women's role as primary caregivers • Concentration of females in certain type of low paid jobs which increases their supply and pushes down wage rates • Women less likely to be a member of a trade union Macroeconomic factors may include: • Globalisation • Migration issues • Geographical location • Underfunding of education • Shortage of teachers in STEM subjects • Lack of affordable childcare • Other supply-side policy failures • Tax & benefits system failure e.g. high marginal tax rate upon returning to work • Employment e.g. part time or full time • Social immobility especially between countries • Technology/automation impact more on lower skilled/administrative jobs/structural unemployment • Cultural norms **NB for a Level 4 response there must be micro and macro cause(s). Some factors e.g. education, social factors, employment, migration can be used as either micro or macroeconomics.** 9 marks for evaluation – points might include: • Prioritisation of the most important factor • Significance of factors change over time • Depends on the nature of the industry • Growing awareness of the issue might reduce wage differences • Reversing trends in globalisation • More transparency required by law • Combination of factors explain differences • Time period: long-run v short-run considerations	

	NB for a Level 4 response there must be use of both micro and macroeconomics and use of given data with reference to oil and gas industry e.g. STEM education/occupations/engineering.	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.

Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark

Question Number	Answer	Mark
4(a)	**Application 3, Analysis 1** **Application**: 3 marks for: e.g. • Gini coefficient/inequality fell (1) from 0.36 in 2007 to 0.34 in 2010 (1) • Global Financial Crisis began in 2008 (1) • Changes in taxation and/or government policies (1) **Analysis:** 1 mark for inferences from data, e.g. • Inequality fell due to falling incomes at top of the distribution (top quintiles) (1) • Inequality fell due to increases in benefits at very bottom (quintile). (1) • Inequality constant due to wage/benefit freezes (1).	**(4)**

Question Number	Answer	Mark
4(b)	A	**(1)**

Question Number	Answer	Mark
5(a)	A	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding**: 1+ 1 for limitations: • ignores qualitative factors, such democracy, quality of education or human rights for example (1) • ignores other measures ranging from gender equity, proportion of workforce in agriculture to environmental biodiversity (1) • ignores income distribution (1) • PPP values change very quickly and are likely to be inaccurate or misleading (1) **Analysis**: 1 mark for linked development. **Application**: 1 mark for reference to the data e.g. Vietnam's HDI 0.666.	**(4)**

	Application (1 + 1) Award valid data use only e.g. • The $2.3 million (1) provision of subsidised cooking oil has positively transformed lives (1) • 14.6% improvement in access to cooking oil (1) • Examples of opportunity cost to the government e.g. sanitation, drinking water, education or other own example (1) • A decrease in absolute poverty from 55.1% to 16.4% (1) **NB if correct numerical data is added to the diagram this is an application mark.**	

Question Number	Indicative content	Mark
2(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge:** Identification of two advantages of using HDI (1+1) e.g. • A composite / multidimensional measure of economic development (1) • More accurate than GDP as a measure of living standards/quality of life (1) • Data is more accurate as values are updated annually (1) • Based on data that is relatively easy to collect (1) • Based on data that is objective (1) • Useful for international comparisons between countries (1) **Application:** (1+1) This can be anywhere in the answer including in the evaluation. • Identification of a component of the HDI - GNI per capita / life expectancy / mean years of education (1) • Trend in HDI value e.g. an increase since 2006 (1) • Between 2006 and 2021, India's HDI increased from 0.611 to 0.633 (1) • Between 2006 and 2016, India's HDI increased from 0.611 to 0.624 (1)	

	• Has risen 0.013 percentage point change (1) • Reference to Extract E improving access to sanitation and water with reference to living standards. (1) **Analysis** (1+1) Development of points made e.g. • Gives an indication of progress made in health/education and which areas require urgent government intervention (1) • It allows policymakers to adjust and implement economic policies to improve economic development (1) • If a country's HDI value is closer to 1 it means it is more economically developed as compared to a country that's HDI value is closer to 0 (1) • Shows long term growth potential due to investment in the supply side (1) • Shows the priorities of government and focus on public services (1) • Other development of points identified (1) **Evaluation** (2 marks for a relevant point, or two points 1+1): e.g. • Other measures of development could be more effective • Does not consider deprivation • Does not consider income distribution/inequality/gender equality • Does not consider environmental issues • Does not consider political freedom/threat of war • Focuses on long-term changes e.g. mean years of schooling/ life expectancy: less responsive to short-term changes • Some countries do not release data annually/accurately making it very difficult to draw comparisons between countries • GNI may not necessarily increase economic welfare because it depends on how wealth/income is spent	**(8)**

Question Number	Indicative content	Mark

Question Number	Answer	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis (3):** • Definition of opportunity cost as the next best alternative foregone (1) • Governments have to pay interest (1) at the expense of other expenditure (1) • Servicing means paying back interest and minimum capital requirements (1) e.g. to prevent a default, loss of confidence, other repercussions (1) • The debt is external (1), and in this case owed by governments as they have been borrowing from abroad (1) • Use of PPF to show opportunity cost may be awarded as analysis (1) **Application (2 marks for 1 point, or 1 + 1)**: e.g. • Debt service payments above 20% of G (1) are unsustainable (Extract D) (1) • £20billion raised 2010-2015 (Extract D) (1) • Commodity prices soaring and foreign loans available' (Extract D) (1) • 'Heavy repayment schedules at a time of low commodity prices' (Extract D) (1) • Governments have taken to 'private debt too eagerly' (Extract D) (1) • 'Median level of debt risen from 34% to 48% in 2017' (Extract D) (1) is heavy because of 'low tax base' (Extract D) (1) • High levels of poverty – half of the 26 million people (1), so many feel the effects of reduced government expenditure (Extract E) (1) • 'non-existent tuna fleet' or other hidden debt (Extract D) or corruption (1) at the expense of other government spending (1) • Opportunity costs applied to any developing country, e.g. spending on poverty alleviation, education and health spending or recent cyclone April 2019 (1). **Award a maximum of 1 application mark if there is no reference to Extract D**	**(5)**

Question Number	Answer	Mark
2(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge**/implicit understanding of **two** reasons why manufacturing firms stay small, **(1+1)** e.g. • Size of market/lack of access to export markets/low export earnings due to lack of demand • Absence of economies of scale, or insufficient incentive or ability to grow (apart from access to financial) • Problems of human capital, e.g. lack of educated workforce • Lack of infrastructure making expansion into new areas difficult, or small markets • Actions of foreign firms to foster dependency • Government or international actions to make it hard for firms to grow • Lack of TNC involvement in Mozambique/volatility of currency/capital flight • Firms want to remain close to customers- meet needs with specific goods. • Firms might be manufacturing niche products with inelastic demand and high-income elasticity • Small firms more able to manufacture and sell through selling online and have small assets. • Perfect / monopolistic competition characteristics, e.g. low barriers to entry • Non-economic factors, e.g. natural disasters, political tensions, drought • Cost of finance, cost of servicing loans, financial economies of scale and scope. Do not allow **access** to finance. **Application (1+1 or 2):** e.g. • Further depreciation of the metical (Extract E) • Lack of economic stability (Extract E line 26) • Slowdown in FDI (Extract E) • Depressed global demand (Extract E) • Low levels of employment in the sector (Extract E) may imply lack of skilled workers • High interest rates (Fig. 2 and Extract E line 14) • High import costs (Extract E line 15) • Needs urgently to improve its investment environment and confidence (Extract E line 17) • Large scale emigration (Extract E) • High numbers of people 'below the poverty line' (Extract E line 6) mean the market/incomes are small • 'Economic dependence on South Africa' (Extract E) may limit prices/market power of firms.	

	Analysis (1+1) • Development of each point, up to 1 mark for each valid factor **Evaluation** (2 marks for any relevant point, two points 1+1): • The development of the gas fields (Extract E) will 'transform the economy' • Pick up in coal and electricity (Extract E) which are probably larger firms and may have impact on manufacturing • may consider whether this is because of choice or lack of opportunity • Long term 'prospects are promising' (Extract E, line 20) e.g. sustainable agreement, gas fields production in 2020s or other initiatives such as trade blocs **NB Cost of finance, financial economies of scale etc are allowed. It is only ACCESS to finance e.g. unavailability of microfinance, savings gap, loss of external lenders which is excluded.** **NB Access to finance *may* be credited as part of the evaluation but not as KAA**	**(8)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/Understanding:** Likely benefits identified (1+1), e.g. • Increase in size of workforce (1) • Increase in consumption (1) • Increase in government tax revenue (1) • Increase in economic output of the country (1) **Analysis:** Linked development of each factor (1+1), e.g. • Increase in AS as country now has a larger workforce so can produce more (1) • More consumers creates more demand for Rwandan firms, increasing AD and economic growth (1) • More government spending on education/infrastructure to further improve AS (1) **Application:** 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g. • Population grew from 10.8m in 2013 (1) to 11.4m in 2015 (1) • Population grew by 5.6% from 2013 to 2015 (2) • Rwanda's GDP grew by almost 9% in 2015 (1) • Absolute poverty declined by 20 percentage points from 2001 to 2014 (1) **Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1), e.g. • Larger population may increase unemployment if number of jobs do not also increase (1) • Government expenditure on providing education, health, etc. may increase (1), cancelling out benefits from extra tax revenue (1) Impact on AD/AS may be shown diagrammatically	**(8)**

Question Number	Indicative content	Mark
2(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/implicit understanding of two factors, which could either improve or worsen development** (1 + 1) e.g. • health care issues e.g. child mortality rates/changes in number of children • falling birth rate • fertility changes/other reproductive issues • increased life expectancy • higher school enrolment/literacy rates/other education • urbanisation • falling dependency ratio • larger population • larger workforce • declining family size **Application:** (1 +1 or 2): e.g. • Figure 2 shows 53.7 million population in 2020 • Kenya's population has doubled over the last 25 years, to about 40 million people (Fig 2) • due to high fertility in previous decades, there are many more families in Kenya today (Ext E) • life expectancy is projected to increase from 54 years today to 68 years by 2050 (Ext E) • only 6% over age 60 (Ext E) **Analysis** (1+1) Development of points made, **must make reference to development not just growth (might be implicit)** e.g. • higher literacy rates/life expectancy may mean higher productivity, greater employment opportunities • there are more people of working age relative to people who depend on them, so living standards will improve • smaller families will make it easier to borrow so there will be more investment to increase opportunity for firms to set up • falling birth rates mean savings are higher so there will be more opportunities to improve living standards	**(8)**

	Evaluation (2 marks for any relevant point, or two points 1 +1): e.g. • the population is rising very rapidly • changes will be seen over time • higher working population now is a benefit, but there might be a demographic time bomb when this generation is over 60 • comments about the relative significance of the factors/combination of factors	

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/Understanding:** Two relevant causes identified (1+1), e.g. • Small railway network • High cost of new railway networks • Lack of capacity at ports • Limited/poor quality road network • Distance of road network/other geographical factors • Long waiting times at border crossings • Tariffs on imports • Lack of information **Analysis:** Linked development of each cause (1+1), e.g.: • A long time taken to move goods between African countries (1) • Delays from poor quality infrastructure increase costs (1) • New infrastructure such as railway networks is not being used to its intended capacity (1) **Application:** 2 marks (1+1) for reference to Extract A/own knowledge, e.g. • Railways not much bigger than France & Germany combined (1) • 'some drivers bribe their way to the front', '1000 rand' (1) • 'not enough' roads (1) • 800 000km of 2.8m roads in sub-Saharan Africa are paved (1) • 'Ports are small and slow' (1) • Cargo waits in ports for more than two weeks on average (1) • Handling costs are around 50% higher (1) • Railways link mines to ports, rather than between countries (1) • Exploitation by larger transport firms (1) **Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment (1+1), e.g. • New Chinese railways have potential to speed up transport if problem of price and additional infrastructure can be solved • Investment from China (or elsewhere) into infrastructure in Africa will solve problem in future • Relative significance of different reasons • Hard to be definite about specific reasons as it is a combination of factors	**(8)**

2(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/understanding of two problems** (1 + 1) e.g. • Lack of economies of scale • Lack of human capital/lack of information • Expensive capital equipment • High costs of importing raw materials • Foreign currency gap • Inconsistent supply of energy • Access to finance/high interest rates on bank loans • Monopsony power of chocolate buyers • Climate change/access to water • Problem of expanding in a market with inelastic demand **Application:** (2 marks for any relevant point, or two points 1 +1): e.g. • There is neither a local sugar nor dairy industry • Imported milk and sugar would increase the cost of production significantly • Producing chocolate requires consistent refrigeration • Major obstacle for entrepreneurs without substantial funds • Rural parts of Ghana do not have access to energy • Interest rates on loans between 18%–20% • Farmers make $1 a day so can't invest in the farm **Analysis** (1+1) Development of points made, e.g. • Increases firms cost of production and therefore export prices rise • Expensive imported raw materials add to production costs for firms reducing international competitiveness • Less FDI into the industry resulting in lower growth • Productivity remains low • Use of diagram to explain relevant concept **Evaluation** (2 marks for any relevant point, or two points 1 +1): e.g. • Combination of problems prevent expansion • Short run vs long run considerations e.g. government pledged to solve structural issues, such as 'One District One Factory programme' • Significance/prioritisation of the main problem • Different parts of supply chain affected differently • May not be a problem for cocoa farmers e.g. inelastic demand could lead to significant price rises **NB Candidates may refer to any part of the chocolate industry in Ghana e.g. farmers, distributors, manufacturers, retailers**	**(8)**

Question Number	Indicative content	Mark
1(c)	**Knowledge 2, Application 2, Analysis 4** • Link between falling copper prices and falling incomes and government revenue e.g. dramatic loss of government revenue from peak of $11.5 billion • Exposure to risk e.g. high proportion of GDP and exports dependent on copper so this could cause risk of falling incomes • Price volatility e.g. might cause reduced FDI/investment • Impact of declining terms of trade might be used • Successful exports of copper might force up the exchange rate, other 'Dutch disease' issues e.g. impact on non-copper sector • Falling demand for copper might cause peso to fall in value, causing declining terms of trade/cost push inflation • May use diagram to illustrate effects of low PES, PED • Award use of concepts or theories such as Prebisch-Singer, with link to terms of trade and changing world incomes. • Firms may close down e.g. Extract A lines 8-9: award a microeconomics diagram showing shutdown point **NB Do not award any parts of answers which are related to externalities** **A KAA point referring to changes in tax revenues can only be awarded Level 3 if a specific link is made to the source of the tax revenue e.g. – corporation tax or profits of a state-owned enterprise** **For a Level 3 answer there must be reference to dependency rather than just falls in copper prices, and the wider economy rather than just copper mining firms**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
1(c) continued	**Evaluation 4** • Advantages of copper dependency for Chile's economy: ○ Copper dependency is an advantage when copper prices are high e.g. they have been high for a prolonged period, with many advantages ○ Use of data to support this, e.g. $11.5 bn a year tax revenue, or percentage changes in prices Figure 1 ○ Low national debt, falling levels of poverty, inward direct investment • Other industries thriving e.g. salmon industry • Chile's economy 'best run in the region' and has financial strength to overcome copper price changes, relative to other countries who are dependent on primary products e.g. Venezuela • The fall in the exchange rate corrects the problem of over dependency • Copper prices are far less volatile than 2007-2011	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

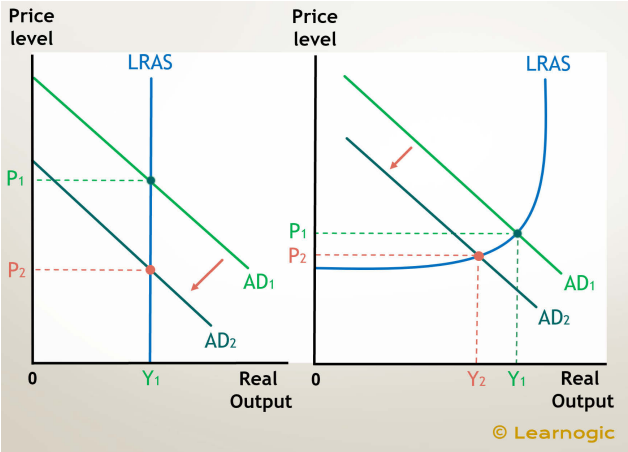
Question Number	Indicative Content	Mark
6 (c)	**Knowledge 2, Application 2, Analysis 4** • Fluctuating prices make it hard for farmers to plan ahead for future purchases of seeds, equipment, etc. and will discourage investment into the farm to improve productivity • Falling cocoa prices reduce profits for farmers • Falling cocoa prices reduce the Ivory Coasts' terms of trade, affecting their ability to buy important imports such as capital equipment • Fluctuating current account • Cocoa is over half of Ivory Coast's exports and thus is a significant part of the country's economy and changes will have a big impact on AD **NB For a Level 3 response candidates must refer specifically to Figure 2**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.

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

Question Number	Indicative Content	Mark
6 (c) continued	**Evaluation 4** • Ivory Coast has comparative advantage in cocoa (climate, soil, etc.) so they should specialise in this to maximise output • Growth of schemes such as Fairtrade will help in the future	**(4)**

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

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 4** • Exchange rate: affects net trade (Extract D) • Demand for exports: affects investment • Access to credit: affects funds required for capital investment • Interest rate: affects firms cost of borrowing • Government expenditure • Industrialisation: will impact exports and net trade • Reducing corporation tax: will impact investment • Enterprise zones: will impact exports • Protectionism: affects net trade (Extract F) • Consumer income e.g Cocoa farmers in Ghana make roughly $1 a day (Extract E) • Being part of a trade bloc (Extract F)  **NB ANY diagram consistent with analysis is acceptable** **NB An AD/AS diagram must be drawn to access Level 3** **NB For level 3 candidates must discuss 2 different factors**	**(8)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2(c) continued	**Evaluation 4** • Prioritisation of the most important factor • Significance of factors change over time • Short run versus long run considerations • Combination of factors has a larger influence on aggregate demand • One factor could offset another • Depends on relative size of components of AD • Contrasting impact in Ghana relative to other countries	**(4)**

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

Question Number	Indicative content	Mark

Question Number	Indicative content	Mark
1 (e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **This mark scheme is based on an increase in I, but answer can be given from the point of view of a decrease** Up to 16 marks for effects: Microeconomic effects may include: • Effects on workers – higher incomes, more jobs • Effect on firms, e.g. increase in productivity, or for firms that produce capital goods, a change in demand • Increase in demand as consumer and business confidence improves • Improved quality of life as a result of research into and development of products Macroeconomic effects may include: • Shift (increase) in AD, with multiplier effects, increasing real GDP • Shift (increase) in AS increasing capacity e.g. through investment in education (Extract A paragraph 5) (LRAS shift only, may be implicit) • Inflation, if linked to expansionary macroeconomics policies • Balance of payments – e.g. effects of inward FDI: short term improvement on financial account, long term impact on current account Award Keynesian and Classical approaches with equal weight. The opposing viewpoints may be used as evaluation. **NB a Level 4 answer refer to *changes in* investment rather than levels. This may be implicit e.g. through a fall in AD** **NB do not award for impact other than on Chile. Do not award for causes rather than effects.**	

	Up to 9 marks for evaluation points include: • Investment in capital might decrease employment • Investment in human capital e.g. education in Extract A, is hard to measure in terms of effectiveness • Data points to both increases and decreases in investment. Other forms of injection into the circular flow might be more sustainable, e.g. G • Depends if the investment is internal or FDI as to the effects on the balance of payments • Depends on whether there is a demand deficiency (Keynesian viewpoint) or failings in the supply side	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **Microeconomic effects might include:** • Producer revenue from exports is volatile from primary products. Firms might close down when prices fall. • Other primary product dependency arguments – a diagram showing low PED and PES might be used. • Labour market – impact on wages and employment • Diagram showing effects on revenue, consumer/producer surplus, price, profits might be used • Local firms might go out of business **Macroeconomic effects might include:** • Balance of payments problems – Prebisch-Singer (declining terms of trade) might be used for products such as coal in reference to falling prices (NB this only addresses part of the volatility issue) • Government finances – the government might rely on export taxes • Primary product dependency/over-dependence on one sector can cause problems if natural disaster or changes in worldwide demand, e.g. China slowdown • Dutch Disease impact on exchange rate – e.g. higher value of rupiah when coal prices rise • Increased use of protectionism • Inflation (Extract E) • Limits investment (might link to Harrod Domar model) • Limits government and private expenditure on health and education **NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics, if developed appropriately.** **NB for a Level 4 answer there must be reference to the context of *Indonesia* and *volatility.*** **Evaluation points might include:** • Degree to which GDP is dependent on commodity exports. Data suggests Indonesia GDP has not suffered as much as other countries from the fall in commodity/coal prices (Extract E) and Figures 4 and 5 • Depends on the PED and/or YED of importing countries for the specific commodities	

	• Fiscal expansion (Extract E) has offset the effects of falling prices • There may be no alternative to primary product dependency/Lewis model is flawed • Comparative advantage argument • The reduction in prices might be short term/there are benefits to rising prices/depends if it is just one commodity which distorts the exchange rate for other commodities ('Dutch disease') • Buffer stock schemes • Financial markets can help limit effects, e.g. through futures contracts • Improved infrastructure can help farmers be more aware of price trends and take products to markets at high prices	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic influences may include: • Labour force and other demographic factors e.g. emigration of skilled/educated workers, disease, low life expectancy • Small firms with low levels of capital • Low levels of personal saving/high levels of personal debt • Primary product dependency • Volatility of commodity prices • Debt – although do not award access to credit and banking. Allow arguments based on dependency or opportunity cost, for example • Lack of infrastructure/other capital • Absence of property rights • Non-economic factors e.g. natural disasters, social problems • Joint ventures with global companies Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements • Role of FDI e.g. the tuna fleet cover-up dries up FDI • Government policy failure, e.g. weak expansion in fiscal policy, high interest rates, lack of subsidies, privatisation, interventionist strategies, e.g. management of exchange rate, buffer stocks • Actions of other international institutions e.g. IMF or NGOs • Macroeconomic stability, e.g. rate of inflation (might refer to Figure 2), rate of economic growth, exchange rate (metical at a 'new low') Possible evaluation points include: • Degree to which the factors are inevitable • Signs of improvements in passages • Some factors are temporary, e.g. fall in commodity prices such as coal and drought affecting production and exports to other countries within Africa **NB Do not award KAA for arguments based on ACCESS TO credit and banking, although this approach is permitted as part of the evaluation** **NB for a Level 4 response there must be micro and macro factors (s). There must be reference to both growth and development for Level 4**	

	PPD/ Harrod-Domar/ debt/ aid/ debt relief/ cost of credit/ non-economic factors/currency issues / competitiveness index can be used as micro or macro.	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8 Evaluation 9** Microeconomic effects may include: • On people with debt (better off) and savings (worse off) • On people with fixed incomes – may refer to falling real incomes • On firms' profits, e.g. that face rising costs and if they cannot raise prices they will face falling profits, or falling sales as consumers delay purchases. This might be illustrated with cost/revenue diagrams. • On firms' costs if they face rises in interest rates as a policy corollary of high inflation, which might lead to lower profits. This might be illustrated with cost/revenue diagrams. • Opportunity cost, e.g. effects on a government's spending if costs of servicing debts fall • Effect on labour markets e.g. people might work more hours to cover increased cost of living **NB do not award fall in profits or revenue or rise in costs unless a valid chain of reasoning is given** Macroeconomic effects may include: • International competitiveness and balance of payments, between African countries and with the rest of the world. Exports likely to fall and imports likely to rise • Distribution of income and wealth • Confidence and investment in financial markets • Policy responses, e.g. rises in interest rates and effects on AD • Shift in AS and/or AD may be used as part of the analysis • High inflation might deter Investment and FDI **NB do not award rise in unemployment/fall in growth unless a valid chain of reasoning is given** Possible evaluation points include that the effect depends on: • Whether wages rise in line with inflation • The degree of inflation, and the policy and international responses. • The PED of countries buying the African exports • The PED of importing countries as imports become relatively cheap	

	• Whether African countries are trading with each other the effects of inflation may be cancelled out e.g. use of Figure 2 to show neighbouring countries with higher inflation rates • Whether asset prices rise as to the redistributive impact • Depends on whether this is a long-term inflation problem- could be short term e.g. linked to commodity price rises. Only a problem if it is sustained. • The figures are in one month in July 2017 and may not reflect inflation story for full year. Time series data may be more useful. • Depends on the type of inflation – e.g. cost push or demand pull. • Impact on exchange rates e.g. higher inflation may erode the value of the currency. This might cancel out the impact on competitiveness **NB for a Level 4 answer there must be reference to the context of African countries (not just one)** **NB for a Level 4 response there must be micro and macro effect (s). Costs/ shift in PPF/ currency/labour markets/competitiveness etc. can be used as micro or macro.**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of high interest rates may include: • Higher costs to businesses, so fixed costs rise and decrease competitiveness (may be shown by cost/revenue diagram) • Fall in revenues via consumer discretionary incomes decreasing (may be shown on cost/revenue/diagram) • Higher cost of credit for businesses to expand/invest in R&D and gain dynamic efficiency/fund start-up costs • Lower consumer demand as consumption decreases; less consumer surplus • Impact on Ghana's housing market • Rise in business failures as rising costs mean shut-down point is reached • Impact on labour markets/demand for labour/wages • Encourages saving, reduces the savings gap • Smaller firms unable to survive increases market concentration Macroeconomic effects of high interest rates may include: • Higher saving and more expensive to borrow, so consumption and investment decreases; AD falls with multiplier effects • Use of AD/AS diagram to show effect of high interest rates • Higher exchange rates – worsening in the current account position of BOP, with effects on competitiveness and trade • Higher cost of financing public deficit/debt may mean less government spending elsewhere • Redistribution of income, e.g. from borrowers to savers/ lenders • Impact on unemployment e.g. as businesses close down • Impact on inflation • Impact on long-run aggregate supply e.g. via reduction in ability to invest in R&D • Increase in income/wealth inequalities **NB for a Level 4 response, there must be micro and macro effect(s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** **NB negative effects can be taken as KAA and positive effects as evaluation (and vice versa)**	

	9 marks for evaluation – points might include: ● The central bank rate is not the rate that individuals can access ● Degree to which the factors might be a success ● Depends on other countries' interest rates (relative competitiveness issue) ● Interest rate might not be the only cost for firms ● Depends on how much interest repayments are as a proportion of total costs ● Interest rates are low in Ghana compared to other countries ● Impact on borrowers will depend on whether people have assets or collateral ● Magnitude the interest rate change ● Impact on economic growth depends on where the AD lies on the Keynesian LRAS/level of spare capacity/size of multiplier ● Fixed versus variable interest rates ● Higher interest rates may increase savings and therefore increase availability of credit	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.

Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark

Question Number	Indicative content	Mark
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Possible factors may include: • Primary product dependency holds back an economy's growth due to volatility of prices making it difficult to invest/plan ahead • A lack of savings in an economy means there is only a very limited supply of money for banks to lend out to firms for investment, limiting development – may refer to the Harrod-Domar model (savings gap) • Lack of education means that people in an economy lack skills to take on advanced and higher-paying jobs, trapping people in low-income jobs • Lack of infrastructure such as power supplies, water, internet will make it more difficult for firms to develop and grow in order to develop the economy and hence increase employment • Lack of healthcare will limit size of potential workforce as many people are ill/waiting for healthcare and so unable to work • Demographic factors e.g. population growth leads to greater supply of labour and hence lower wages • Lack of access to credit and banking • Exchange rates • Possible corruption • Vulnerable to natural disasters/civil war and conflicts • Opportunity cost of debt repayment • Lack of effective policies to promote development **NB: Maximum Level 3 KAA if there is no reference to development** **NB: Maximum Level 3 KAA if there is no reference to a developing country** Evaluative comments may include: • If a country has comparative advantage in a primary product then it may be beneficial for them to focus on that industry to develop their economy and import products the economy is less suited for producing • Savings gap could be filled by aid, FDI, debt relief, microfinance, borrowing from IMF/World Bank. • Banking is becoming more accessible as use of mobile phones and banking apps become more widespread • Spending by government/aid organisations can help	

	to improve education/infrastructure over time • If an economy is largely agricultural then high levels of education may not be necessary in order for people to develop the skills needed • Demographic factors: population growth means more workers are available to produce goods/services, so output may increase faster than population, therefore increasing per capita incomes • Combination of factors – it is not likely to be one factor that is holding a country back and these are often interconnected e.g. lack of educated workforce means an economy isn't able to diversify away from primary products • Forward markets reduce risk and instability from primary product price volatility. Business confidence rises and investment becomes more likely	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.

Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: ● Labour market analysis/diagrams ○ rightwards shift in supply/lower cost of labour ○ demand/derived demand for labour ● Use of cost/revenue/profit diagram e.g. lower wages as labour market becomes more flexible / higher demand for products ● Increased demand for water, housing, food, energy, healthcare, transportation ● Lack of provision/availability of a service e.g. - waiting lists in hospitals, levels of social care ● Ecological degradation and other environmental pressures/ depletion of resources/pollution/waste creation/external costs ● Increased rise of large scale disasters ● Increased tax revenue to the government ● Changes in density/urbanisation/congestion ● Greater migration ● Movement away from capital-intensive production ● Relocation arguments e.g. Lewis model Macroeconomic effects may include: ● Use of AD/AS analysis e.g. output gap ● LRAS / productive potential / PPF arguments e.g. higher immigration/change in migration laws ● Inflation – cost push ● Inflation – demand pull ● Changes in wealth and income distribution/poverty levels ● Impact on international competitiveness ● Attract FDI, other investment ● Economic development ● Demographic dividend, Extract G ● Comparison with China 1.4 billion population, May 2023 **NB for a Level 4 response, there must be at least one micro and macro effect(s) and reference made to India or another developing country. Some factors such as environment, tax, infrastructure, inequality, employment levels, urbanisation or migration could be seen as either macro or micro** **NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa** 9 marks for evaluation – points might include: ● Consideration of speed of population growth e.g. 'alarming rate', Extract G ● It depends on age structure/dependency ratio ● Consideration of skilled labour	**(25)**

	• Depends on type of labour required/jobs available 'needs enough well-paying jobs', Extract G • Short-run v long-run effects / time lags/impact of government intervention to reduce birth-rate • Discussion of robotic replacement for unskilled labour • Depends on migration and other demographic factors • Extent of impact depends on government policy making e.g. freedom of movement of people across borders • Wage costs as a proportion of overall costs for the firm • Impact on growth/inflation depends on the position of AD on LRAS / level of spare capacity • Extent of environmental damage will depend on speed and planning/social policy	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 – 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

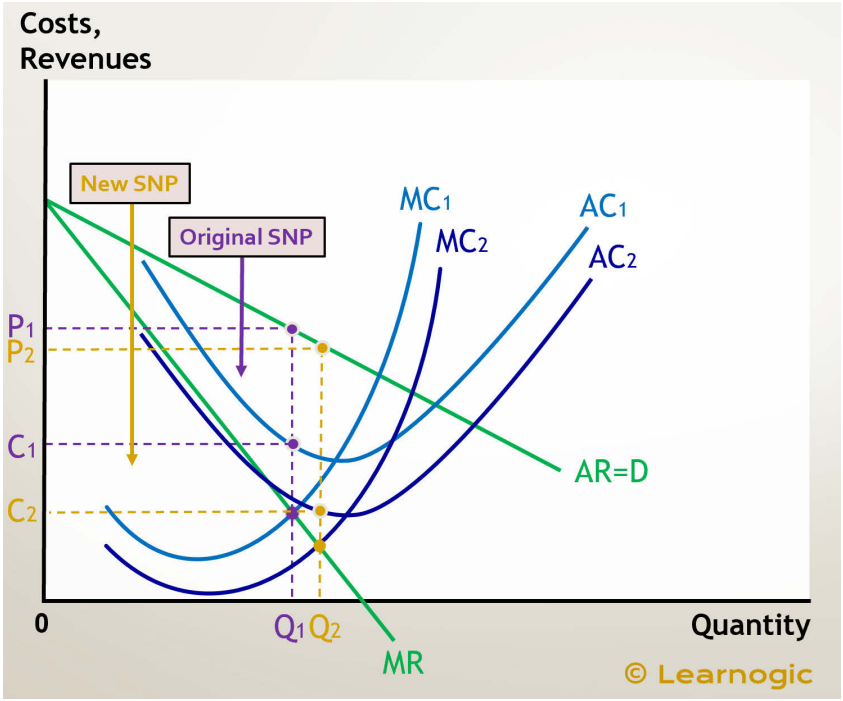
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
6 (a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Guaranteed minimum price (1) • Reduced fluctuations in income/price (1) • Fairtrade farmers/growers/suppliers receive a higher price for their crops (1) • Fairtrade 'premium' paid to farmers/growers/suppliers (1) • Extra financial support for farmers/growers/suppliers (1) • Increased income/profit for farmers/growers/suppliers (1) **Application:** Up to 2 marks for e.g. (1+1 OR 2) • 44% of Fairtrade premium was spent on improving business administration and infrastructure • 45% was spent on investing in farm equipment, training, and funding • Price volatility for farmers • Fragile incomes for farmers • Fluctuating world cocoa prices • Diversification into other crops • Median annual income for cocoa farmers in Ivory Coast of US$2 600/not a living income • Even tripling farm output would not provide a cocoa farmer with a living income **Analysis:** Up to 1 mark for e.g. • Fairtrade is designed to support people in developing countries (1) • Farmers can use additional income to invest into their business (1) • Fairtrade is democratic in the sense that farmers can choose how to spend their Fairtrade premium money (1) • Alternative to aid using the market system (1)	**(5)**

Question Number	Answer	Mark
5 (c)	**Knowledge 1, Analysis 1** **Knowledge/understanding (1):** Identification of one reason, e.g. • To improve accuracy when comparing data between countries **Analysis:** 1 mark for linked development, e.g. • PPP compares cost of living/buying power between different countries • PPP is calculated by comparing the price of a basket of comparable goods and services in different countries	**(2)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2** Calculate 2011 total: 10.29m X $123 = $1 265.67 million (2) Calculate 2012 total: 10.55m X $83 = $875.65 million (2) Change = $1 265.67 million – $875.65 million = -$390.02 million / 390.02 million Award full 5 marks for correct answer Award 4/5 marks for $390.02 **N.B. When interpreting graph:** For 2011 allow range of values: 10.25m - 10.35m For 2012 allow range of values: 10.5m – 10.6m	**(5)**

Question Number	Indicative content	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis: up to 3 marks.** **Points might include:** • Lewis model suggests that countries dependent on agriculture would see productivity gains and growth if they moved to industrialisation • unproductive agriculture moves to more productive and profitable manufacturing • reference to law of diminishing returns, e.g. farming has a very low marginal productivity • surplus labour moving to industrial production has very low opportunity cost • productivity gains in industrialisation means that the sector can grow (linear growth model) • dual economy of rural agriculture and urban manufacturing/reference to migration/mobility of labour • model of structural change e.g. increasing the industrial sector rather than agriculture • growth in industry and manufacturing can be achieved without reducing agricultural • everyone becomes better off than they were • movement away from subsistence sector (non-market transactions/informal sector/hidden economy) **Application (2 marks for 1 point, or 1 + 1)** e.g. • flower farming is more productive than traditional farming, and involves higher skills and technology than other agriculture • industrialisation can still involve agriculture • 'do more manufacturing or stay poor' • 'industries without smoking chimneys' • Kenya and processing of flowers • well paid jobs with greater opportunities	**(5)**

Question Number		Mark
2(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Diagram (2) Reserve 2 marks for costs and revenue diagram.** This can be awarded as 2 application marks or 1AN + 1AP. **Knowledge and analysis (1+1): e.g.** • Increasing efficiency resulting from investment lowers costs for firms **(K)** which means AC falls – might also show fall in MC **(A)** • Profit increases **(K)** with new area shown on diagram linking the new MC=MR with the AR and new AC **(A)** **Application (2 or 1+1):** answer relates to the output of farmers increasing relative to input, e.g. Productivity of each farm increases (1) as rice output doubles (1); Plans for 65 dams, 16 already under construction (1) Or: 'two harvests a year' (1) means more output from same fixed land/factor (1) Diagram e.g. shows a decrease in AC (if fixed costs) or decrease in AC and MC (if variable costs) e.g. as shown below. The diagram must be **consistent** with the description, although shift/non shift in MC might be implicit.  	

	• 1 mark for correct shift in cost (relevant to answer given) and • 1 mark for new correct profit area shown. Diagram may show a fall in costs and/or an increase in revenue **if linked** to double the number of harvests, or a decrease in revenue **if linked** to falling worldwide prices, more firms entering the market. Diagram may be perfect competition. **Evaluation** (2 marks for any relevant point, or two points 1+1) • The investment is taking many years and may not be completed • Governments might increase tax on farmers to compensate for increased costs of dam investment • The farmers might face other increased costs as output rises e.g. law of diminishing returns • There may be more efficient and effective ways of increasing output, e.g. better technology, fertiliser • Increased world supply could lower the price per unit, and with low PED the revenue and therefore profit could fall.	**(8)**

Question Number	Answer	Mark
6 (b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/Understanding:** Relevant methods identified (1+1), e.g. • Diversification • Invest in technology/machinery • Improved use of resources • Increased processing of cocoa beans within the country **Application:** 2 marks (1+1 OR 2) for reference to the data/candidates' own knowledge, e.g. • World cocoa prices plunged by more than a third in 2017 • Average cocoa farm yields only half of what could be achieved • Fertilisers/replanting/tractors to increase output/yield • Diversification into livestock/other crops • Producing chocolate bars from cocoa beans **Analysis:** Linked development of each factor (1+1), e.g. • Diversify into other crops to reduce impact of fluctuating prices • Machinery can speed up harvesting and reduce labour costs • Fertiliser can increase output of cocoa so farmers have more to sell • *Adding value* by processing beans **Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1), e.g. • Significance of different methods • Improvements will only occur in the long term • Increasing cocoa yields will further reduce cocoa prices	**(8)**

Question Number	Indicative Content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2,** • Aid has fallen from around $103 per capita to around $91 • Less funding for supply-side policies such as improvements to education, which may impact Rwanda's 'near-universal primary school enrolment' and healthcare- perhaps slowing the fall in child mortality, which has dropped by two-thirds • Less injections into Rwanda's circular flow of income/less aggregate demand in Rwanda • Fall in standard of living in Rwanda • Less investment/capital accumulation (Harrod-Domar model) • Reduction in support to lift people out of absolute poverty- perhaps absolute poverty won't fall further than the 39% it was in 2017 • Less funding for schemes to reduce inequality • Increase in Rwanda's budget deficit/national debt as government attempt to make up for shortfall in aid funding	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
6(c) continued	**Evaluation 4** • Private investment may have increased over time • Government may now be more capable of funding education/healthcare schemes • Significance of fall in aid funding • Aid money increased the following year • Absolute poverty decline 59% to 39% 2001 to 2014 (or other references to extract B) suggesting there is less need for aid	**(4)**

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

Question Number	Indicative Content	Mark
6(d)	**Knowledge 2, Application 2, Analysis 2,** Potential benefits include: • Reducing the amount of debt interest repayments that Angola has to make • Less need for Angola to raise taxes to pay off debts • Opportunity cost explanation e.g. the Angolan government will have more money to spend on improving public services • Reduce savings gap: Harrod-Domar model • Reduce foreign currency gap • Reducing absolute poverty in Angola if less money has to be spent repaying back the debt • Can use the available funds for investment in infrastructure; essential for industrialisation/ increase the mobility of labour • Conditionalities/guidance attached to the debt relief might improve governance • Helps increase the level of human capital through resources provided for education, healthcare that would increase productivity and FDI inflows • Increased business confidence might lead to increased investment **NB: for Level 3 candidates must refer to Extract B in their answer** **NB: for a Level 3 answer there must be two benefits**	**(6)**

Level	Mark	
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad

		elements of the question.

Question Number	Indicative Content	Mark
6(d) continued	**Evaluation 4** • May reduce confidence of creditors to lend to Angola in the future • Increase interest rate on Angola's debt in the future • Only a temporary solution: stop on debt repayments for three years will still leave the government with a problem in the future • Dependency culture could arise as Angola can become heavily reliant on debt relief • It could lead to moral hazard: Angola may not pursue sound macroeconomic policies if they expect future debts to be written off • IMF/creditors have conditions attached to debt relief: this may include cuts in food subsidies to reduce government spending, or removal of import controls which could harm the country's development • Proportion of debt relief could be relatively small and might not have a significant impact on the county's economic growth and development • Impact of poor governance limiting benefits	**(4)**

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

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 4** • Specific impact on Indonesia: ○ Recovery from the Tsunami / financial crisis (Extract D); ○ impact of reconstruction investment; ○ impact on the likely poverty trap that many Indonesians will find themselves in; ○ the impact of the cash transfer; ○ the long term problems of conditional loans; ○ the long term impact of constructing two new power stations (via Japan's development agency) ○ lack of tax revenue due to inefficient tax collection and low tax base (10%) Ext E. • Aid is the transfer of resources on concessional terms – allow wide variety of aid e.g. from international institutions such as the IMF/World Bank, from NGOs, concessional loans (interest paid is below market rates, or with softer repayment conditions than in free market) • Aid is being used to pay for education and health, transfers of cash, $2.3 billion a year • Consideration of macro effects, e.g. multiplier effects, shifts in AD, equality • Consideration of development theory, e.g. Harrod-Domar, plugging the savings gap / foreign exchange gap	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2(c) continued	**Evaluation 4** • Aid can lead to moral hazard, over-dependence, corruption, poor governance e.g. Ext E tax incentives offered by Mr Widodo might widen inequality • Dependency theory might be use to show the problems of aid • Alternative to aid e.g. debt relief, microfinance, investment by TNCs, loan from the World Bank • Conditions attached to aid may have negative consequences, e.g. not clear that the loans offered in Extract D are concessionary, or interest rates may still have a high opportunity cost • Aid may be more effective if used in conjunction with supply side measures • The concessionary loans need to be paid back, Extract E. These can increase a country's indebtedness and exposure to risk, and could affect government finance, where tax collection is inefficient and tax base (10%) is small.	**(4)**

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

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 4** • Microfinance meaning and role • Plugs the savings gap / Harrod-Domar model • Enables firms to be set up – fixed or start-up costs • enables firms to invest in human capital and overcome primary product dependency • Use of Figure 3 to illustrate size and importance of microfinance operations • Use of Extract F – e.g. '100 000 borrowers', many new business start-ups which could not have gained finance from any other source', 'unfulfilled demand for microfinance' • How borrowers benefit – small firms can be set up or expanded, allowing firms to gain capital and materials to set up businesses, provide more employment, lead to improved living standards • Borrowers lack collateral so cannot borrow from banks in the normal way • The money is in small amounts £200 to £300, paid back regularly and over a short period of time, on which basis the firm forms a business plan for which the lender will approve or advise • Microfinance allows firms to form without the stigma of aid or the dependence of FDI • Use of cost/revenue analysis to support arguments (perfect/monopolistic competitive market) • Macro analysis (AD/AS) must link back to borrowers, e.g. increased standard of living, allows firms to expand/invest **NB For Level 3, answers must link to borrowers** **NB The answer can take the form that there are more costs than benefits as part of the KAA, using the benefits as the evaluation**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2 (c) continued	**Evaluation 4** • Use of Figure 2 to show high base rates and Figure 3 to show average 75% APR on microfinance • Large potential for expansion (Extract F) • May encounter lack of demand as more than half of the population live below the poverty line • Weak infrastructure does not allow borrowers to access markets • Alternatives to microfinance could be considered, e.g. aid, FDI, debt relief • Reasons why microfinance can be damaging to borrowers, e.g. pressure on women (98% of borrowers), over-indebtedness, poor guidance given to borrowers, macro-finance is needed for economies of scale, people borrowing multiple times, for uses which are social not business orientated. • Large numbers of people setting up similar businesses/highly competitive e.g. food stalls, so profits tend to be low/need for dynamic efficiency • Funds from private banks very different from NGOs – banks might be more cautious, and therefore more likely to succeed, might be better advice, support from specialists, softer terms from either institution might lead to moral hazard	**(4)**

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

Question Number	Indicative Content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 4** Likely impacts include: • There are currently very low levels of intra-Africa trade (18% in 2020) and so there is large scope to develop economies by increasing trade, leading to an increase in economic growth • If firms can move their goods more quickly across borders they will be more able and willing to export, boosting economic growth • Cost of imports from other countries falls, reducing inflation rates/consumers can benefit from cheaper goods & services • An increase in trade will lead to an increase in demand for workers, boosting employment and therefore economic growth • Increase in LRAS of economy as infrastructure improves • Increase in productivity e.g. due to improved geographical mobility of labour or larger markets lowering unit costs • Increased foreign direct investment	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.

		Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
6(c) continued	**Evaluation 4** • Improved transport may go underutilised/unused if it is too expensive such as new railways • It may be more important to improve access to information to make it easier and cheaper to transport goods across Africa • Reducing tariffs may be a quicker and simpler way to boost development than improving infrastructure, the IMF says this could boost trade by 15% to 25% • African governments are unlikely to have the funds to upgrade infrastructure, and doing so may only worsen national debts, which will hamper growth in the future • Different African countries may face different problems • Administrative problems e.g. in crossing borders • It may be difficult to improve transport links due to geographical factors • Other factors may be a bigger barrier to improving economic growth than transport links e.g. civil unrest	**(4)**

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

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Policies the Rwandan government could use include: • Subsidising textile manufacturers to purchase new machinery to increase efficiency • Improve infrastructure, e.g. roads & ports, to make it easier/cheaper for Rwandan firms to export their clothing • Increased education spending to improve efficiency of workforce • Investment in cheaper renewable electricity for factories to reduce their costs • Deregulation to increase efficiency • Reduce corporation tax to encourage firms to invest more • Incentives to encourage FDI into Rwandan manufacturing industry **NB: Do not award discussion of import tariffs**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • Opportunity cost of government spending- money could have bigger impact on Rwandan economy if invested in other industries or used to improve public services • Rwanda should focus on industries where it has a comparative advantage, not textiles • Time lag for policies to have any significant impact • Risk of corruption, e.g. funding for construction projects may not be spent where it was intended • Highly educated workforce may emigrate to more developed countries that offer higher wages	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Explanation of market-based policies the Angolan government could use to improve development, e.g. • Privatisation of state-owned firms to encourage innovation and competition in the economy • Tax cuts e.g. business taxes to encourage FDI • Selling shares in the state oil company to provide funds for investment and growth • Policies to increase competition between firms, such as restrictions on mergers, to boost competitiveness • Reforming the labour market, e.g. reducing cost/ paperwork of immigration, increasing the size/ productivity of labour market • Policies that will make it easier for foreign direct investment into Angola • Deregulation of financial sector to encourage more FDI • Microfinance schemes • Trade liberalisation • Removing government subsidies to increase competition • Removal of exchange rate controls/move to a floating exchange rate • Development of tourism market e.g. deregulation, removal of visas **NB For a Level 3 answer candidates must refer to development and market-orientated strategies**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • Privatised firms may look to reduce number of employees, thus not boosting development • Increased competitiveness may mean some firms cannot survive • Reform of labour market may lead to reduced workers' rights • Lack of property rights reducing effectiveness of market-based strategies • Failure of price mechanism • Criticism of effectiveness of policies e.g. microfinance, privatisation • FDI may not be long term • Foreign firms may withdraw profits from Angola • Contrast with interventionist strategies	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
1 (d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effects of policies: Microeconomic effects may include: • fiscal, e.g. 'mildly expansionary policies' such as cutting income tax will increase real wages • monetary e.g. cutting interest rates can reduce the costs of borrowing for individuals and firms. • supply side policies, e.g. privatisation, free trade can make markets more competitive • growth and development strategies e.g. education, debt relief etc. can further alleviate poverty • price controls Macroeconomic effects may include: • Cutting interest rate might cause the peso to further decrease in value, which would cause inflation / increase the value of exports leading to current account improving • Privatisation or other supply side policies can increase international competitiveness **NB for a Level 4 response there must be reference to both economic growth (e.g. rising incomes) and economic development (e.g. longer life expectancy through improved living standards) and a focus on effects for Level 3 and above.** 9 marks for evaluation – might include: • Expansionary fiscal policies might involve an improvement in the redistribution of income • Objectives might conflict, e.g. cutting interest rates can cause inflation or widen inequality, or increased government spending to produce growth might cause inflation (e.g. Phillips Curve) • Policies might conflict, e.g. increasing length of time to gain a permit to reduce externalities can cause a negative supply side impact e.g. by raising production costs for firms.	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **Microeconomic effects might include:** • on firms e.g. from quicker planning approvals, tax incentives locating to special economic zones, better roads and ports • improved quality of labour force e.g. from education and health reforms (Extract D) • lower bureaucratic costs • lower prices as competition increases **Macroeconomic effects might include:** • lower inflation (might be shown by rightwards or downwards shift of LRAS) • improved balance of payments as exports improve • infrastructure improvements attracts FDI • indirect increased AD via G, I or X, and multiplier effects • increase in real GDP **NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics if developed appropriately.** **NB for a Level 4 answer there must be reference to the context of *Indonesia*.** **Evaluation points might include:** • impact will depend on success of policies – may refer to previous underinvestment in the Extract E, or higher investment in neighbouring countries • Some supply side policies conflict with other policies, e.g. fiscal and there is a fiscal constraint by law (Extract E) • depends on whether supply side policies are interventionist or market-based as to whether there will be an inflationary effect, crowding out effect etc. • labour market still appears to be inflexible (Extract E) • collecting tax to pay for the capital spending or repayment of loans can have negative impact, e.g. government failure, aid dependency	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of decreasing interest rates • lower costs to businesses, so fixed costs fall and increase competitiveness. May be shown using a cost/revenue diagram • greater credit for businesses to expand/invest in R&D and gain dynamic efficiency • higher consumer demand as consumption increases; greater consumer surplus • impact on Kenya's housing market • Mr Matsiko in Ext G pays 22% not 7%, and there is a large information gap for lenders (asymmetry of information in credit markets) • labour market effects (derived demand) • lower prices for consumers • less available credit (so less investment, dynamic efficiency etc) Macroeconomic effects may include: • lower saving (unlikely in the context) but easier to borrow, so consumption and investment increases; hence AD rises with multiplier effects. May be shown using AD/AS analysis or diagram • lower exchange rates – improvement in current account position of BOP, with effects on competitiveness and trade • lower cost of financing public deficit/debt may mean greater government spending elsewhere • redistribution of income, e.g. from savers/lenders to borrowers • impact on LRAS/PPF over time if investment continues to grow **NB for a Level 4 response, there must be micro and macro effect(s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** **NB if there is no reference to a developing country then award a maximum of Level 3 KAA.** **NB Effects in KAA could be used as evaluation and vice-versa. Counter-effects may be used as evaluation.**	**(25)**

	9 marks for evaluation – points might include: • interest rate is not the only cost for firms e.g. depends on how much the interest rate costs are as a percentage of costs overall • impact on real output depends on level of spare capacity/elasticity of LRAS/other components of AD • the central bank rate is not the rate that individuals can access • degree to which the factors might be a success • depends on other countries' interest rates are (relative competitiveness issue) • fixed interest rates and other short term/long term issues • interest rates are low in Kenya compared to other sub-Saharan countries • impact on borrowers will depend on whether people have assets or collateral • magnitude/pattern of the interest rate change	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic strategies may include: • state provision or tax relief to encourage increased job opportunities • other attempts to encourage private production e.g. flower firms benefit from airport improvements • methods to improve value of workers' output e.g. vocational training at school, or improving student attendance • disease prevention and cures e.g. polio vaccine • infrastructure • skills • technology • government intervention e.g. minimum wage or subsidies Macroeconomic strategies may include: • trade liberalisation e.g. promote international trade, e.g. absolute advantage means there are gains from international trade but currently 90% flowers are from the Netherlands • privatisation – the flower industry is private • information and health assistance to lower birth rate • development of human capital, e.g. better healthcare in other areas, spending on education and skills • increased FDI by shoring up capital markets • aid • debt relief • microfinance **Accept standard government/international institution/NGO policies to promote macroeconomic stability or growth if linked to development e.g. fiscal policy aimed at reducing inequality** **NB for a Level 4 answer there must be reference to Kenyan data or another developing country** **NB many strategies such as vaccines, tourism, education/skills, privatisation, microfinance, supply side policies or infrastructure could be counted as macro or micro** **NB Counter-effects can be counted as strategies or evaluation**	**(25)**

	9 marks for evaluation – points might include: • There is a limit to what strategies can influence, e.g. health and education, if for example children are needed as a social insurance policy • Global health crisis has affected poor countries more profoundly • Comparison or contrast with another developing country or a more economically developed country e.g. as an example of how population growth can be limited	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 – 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
5(a)	**Knowledge 1, Analysis 1** **Knowledge/understanding:** Identification of one reason (1), e.g. • Lower interest rates (1) • Increase in consumer confidence (1) **Analysis:** Linked development (1), e.g. • Lower interest rates makes loans more affordable (1) • Higher consumer confidence encourages consumers to borrow believing they can repay in the future (1)	**(2)**

Question Number	Answer	Mark
5(b)	**The only correct answer is B** ***A*** *is not correct because this would either not be related or would increase the trade deficit* ***C*** *is not correct because this would be likely to reduce unemployment* ***D*** *is not correct because this would be likely to cause inflation*	**(1)**

Question Number	Answer	Mark
5 (c)	**Application 2** **Application:** 1 mark for correct appropriate calculation/formula e.g. Base year 2015 = 100 (1) **OR** 4% (1) Answer = **104** Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Absolute poverty: Lacking basic necessities to survive (1) • Relative poverty: Relatively poor compared to rest of your country (1) **Application:** Up to 2 marks for e.g. (1+1 OR 2) • Absolute poverty: World Bank definition: $1.90 a day (1) PPP values (1) • Relative poverty: 60%/50% (1) below median household income in your country (1) • Reference to Figure 1 or Extract A/B (1+1) **Analysis:** Up to 1 mark for e.g. • Absolute poverty can decline at the same time as relative poverty is increasing (1) • There may be relative poverty in a country but not necessarily absolute poverty (1)	**(5)**

Question Number	Answer	Mark
1(a)	**The only correct answer is A** ***B*** *is not correct because investment is by firms, and would not be related to credit cards* ***C*** *is not correct because this is about trade and wouldn't affect credit cards* ***D*** *is not correct because this would mean less consumption*	**(1)**

Question Number	Answer	Mark
1(b)	**Application 2** Identify correct data (1): January 2016: 13 000 March 2017: 15 000 Correct manipulation of formula (1) e.g. (Final value ÷ Initial value) X 100 (15 000 ÷ 13 000) X 100 Correct answer: 115.4 (allow range 115 to 115.4) Also allow: Feb-March 113.6 (range 113 to 114) Mar-April 91.33 (range 91 to 92) **NB Award full marks for correct answer**	**(2)**

Question Number	Answer	Mark
1(c)	**Knowledge 1, Application 1** Identify link e.g. rise in inflation (1): Linked development (1) e.g. rise in AD (1) causes an increase in inflation (1) **Accept other possible approaches** **NB Allow answers explaining how inflation might lead to an increase in credit card lending**	**(2)**

Question Number	Answer	Mark
3(a)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding and analysis (3):** • Market rigging is a form of market failure in financial markets (1) • It involves unfairly or illegally fixing/ manipulating the price up or down/interest rate/exchange rate/bid (1) • Banks/traders work together/collude as a cartel (1) • Insider trading (1) • Asymmetric information (1) • Symptom of oligopoly (1) • The banks will have made additional profits from market rigging (1) • Consumers will have lost out from rates not being where they would be in a competitive market (1) **Application (1):** A relevant reference to the data or other relevant data e.g. • Fined more than €1 billion (1) • Share information about customers' orders, prices and other trading activities (1) • To manipulate currency markets (1) • Online chatrooms (1) • Libor or other relevant examples (1)	**(4)**

Question Number	Answer	Mark
3(b)	**The only correct answer is C** ***A*** *is not correct because this is not a role of financial markets* ***B*** *is not correct because this is not a role of financial markets* ***D*** *is not correct because this is not a role of financial markets*	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Understanding:** (1+1 or 2) marks Explanation of forward markets in currencies, e.g. • Firms buy their currency in advance (1) • Firms agree a fixed price (1) for purchase of foreign currency in the future (1) **Application:** (1+1) marks Reference to Extract A, e.g. • Currency 'has a big impact' on their business • Buying currency as soon as a large order is confirmed • 'The pound's post-Brexit referendum depreciation' Other application e.g. use of Figure 1. NB at least one piece of data must come from Extract A for the full 2 Ap marks. **Analysis:** (1) mark Linked development, e.g. • Enables firms to reduce risk/uncertainty • Firms can be certain about the cost of their imports in pounds	**(5)**

Question Number	Answer	Mark
5(a)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding of one role (2):** **E.g.** • To lend to businesses and individuals (1) to help them consume/invest (1) • To facilitate the exchange of goods and services (1) increasing consumption/investment (1) • To facilitate saving (1) so consumers can build up money to purchase expensive items (1) • To provide forward markets (1) so firms can reduce the risk of fluctuating prices (1) • To provide a market for equities (1) so firms can seek investment from shareholders (1) **Application (1):** A relevant reference to the data, e.g. • Many small businesses required a loan to help them survive the downturn in the economy (1) • Interest rate of 2.5% for up to 6 years (1) • Up to £50,000 could be borrowed for up to 6 years (1) **Analysis (1):** Linked development 1 mark for e.g. • Businesses will already have accounts, loans, etc. with banks so the banks were in a position to quickly issue these loans to their customers (1) • Loans provided finance for firms suffering a drop in demand (1) • Loans allow firms to grow/expand more quickly (1) • Helps to boost AD/increase economic growth (1) • Firms can invest in innovation (1) • Increase in productivity (1) • Impact on housing market (1) • Importance of saving to help development (1) • Bonds to finance government spending (1)	**(4)**

Question Number	Answer	Mark
5(b)	**The only correct answer is A** ***B*** *is not correct because this would not lead to crowding out* ***C*** *is not correct because there is no suggestion of market rigging taking place* ***D*** *is not correct because there is no suggestion of speculation here*	**(1)**

Question Number	Indicative content	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge** **Up to 2 marks; points might include:** • Identification of **one** role of financial markets (1) e.g. • to facilitate saving • to facilitate lending to businesses/individuals • to facilitate the exchange of goods and services • to provide forward markets in currencies and commodities • to provide a market for equities • commercial interest rate determination Understanding of what a financial market does (1) e.g. • to finance business investment • to take out a mortgage **Application (1 + 1)** Award valid data use only e.g. • 'mortgage sector withdrawing deals' (1) • 'fixed-rate mortgages rising from 2% to over 5.5% (1)' • 'increase cost of borrowing of over £5200 a year by 2024' (1) • 'mortgage interest rates between 5% and 7%' (1) • 'Lenders in mortgage market' (1) • Relevant example from own knowledge e.g. market rigging, current interest rates (1) **Analysis (1 mark)** for linked development • link made to consumption/investment e.g. enabling individuals to purchase big ticket items; firms invest in capital goods • precautionary saving • to reduce risk of exchange rate of commodity price fluctuations	**(5)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** The role of the financial sector in the growth and development in developing countries includes: • facilitating saving so banks have more funds for lending, facilitating investment and therefore growth • promoting lending to enable more investment in the economy • exchanging currencies- enabling firms to imports parts and materials- often more cheaply- and also enabling them to export - helping to increase size of their market • providing a market for equities • Harrod-Domar model • Microfinance • Central banks/international organisations **NB For a Level 3 response candidates must refer specifically to growth/development in a developing country/countries/regions**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • Clear rule of law required for financial sector to develop • Risk of corruption • Risk of market failure in financial marketss • Lack of financial literacy in developing countries may limit potential • Other factors may play a larger role, e.g. healthcare, infrastructure, education	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of falling house prices may include: ● lower revenues / profits/ share price for new home builders ● reduced incentive to build new homes for construction companies / externality arguments ● lower (derived) demand for construction workers ● lower revenues/profits for estate agents ● use of cost/revenue/profit diagram ● changing pattern of consumer spending - cut back on luxuries and big-ticket items ● lower revenue/profit for firms selling luxury goods ● reduction in supply of houses on the market ● opportunity for first time buyers / buy-to-let to purchase at a lower price (buyers' market) ● risk of negative equity for those with large existing mortgages e.g. causes geographical immobility ● geographical mobility of labour arguments e.g. easier to buy in cities ● fall in rent cost for firms Macroeconomic effects may include: ● negative wealth effects - falling confidence & consumption ● AD/AS analysis ● effects on growth ● effects on employment ● effects on inflation ● effects on financial account of BoP ● impact on government finances via fall in stamp duty and inheritance tax revenues ● impact on inequality **NB for a Level 4 response, there must be micro and macro effect(s). Some effects can be seen as micro or macro e.g. geographical immobility/mobility and fall in growth.** 9 marks for evaluation – points might include: ● Short run v long run effects ● Discussion of falling v rising at a slower rate ● Regional variations ● Micro effects depend on position on property ladder	

	• Magnitude arguments e.g. 'UK house prices will never fall, but...could be between 10% and 20%.' • Information gaps • Depends on position of AD on LRAS • magnitude of PES	
	• significance of other changes within the economy e.g. tax changes • extent of impact depends on policy making e.g. interest rate decision	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** **Arguments that providing support to banks is the best policy:** • Economy is dependent on financial system working smoothly • People could have lost their savings if banks had been allowed to fail, leading to massive drop in confidence • Potential for risk of depression had government not intervened • Government has recouped much of the money invested into bailing out the banks anyway- Government 'recovered every penny of its investment in Lloyds' **NB Discussion of other policies, e.g. central bank regulation, can also be awarded as KAA** **NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** **Arguments that providing support to banks is not the best policy:** • Huge expenditure for government that, for example in the case of the UK, already has a significant national debt- £65bn bailout of RBS and LBG. Will have to be repaid by future generations of taxpayers. • Moral hazard: will encourage reckless behaviour from the banks in the future, expecting a bailout again • Government looking unlikely to recoup losses from RBS for some time (in contrast to Lloyds) • Other policies, e.g. expansionary fiscal policy, may have been more effective **NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation**	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge / analysis up to 3 marks for e.g.:** • Progressive tax is where the proportion of income/wealth paid as tax increases as income/wealth increases / tax rate rises as income/wealth rises (1) • Regressive tax is where the proportion of income/wealth paid as tax decreases as income/wealth increases / tax rate falls as income/wealth rises (1) • Distinction examples: progressive tax would reduce income inequality while regressive tax would increase income inequality (1); reference to effect on Gini coefficient (1); progressive greater burden on higher income, regressive greater burden on lower income (1) encourage people to work harder, earn more money? (1) direct vs indirect (1) **Application:** Up to 2 marks (1 mark for progressive and 1 mark for regressive) Progressive income tax (1) e.g. • People earning less than £12,570 pay no income tax • Someone earning £150,000 will pay an extra £1,200 income tax per year with the changes • Corporation Tax Regressive tax (1) e.g. • VAT • Council tax • sugar tax • Congestion Charge • ULEZ • Excise duty **NB: Do not accept e.g. increase in tax paid as income rises**	**(5)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Analysis:** Up to 3 marks for, e.g. • Direct taxes are taxes on income/profit (1) • Direct taxes are paid directly by the payer to the government (1) • Direct taxes are progressive taxes (1) • Indirect taxes are taxes on consumption/ expenditure of goods and services (1) • Indirect taxes are paid to the government by suppliers of products (1) • Indirect taxes can be passed on to consumers (1) • Indirect taxes are regressive taxes (1) • Indirect taxes used to reduce negative externalities (1) **Application (2):** Up to 2 marks for reference to Figure 1, e.g. • income taxes are direct taxes (1) • corporation tax is an direct tax(1) • VAT is an indirect tax (1) • Tobacco duty is an indirect tax (1) **NB: There needs to be a reference to both types of taxes; otherwise maximum 2 marks for Knowledge and Analysis.**	**(5)**

Question Number	Indicative Content	Mark
6(d)	**Knowledge 2, Application 2, Analysis 4** Methods might include e.g.: Either from Extract C: • Increasing tax on houses: Housing is a large part of the UK economy and many people may feel this is in need of an update to reflect changing house prices since 1991. This could also provide a good opportunity to increase overall revenue from the tax • A one-off wealth tax: This would raise a very large amount of money, £260 billion, and would focus on those with the most wealth. Only one-off so shouldn't have any long-term impacts • Increasing corporation tax: The UK has a very low rate of corporation tax, so it would make sense to raise it without risking too many firms leaving the UK whilst still raising extra revenue yearly going forward- e.g. £17.2 billion in 2025-26 Or other possible methods e.g.: • Cutting corporation tax to incentivise firms to increase investments in UK/attract FDI leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve. • Cutting income tax to incentivise workers to work harder/less incentive to avoid tax leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve. **NB:** **To achieve level 3 at least one reference must be made to Extract C somewhere in the whole answer**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but

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

Question Number	Indicative Content	Mark
6(d) continued	**Evaluation 4** • Higher tax rates may not lead to higher revenue, perhaps with reference to Laffer curve/tax evasion/tax avoidance/disincentive effect • Updating tax on houses could see some people experiencing a significant rise in the tax they have to pay which may be unaffordable for them • A one-off tax won't help generate tax revenue long-term • Increase in regressive taxes could worsen inequality • Disincentive to invest having a long term impact on LRAS	**(4)**

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

Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: • on people facing reduced benefits (non-working recipients) • on people facing reduced work-related benefits (e.g. working tax credits) • on firms with increased supply of labour, but higher costs of labour • on firms' incentives, e.g. changes in corporation tax • effects on sectors of economy such as schools, policing from reduced public sector spending • micro effects on supply of labour and on output of firms from changes in marginal tax rates Macroeconomic effects may include: • lower inflation (might involve a discussion of marginal propensity to consume / multiplier) • lower nominal GDP • change in employment / incentives to work • increased income inequality • reduced quality of public services in general • falls in productivity and increased cost push effects as a result of cuts in education or failing infrastructure • reduced crowding out effects as government spending falls in the short term (raising taxes takes longer to reduce the size of the deficit?) • Laffer curve e.g. tax evasion and avoidance Possible evaluation points include: • impact will depend on which areas of government spending are cut, or which type of taxes are raised • depends on multiplier effects within different sub-groups, and depends on the type of tax raised • does the deficit need to be cut at all? Figure 6 shows falling national debt relative to GDP even with a fiscal deficit • questioning the timing of the cut in a deficit – should fiscal austerity be delayed, or is it important to avoid the credit risk of ongoing deficit? • Increase in tax has a smaller effect on crowding out then cutting G. More time delays, might not work, no first round impact on the circular flow of income. • Government failure • Consideration of the size of the public sector **NB for a level 4 there must be reference to:** • **G and T** • **macro and micro effects**	**(25)**

Question Number	Indicative content	Mark
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** There may be a trade-off between environmental protection and other macroeconomic objectives, e.g.: • **Higher economic growth**: this leads to more energy usage, much of this energy is still powered by non-renewable sources such as gas (especially in the UK) or coal (e.g. Germany) • **Inflation:** measures to protect the environment (e.g. packaging modifications, recycling costs) may increase costs for firms, pushing up prices & causing inflation • **Income inequality:** Replacing non-renewable energy requires huge capital expenditure which may increase energy costs for poorer people, especially in developing countries • **Unemployment:** Employees in polluting industries may lose their jobs if firms are forced to close due to government policies to reduce pollution The trade-offs may not occur: • Increased economic growth means governments have more money to invest in environmentally-friendly solutions such as better public transport • Firms may take this opportunity to increase their efficiency, e.g. new more environmentally friendly machinery may also be more efficient. Firms can make money from recycling products/using recycled products in production may be cheaper • In the long term renewable energy will be cheaper for consumers and isn't subject to fluctuating world oil & gas prices • Many new jobs have been created in sectors such as renewable energy, research into carbon capture, and recycling	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.