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EDEXCEL INTERNATIONAL A LEVEL ECONOMICS: QUESTIONS BY TOPIC

Aggregate demand (AD) (2.3.2)

International A Level Economics · Unit 2: Macroeconomic performance and policy

69 questions · 329 marks · Mark schemes included
Past papers June 2019 - June 2025 · 5 specification sub-topics

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HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest to the highest mark tariff, then oldest paper first.

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; < QUESTION brings you back.

Whenever a question refers to an extract, figure or table, those exact pages are printed immediately before it ("extracts & data").

A gold bar in the left margin marks exactly where the question sits on the original page.

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

QUESTION	SOURCE	MARKS	PAGE
2.3.2.1 THE CHARACTERISTICS OF AD		7 Qs · 24 marks	3
1. Q5	IAL Unit 2 October 2019	1	4
2. Q4	IAL Unit 2 January 2020	1	5
3. Q9	IAL Unit 2 June 2021	4	6
4. Q11	IAL Unit 2 June 2021	4	7
5. Q9	IAL Unit 2 October 2023	4	8
6. Q9	IAL Unit 2 October 2024	4	9
7. Q12(c)	IAL Unit 2 June 2019	6	10
2.3.2.2 CONSUMPTION (C)		24 Qs · 113 marks	15
8. Q4	IAL Unit 2 January 2021	1	16
9. Q5	IAL Unit 2 January 2022	1	17
10. Q4	IAL Unit 2 June 2023	1	18
11. Q6	IAL Unit 2 June 2024	1	19
12. Q6	IAL Unit 2 October 2024	1	20
13. Q12(a)	IAL Unit 2 January 2020	2	21
14. Q10	IAL Unit 2 June 2019	4	25
15. Q10	IAL Unit 2 October 2019	4	26
16. Q8	IAL Unit 2 June 2021	4	27
17. Q8	IAL Unit 2 October 2021	4	28
18. Q10	IAL Unit 2 January 2022	4	29
19. Q12(b)	IAL Unit 2 June 2022	4	30
20. Q8	IAL Unit 2 October 2022	4	34
21. Q10	IAL Unit 2 January 2023	4	35
22. Q11	IAL Unit 2 January 2023	4	36
23. Q8	IAL Unit 2 October 2023	4	37
24. Q8	IAL Unit 2 January 2024	4	38
25. Q11	IAL Unit 2 January 2024	4	39
26. Q7	IAL Unit 2 October 2024	4	40
27. Q12(c)	IAL Unit 2 January 2020	6	41
28. Q12(c)	IAL Unit 2 June 2022	6	46
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2.3.2.3 INVESTMENT (I)		16 Qs · 69 marks	63
32. Q5	IAL Unit 2 June 2021	1	64



QUESTION	SOURCE	MARKS	PAGE
33. Q5	IAL Unit 2 October 2021	1	65
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35. Q5	IAL Unit 2 January 2025	1	67
36. Q2	IAL Unit 2 June 2025	1	68
37. Q12(a)	IAL Unit 2 June 2024	2	69
38. Q9	IAL Unit 2 October 2019	4	73
39. Q9	IAL Unit 2 October 2020	4	74
40. Q7	IAL Unit 2 June 2021	4	75
41. Q11	IAL Unit 2 October 2022	4	76
42. Q8	IAL Unit 2 June 2023	4	77
43. Q12(c)	IAL Unit 2 January 2022	6	78
44. Q12(d)	IAL Unit 2 January 2024	6	83
45. Q12(d)	IAL Unit 2 June 2019	8	88
46. Q12(d)	IAL Unit 2 January 2023	8	93
47. Q12(e)	IAL Unit 2 January 2020	14	98
2.3.2.4 GOVERNMENT EXPENDITURE (G)		4 Qs · 42 marks	104
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49. Q3	IAL Unit 2 January 2024	1	106
50. Q14	IAL Unit 2 (unused) January 2022	20	107
51. Q13	IAL Unit 2 January 2025	20	108
2.3.2.5 NET TRADE BALANCE (X-M)		18 Qs · 81 marks	109
52. Q4	IAL Unit 2 June 2019	1	110
53. Q6	IAL Unit 2 October 2020	1	111
54. Q3	IAL Unit 2 January 2021	1	112
55. Q4	IAL Unit 2 October 2022	1	113
56. Q4	IAL Unit 2 January 2024	1	114
57. Q4	IAL Unit 2 June 2024	1	115
58. Q6	IAL Unit 2 June 2025	1	116
59. Q9	IAL Unit 2 January 2020	4	117
60. Q7	IAL Unit 2 June 2022	4	118
61. Q7	IAL Unit 2 January 2023	4	119
62. Q11	IAL Unit 2 October 2024	4	120
63. Q12(b)	IAL Unit 2 January 2025	4	121
64. Q12(c)	IAL Unit 2 October 2019	6	125
65. Q12(d)	IAL Unit 2 June 2021	6	130
66. Q12(c)	IAL Unit 2 June 2023	6	135
67. Q12(d)	IAL Unit 2 January 2022	8	140
68. Q12(d)	IAL Unit 2 June 2023	8	145
69. Q13	IAL Unit 2 October 2021	20	150



QUESTIONS

69 questions · 329 marks · 5 sub-topics

SUB-TOPIC 2.3.2.1

THE CHARACTERISTICS OF AD

Sub-topic 2.3.2.1 · 7 questions · 24 marks · lowest tariff first



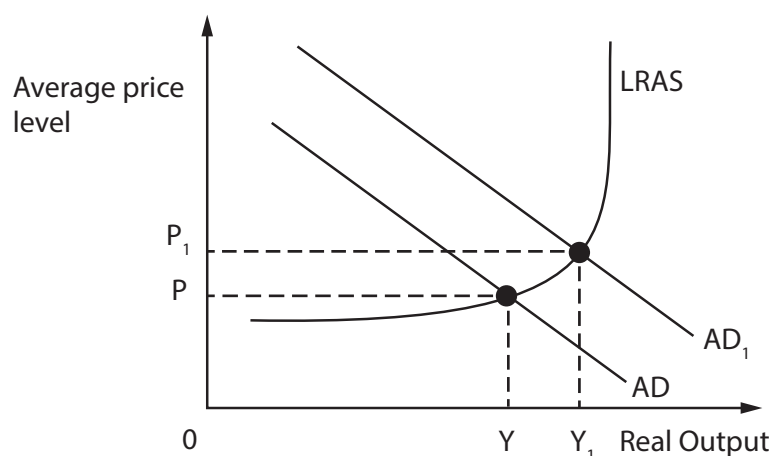
- 4 In 2017 a fall in mining and manufacturing production led to the Brazilian economy operating below its productive potential.

Which **one** of the following is most likely to be associated with a negative output gap?

- ☐ A High unemployment
- ☐ B High business confidence
- ☐ C An increase in house prices
- ☐ D An increase in wellbeing

(Total for Question 4 = 1 mark)

- 5 The diagram shows aggregate supply and aggregate demand for an economy.



Which **one** of the following was the most likely cause of the change from AD to AD₁?

- ☐ A A decrease in government spending
- ☐ B An increase in interest rates
- ☐ C A decrease in net exports
- ☐ D An increase in consumption

(Total for Question 5 = 1 mark)

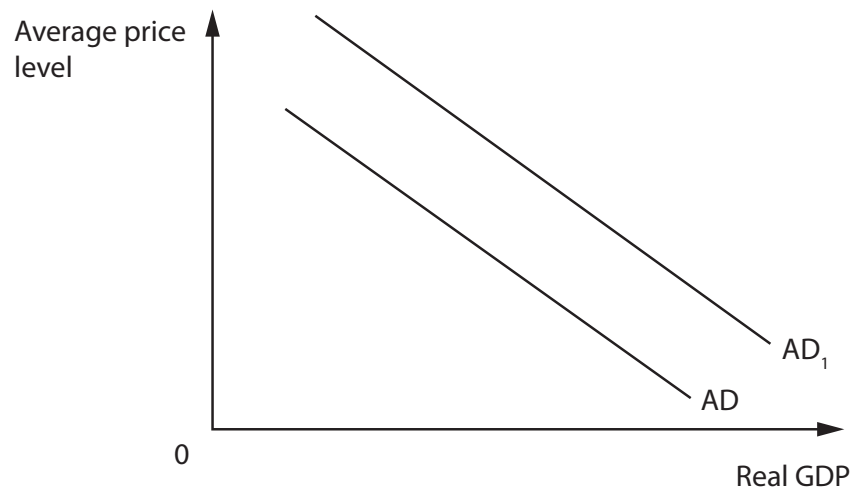
3 In 2017 Uzbekistan experienced an 8% increase in real GDP.

Which **one** of the following is most likely to be a benefit of economic growth?

- ☐ A Environmental damage
- ☐ B Improved public services
- ☐ C A negative output gap
- ☐ D A decrease in tax revenues

(Total for Question 3 = 1 mark)

4 The diagram shows a shift in the aggregate demand curve for an economy.



Which of the following combinations was the most likely cause of the change from AD to AD₁?

	Interest rate	Exchange rate
☐ A	Rise	Fall
☐ B	Rise	Rise
☐ C	Fall	Fall
☐ D	Fall	Rise

(Total for Question 4 = 1 mark)

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'fiscal policy' (Extract A, line 6). (2)
- (b) With reference to Figure 1, explain the term 'real GDP growth'. (4)
- (c) With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax. (6)
- (d) With reference to the information provided, examine the likely impact of increased investment on Romania's economy. (8)
- (e) Discuss the likely effects of the increase in the rate of inflation on Romania's economy. (14)



Sources for use with Section C.

The Romanian economy

Figure 1 Year-on-year real GDP growth by quarter, 2016-2017

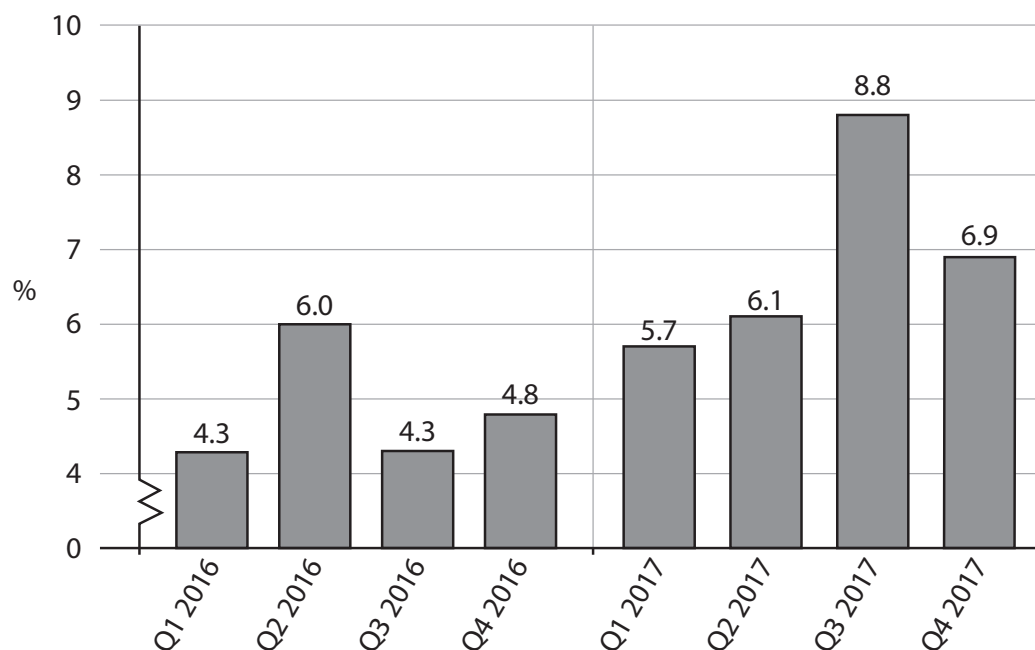
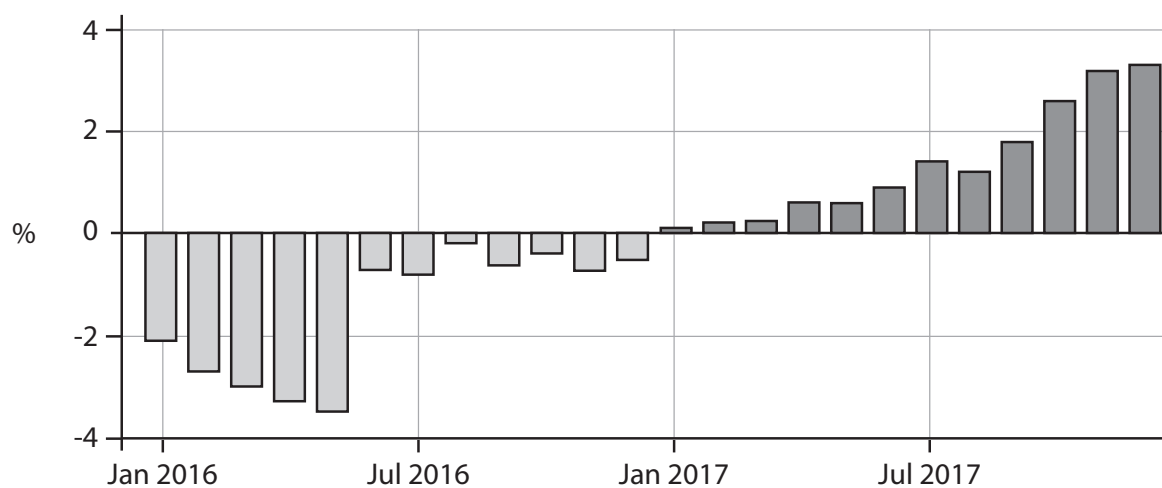


Figure 2 The rate of inflation, as measured by the consumer price index, 2016-2017



Extract A Romania's economic growth

For many years Romania had been viewed as a poor country by European standards, experiencing low wages and a slow rate of economic growth. However, since 2015, Romania's rate of economic growth outperformed other European countries. This growth was stimulated by a number of factors including the Government's expansionary fiscal policy, increased household consumption and high levels of investment in new technology for manufacturing industries. 5

In 2015 the Government cut VAT from 24% to 20%. It planned to double the minimum wage over a four-year period. It also increased the salaries of public sector employees. However, wage levels are still low compared to other European countries leading to high levels of migration out of the country. This resulted in labour shortages as businesses found it hard to fill vacancies. The unemployment rate fell to 4.6% in 2017. 10

Romania has one of the fastest broadband internet speeds in the world, behind Singapore, Hong Kong, South Korea and Iceland. It also has a very well-educated workforce, with excellent language, maths and science skills. The technology sector is expanding fast in the country, and many large foreign firms such as Siemens and Ford have set up factories in Bucharest, the Romanian capital. This has increased production in the country and generated strong growth in exports. 15

Extract B Inflationary pressures

As disposable incomes have risen, consumption has also increased significantly reaching a ten-year peak in 2017. The rate of inflation has risen throughout 2017. This was partly caused by a 3.8% increase in food prices and by a 4.1% price increase in non-food products. 5

The central bank responded to this inflationary pressure by increasing its base interest rate for the first time in 10 years from 1.75% to 2%. Mugur Isarescu, the Governor of the central bank, suggested that the Romanian Government's fiscal policies are to blame for the higher rate of inflation. The fiscal deficit rose to 3% of GDP in 2016. The Government defended its position, believing that reductions in tax rates and increased government spending on infrastructure will lead to long-term economic growth. 10

(6)





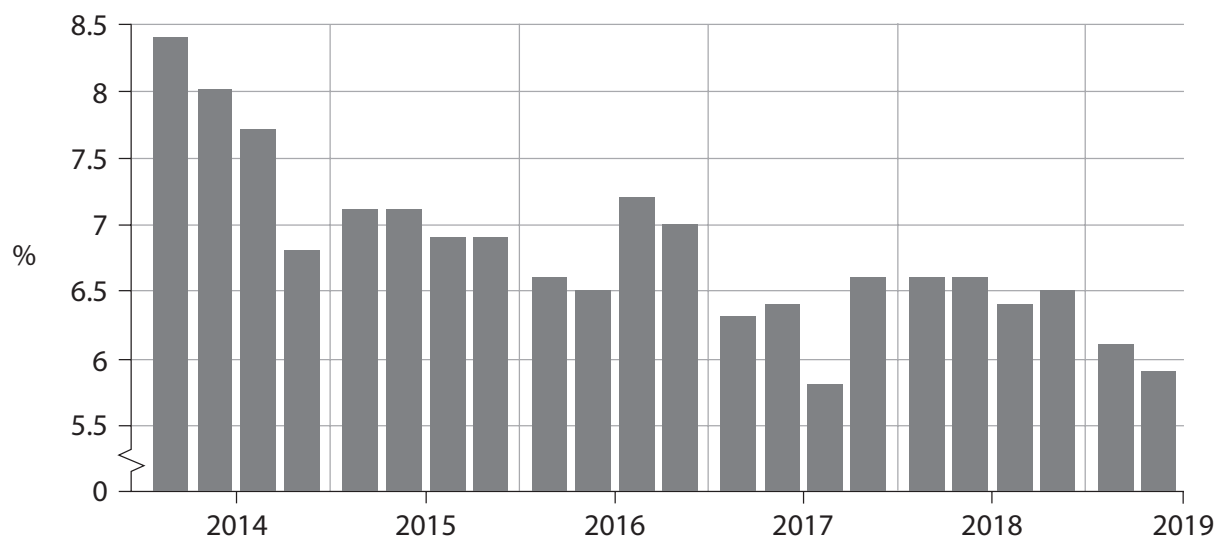
SUB-TOPIC 2.3.2.2

CONSUMPTION (C)

Sub-topic 2.3.2.2 · 24 questions · 113 marks · lowest tariff first



4 The chart shows Portugal's household savings ratio by quarter, Q1 2014–Q2 2019.



According to the long-term trend in the chart, *ceteris paribus*, which **one** of the following is most likely to have risen in Portugal?

- ☐ A Consumption
- ☐ B Exports
- ☐ C Unemployment
- ☐ D Withdrawals

(Total for Question 4 = 1 mark)

5 Which **one** of the following statements about the Keynesian long-run aggregate supply (LRAS) curve is correct?

- ☐ A The curve is perfectly inelastic at the full employment level of real output
- ☐ B The curve is relatively elastic at the full employment level of real output
- ☐ C The curve is relatively inelastic at high levels of spare capacity
- ☐ D The curve is perfectly inelastic at high levels of spare capacity

(Total for Question 5 = 1 mark)



- 5 Between Q1 2020 and Q4 2020 the savings ratio in the Netherlands increased from 15.3% to 24.3%.

Ceteris paribus, which **one** of the following is the most likely effect of this increase in the savings ratio?

- ☐ A A decrease in withdrawals from the circular flow of income
- ☐ B An increase in injections into the circular flow of income
- ☐ C A decrease in consumption
- ☐ D An increase in imports

(Total for Question 5 = 1 mark)

- 6 The table shows the annual percentage change in the real GDP of Canada between 2017 and 2019. The long-term trend rate of economic growth for the economy is estimated to be 2.7%.

Year	Change in real GDP (annual %)
2017	3.2
2018	2.0
2019	1.7

(Source: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2019&locations=CA&start=2017>)

Which **one** of the following can be deduced from the table?

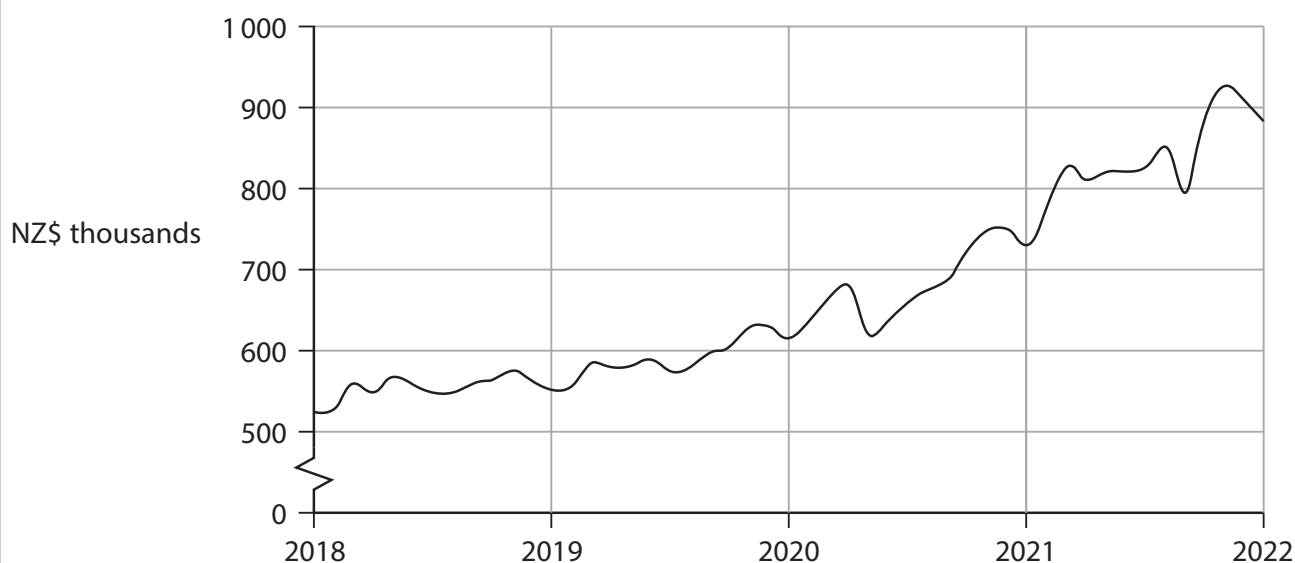
- ☐ A The positive output gap increased between 2017 and 2018
- ☐ B There was a negative output gap in 2018 and 2019
- ☐ C There was a positive output gap in 2018 and 2019
- ☐ D The negative output gap decreased between 2018 and 2019

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS



- 4 The chart shows changes in average house prices in New Zealand between January 2018 and December 2021.



Which **one** of the following is the most likely impact of the change in average house prices on existing homeowners between January 2018 and December 2021?

- ☐ A Higher consumer confidence
- ☐ B Negative wealth effects
- ☐ C An increase in net investment
- ☐ D Lower consumer expenditure

(Total for Question 4 = 1 mark)

- 5 In December 2021 the European Central Bank (ECB) decided to end its asset purchases (quantitative easing) scheme. In August 2022 the ECB started to sell these assets.

Which **one** of the following describes this economic policy?

- ☐ A Reflationary fiscal policy
- ☐ B Deflationary fiscal policy
- ☐ C Reflationary monetary policy
- ☐ D Deflationary monetary policy

(Total for Question 5 = 1 mark)

- 6 The table shows average UK house prices between November 2022 and January 2023.

Month and year	Average house price (£)
November 2022	294 693
December 2022	293 162
January 2023	289 818

Which **one** of the following can be deduced from the table?

- ☐ **A** Existing homeowners experienced negative wealth effects
- ☐ **B** Existing homeowners experienced an increase in consumer confidence
- ☐ **C** Between November 2022 and January 2023 average house prices fell by 0.52%
- ☐ **D** There will be a greater incentive for construction companies to build new houses

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS



6 The table shows Mexico's consumer confidence index (CCI), April 2021 to April 2023.

Year	CCI
April 2021	101.5
April 2022	102.8
April 2023	103.4

The CCI is a measure of consumers' willingness to spend.

With reference to the above table, which **one** of the following is most likely to result from this change in consumer confidence between April 2021 and April 2023?

	Price level	Real output
☐ A	Fall	Fall
☐ B	Fall	Rise
☐ C	Rise	Fall
☐ D	Rise	Rise

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS



SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'Consumption' (Extract A, line 9). (2)
- (b) With reference to Figure 1, explain the term 'real GDP growth rate'. (4)
- (c) With reference to Extract A, analyse **one** possible macroeconomic impact of the increase in house prices on the Canadian economy. (6)
- (d) With reference to Extract B, examine the likely impact of government policies to increase wellbeing. (8)
- (e) Using the information in Figure 2 and Extract A, discuss the impact of low investment on Canada's economy. (14)



Sources for use with Section C.

The Canadian economy

Figure 1 Quarterly real GDP growth rate, quarter 1 2013 – quarter 2 2018

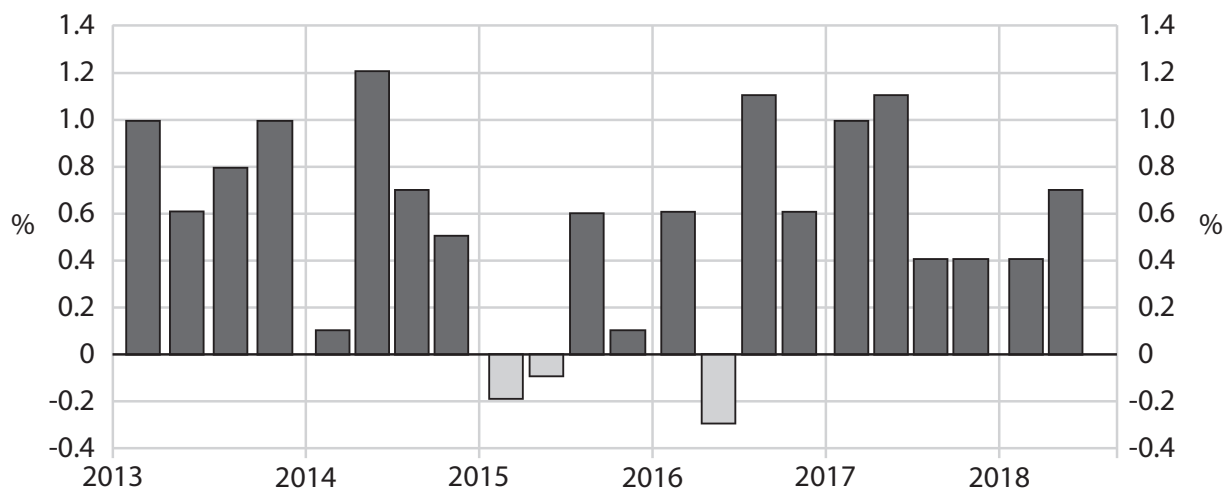
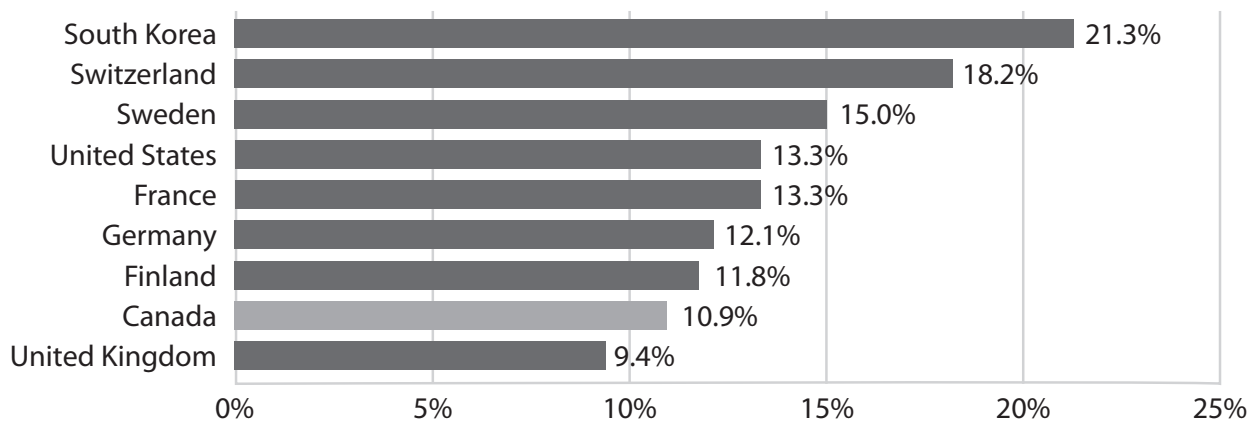


Figure 2 Business investment as a share of GDP in selected countries of the OECD (Organisation for Economic Co-operation and Development), 2015–2017



Extract A The economic climate

After a downturn in 2016, the Canadian economy experienced sustained economic growth. This was partly caused by a significant increase in the demand for exports. Canadian oil and petrol exports grew by 42% compared with 2016. Car exports increased by 3.8%. Most other exports grew by an average of 1%. Much of the increase in foreign demand came from the European Union as its economies started to strengthen. The increase in exports caused an improvement on the current account on the balance of payments. The exchange rate of the Canadian dollar also increased. 5

Consumption also rose during 2017. This was mainly the result of two factors:

- the unemployment rate fell from 7% in 2016 to 5.8% in 2017 10
- average house prices increased by 5.7% in 2017.

However, business investment remains relatively low. In particular, there has been little investment in new machinery and equipment. This has a negative impact on productivity because capital equipment per worker in Canada is very low by international standards.

Extract B Government policies to increase wellbeing

In 2018 the Canadian Government announced its continued commitment to improving the wellbeing of the population. The Government identified the need for increased government spending on wellbeing, particularly for those people who have a very low income. For low-income households the lack of access to basic necessities, such as food and housing, can lead to both mental and physical health problems. Around one in ten people live in low-income households. The 2.7 million people living on a low income do not have enough food, which causes health problems. This often prevents them from working or attending school. 5

The Government has increased the financial benefits to low-income households and to people who are unable to work. There has also been an increase in funding for low-cost housing, healthcare and better quality drinking water. 10

12 (a) Define the term 'Consumption' (Extract A, line 9).

(2)

(b) With reference to Figure 1, explain the term 'real GDP growth rate'.

(4)



10 In 2017 real wages rose by 19% in the Ukraine. This led to a 7.8% increase in consumption.

Draw a SRAS and AD diagram to show the possible impact of this increase in consumption on the price level **and** real output.

(Total for Question 10 = 4 marks)



8 In the first quarter of 2019 average house prices decreased by 15% in real terms in Sydney, Australia.

Explain **one** possible impact of this change in house prices on the level of consumption.

(Total for Question 8 = 4 marks)



Draw a LRAS and AD diagram to show the possible impact of this change in consumer confidence on the average price level and real output level in Australia.



SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'recession' (Extract A, line 2). (2)
- (b) With reference to Figure 1, explain what is meant by the savings ratio. (4)
- (c) With reference to the second paragraph of Extract A, analyse **two** factors that caused household consumption to increase in quarter 3, 2020. (6)
- (d) With reference to Figure 2 and Extract A, examine **two** likely effects of the substantial increase in the rate of unemployment on the Australian economy. (8)
- (e) With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity. (14)



Sources for use with Section C

The Australian economy

Figure 1 Savings ratio, Q3 2018 to Q3 2020

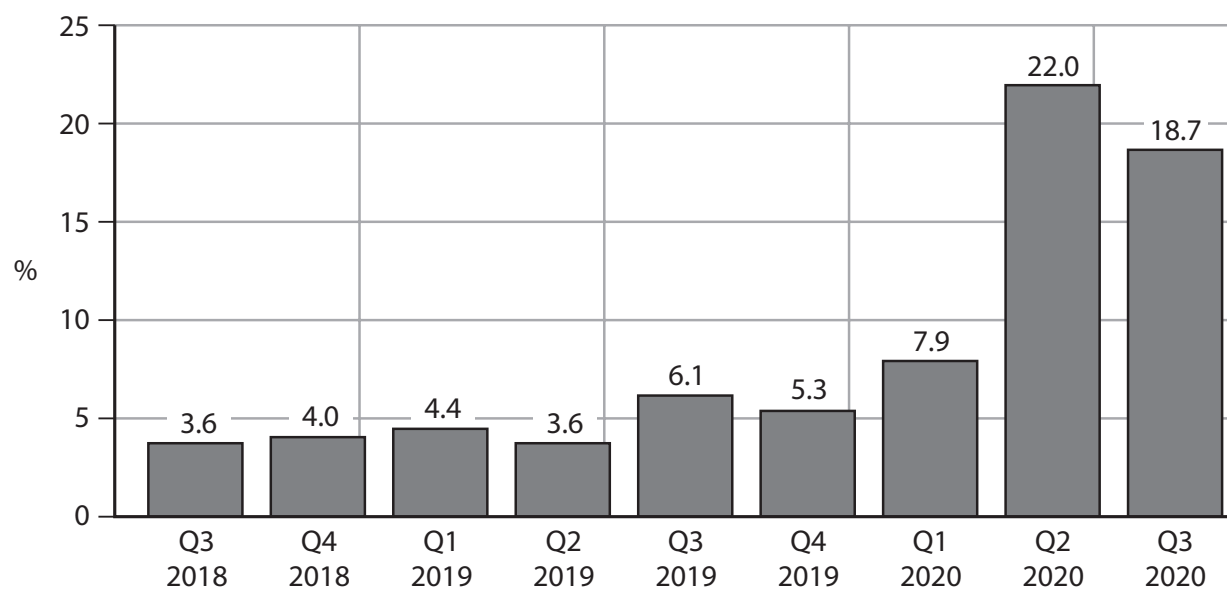
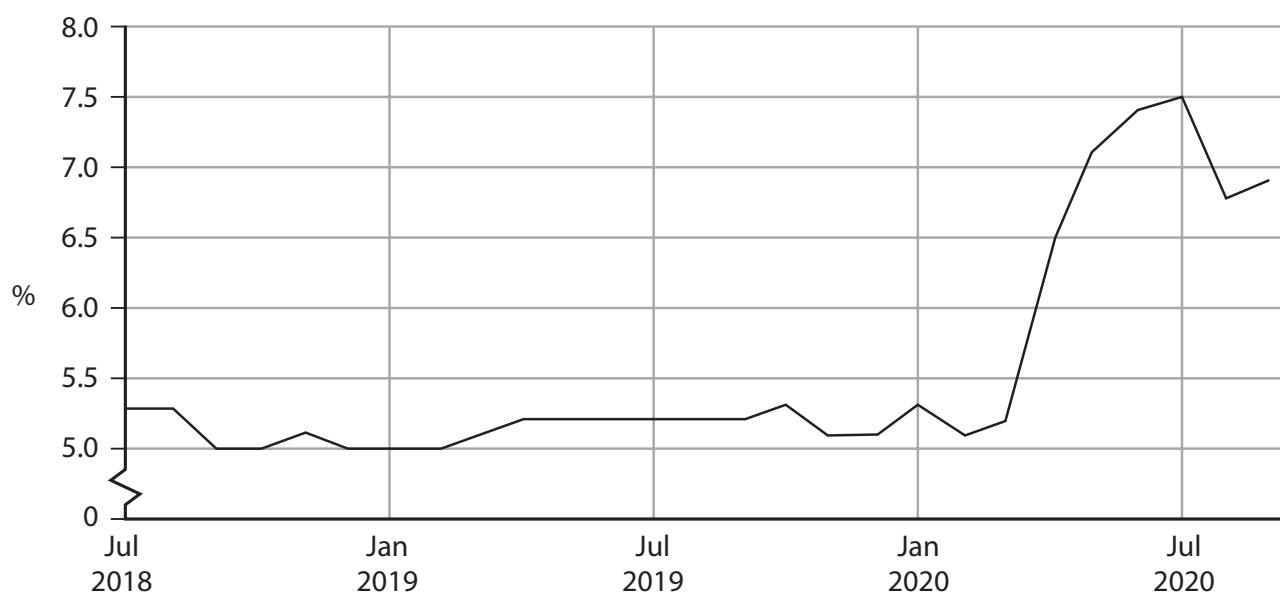


Figure 2 Unemployment rate, July 2018 to September 2020



Extract A Economic performance

In the first half of 2020 Australia's economy was in recession. In quarter 1 the economic growth rate was -0.3% and it declined further in quarter 2 to -6.8% . Consequently, between March and July 2020 there was a substantial increase in the rate of unemployment.

5

However, Australia's economy recovered quickly with an economic growth rate of 3.3% in quarter 3 of 2020. This was much higher than predictions of a growth rate of 2.5% . This increase in the growth rate was mainly as a result of a rise in household consumption. Although household consumption decreased by 12.5% in quarter 2 of 2020, it rose by 7.9% in quarter 3. The main reasons for this rise in consumption were:

10

- rising house prices
- reductions in the base interest rate by Australia's central bank
- higher welfare payments to households.

These factors resulted in an increase in consumer confidence.

While household consumption supported Australia's economic recovery, the rate of unemployment was still relatively high. In response, the Australian Government continued its JobKeeper Payment scheme to keep workers in employment. This scheme supported businesses negatively affected by the economic decline. Businesses were able to claim AU\$1 200 (before tax) per employee every two weeks to help cover the cost of wages.

15

20

Extract B Supply-side policies

Between 2010 and 2020 Australia's average annual increase in productivity was 1.7% . The country's average annual growth in real GDP per capita was 0.6% . This was below the 1% growth in GDP per capita in the USA. To increase GDP per capita, Australia needs to raise its productivity growth. This applies particularly to the service sector, which accounts for nearly 70% of Australia's GDP.

5

According to some economists, the Australian Government should consider implementing a range of interventionist supply-side policies to increase the country's productivity. These include:

- providing finance for business start-ups
- investment in infrastructure improvements
- investment in high-quality education and training schemes
- offering tax incentives and subsidies to encourage investment.

10

Successful implementation of these policies will enable Australia to achieve long-run economic growth.

15

Based on this information, draw an AD and LRAS diagram to show the likely impact of this fall in house prices on the price level **and** real output in the Philippines.



10 In September 2020 the average house price in the UK was £258 155. By September 2021 the average house price had risen by 11.5%.

With reference to this information, explain **one** likely macroeconomic impact of an increase in house prices on existing homeowners.

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or typing. There are no margins, text, or other markings on the page.

(Total for Question 10 = 4 marks)



Draw an AD and SRAS diagram to show the likely impact of this change in the savings ratio on the economy of the USA.

(Total for Question 8 = 4 marks)



Draw an AD and SRAS diagram to show the likely impact of this increase in consumer confidence in the eurozone.



Answer ALL questions in this section in the space provided.

- With reference to the information above, explain **one** likely macroeconomic impact of this decrease in house prices on existing homeowners.

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(Total for Question 7 = 4 marks)



SECTION C

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- (b) With reference to Figure 1, explain the term 'real GDP growth rate'. (4)
- (c) With reference to Extract A, analyse **one** possible macroeconomic impact of the increase in house prices on the Canadian economy. (6)
- (d) With reference to Extract B, examine the likely impact of government policies to increase wellbeing. (8)
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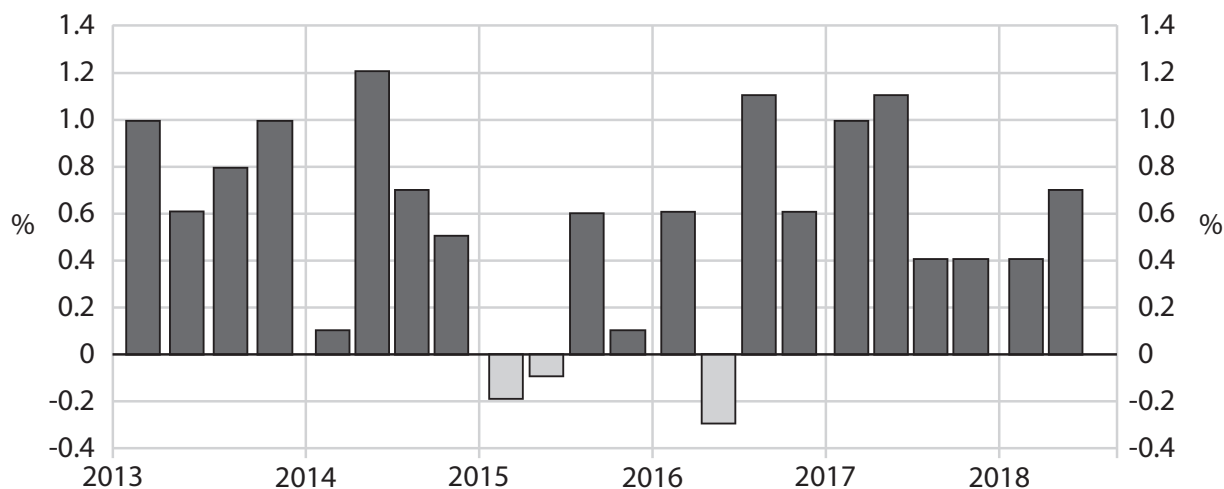
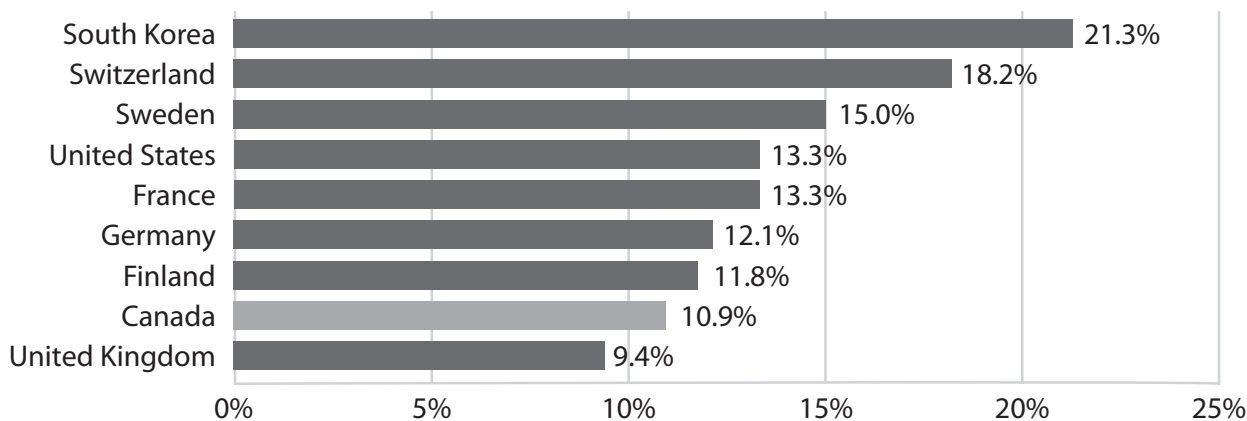


Figure 2 Business investment as a share of GDP in selected countries of the OECD (Organisation for Economic Co-operation and Development), 2015–2017



Extract A The economic climate

After a downturn in 2016, the Canadian economy experienced sustained economic growth. This was partly caused by a significant increase in the demand for exports. Canadian oil and petrol exports grew by 42% compared with 2016. Car exports increased by 3.8%. Most other exports grew by an average of 1%. Much of the increase in foreign demand came from the European Union as its economies started to strengthen. The increase in exports caused an improvement on the current account on the balance of payments. The exchange rate of the Canadian dollar also increased. 5

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- the unemployment rate fell from 7% in 2016 to 5.8% in 2017
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However, business investment remains relatively low. In particular, there has been little investment in new machinery and equipment. This has a negative impact on productivity because capital equipment per worker in Canada is very low by international standards.

Extract B Government policies to increase wellbeing

In 2018 the Canadian Government announced its continued commitment to improving the wellbeing of the population. The Government identified the need for increased government spending on wellbeing, particularly for those people who have a very low income. For low-income households the lack of access to basic necessities, such as food and housing, can lead to both mental and physical health problems. Around one in ten people live in low-income households. The 2.7 million people living on a low income do not have enough food, which causes health problems. This often prevents them from working or attending school. 5

The Government has increased the financial benefits to low-income households and to people who are unable to work. There has also been an increase in funding for low-cost housing, healthcare and better quality drinking water. 10

(6)





SECTION C

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- (d) With reference to Figure 2 and Extract A, examine **two** likely effects of the substantial increase in the rate of unemployment on the Australian economy. (8)
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Sources for use with Section C

The Australian economy

Figure 1 Savings ratio, Q3 2018 to Q3 2020

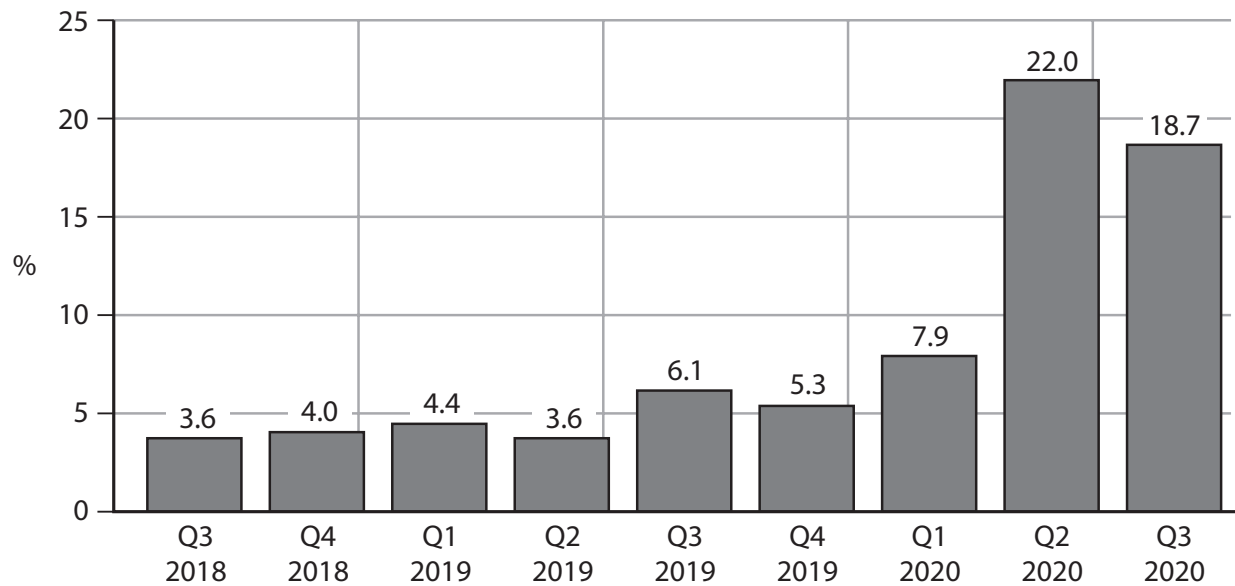
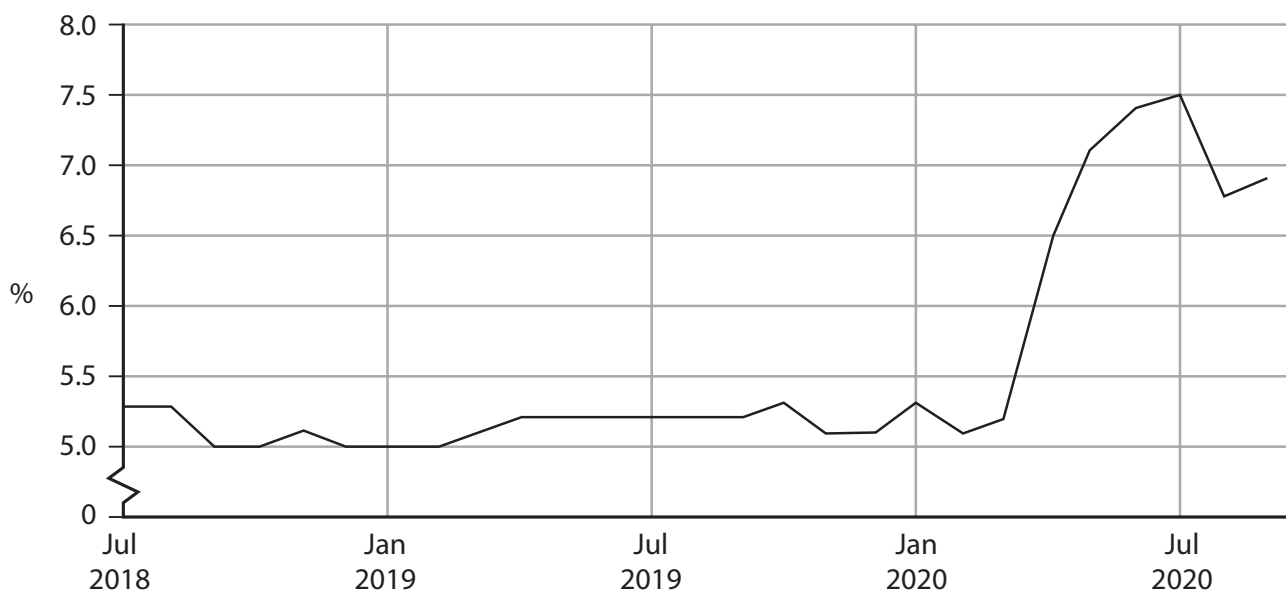


Figure 2 Unemployment rate, July 2018 to September 2020



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- rising house prices
- reductions in the base interest rate by Australia's central bank
- higher welfare payments to households.

These factors resulted in an increase in consumer confidence.

While household consumption supported Australia's economic recovery, the rate of unemployment was still relatively high. In response, the Australian Government continued its JobKeeper Payment scheme to keep workers in employment. This scheme supported businesses negatively affected by the economic decline. Businesses were able to claim AU\$1 200 (before tax) per employee every two weeks to help cover the cost of wages.

15

20

Extract B Supply-side policies

Between 2010 and 2020 Australia's average annual increase in productivity was 1.7% . The country's average annual growth in real GDP per capita was 0.6% . This was below the 1% growth in GDP per capita in the USA. To increase GDP per capita, Australia needs to raise its productivity growth. This applies particularly to the service sector, which accounts for nearly 70% of Australia's GDP.

5

According to some economists, the Australian Government should consider implementing a range of interventionist supply-side policies to increase the country's productivity. These include:

- providing finance for business start-ups
- investment in infrastructure improvements
- investment in high-quality education and training schemes
- offering tax incentives and subsidies to encourage investment.

10

Successful implementation of these policies will enable Australia to achieve long-run economic growth.

15

(6)



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SECTION C

Study Figure 1, Extract A and Extract B in the Source Booklet before answering Question 12.

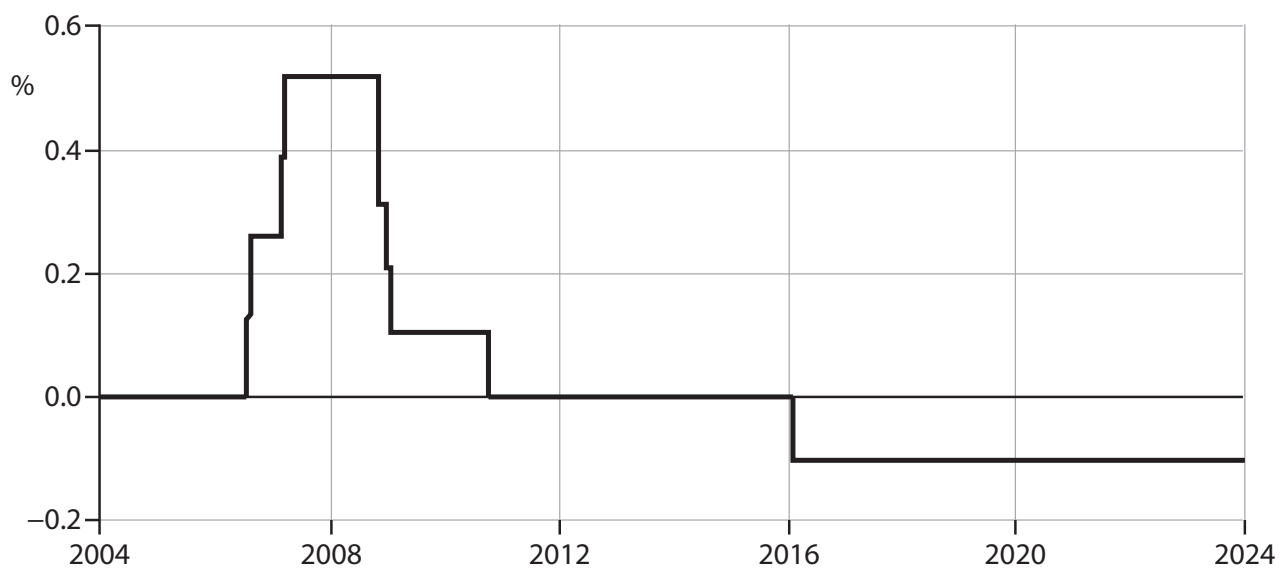
Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'recession'. (2)
- (b) With reference to the third paragraph of Extract A, explain the term 'exchange rate'. (4)
- (c) Analyse **one** likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income. Illustrate your answer with a circular flow diagram. (6)
- (d) With reference to Extract A, examine the likely impact on Japan's real output of the fall in domestic consumption. (8)
- (e) With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate. (14)

Sources for use with Section C

The Japanese economy

Figure 1 Base interest rate, January 2004 to December 2023



Extract A Economic growth

Between quarter 1 (Q1) 2023 and quarter 2 (Q2) 2023, the rate of economic growth in Japan increased from 0.9% to 1.5%. This increase in Japan's real Gross Domestic Product (GDP) was double the original forecast. Therefore, concerns that the country was exposed to a recession were eased.

5

The main reason for the increase in real GDP was an increase in exports that rose by 3.2% in Q2 2023. This was mainly as a result of higher exports of cars caused by an improvement in supply chains. There was also an increase in the number of overseas visitors to Japan. The contribution of tourism to GDP is included in net trade figures and returned to more than two-thirds of pre-global health crisis levels. The number of tourists was expected to grow in the second half of 2023 after China ended restrictions on group tours to a number of countries including Japan.

10

However, economists warned that the fall in domestic consumption, following the global health crisis, remained a concern. They suggested that this was mainly the result of Japan's weak exchange rate. Domestic consumption, which makes up more than half of Japan's economy, fell by 0.5% between Q1 2023 and Q2 2023. During the same period, Japan's imports decreased by 4.3%, which was one of the largest reductions ever recorded. This indicated that the rising rate of inflation was having a significant impact on consumer expenditure.

15

Until the end of 2022 Japan had faced several years of deflation and no wage growth. However, in 2023 consumers experienced significant increases in the prices of goods and services. Japan's weak exchange rate resulted in an increase in the price of raw materials and energy for businesses. It also created greater uncertainty that had an impact on business investment.

20

Extract B Monetary policy

The aim of Japan's central bank, the Bank of Japan (BoJ), is to achieve a 2% inflation target. In Q2 2023 the annual rate of inflation averaged 3.3%. Upward pressure on prices caused workers to demand higher wages, resulting in a rise in inflationary expectations.

The BoJ argued that this increase in the rate of inflation was temporary. Therefore, it continued to maintain the base interest rate at a low level.

5

Economists claimed that the BoJ's argument was weak. They stated that even the Government of Japan expected the annual rate of inflation to be 2.6% in 2023 against the BoJ's forecast of 1.8%. Therefore, there would no longer be a case for maintaining a low base interest rate, that was introduced at a time when the rate of inflation was below the inflation target. Moreover, the probability of a global recession, considered to be a significant risk to Japan's economy, had diminished. To achieve the inflation target of 2% an increase in the base interest rate would be necessary.

10

(8)





SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'base rate of interest' (Figure 1). (2)
- (b) With reference to Figure 2, explain the term 'recession'. (4)
- (c) With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments. (6)
- (d) With reference to the information provided, examine the likely impact of inflation on the economy of Argentina. (8)
- (e) Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption. (14)



Sources for use with Section C.

The economy of Argentina

Figure 1 The base rate of interest for Argentina, April 2013 – April 2018

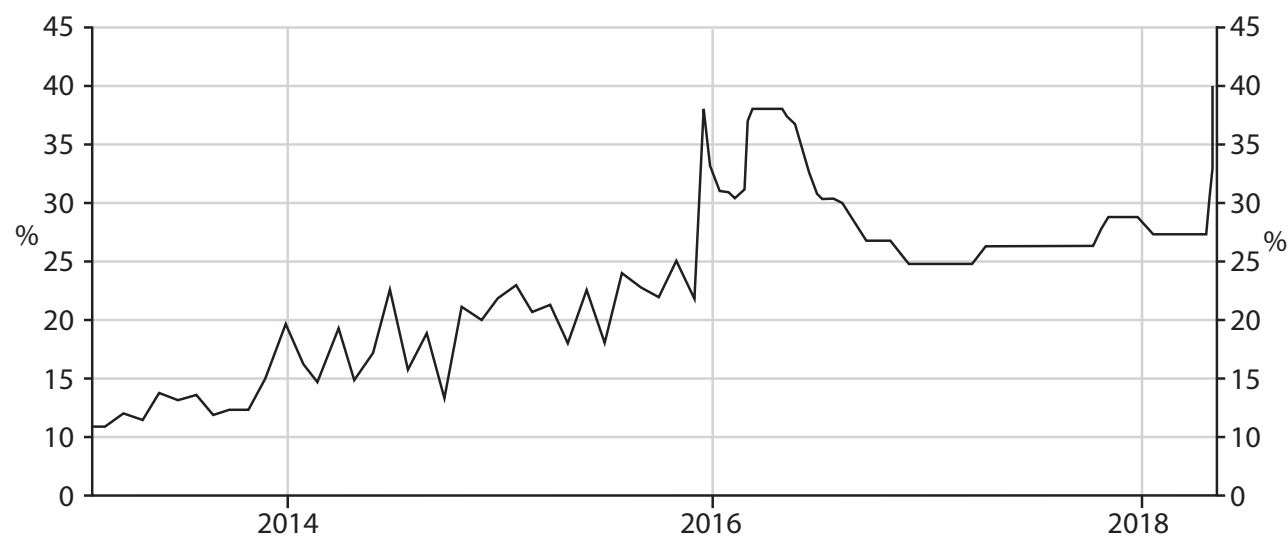
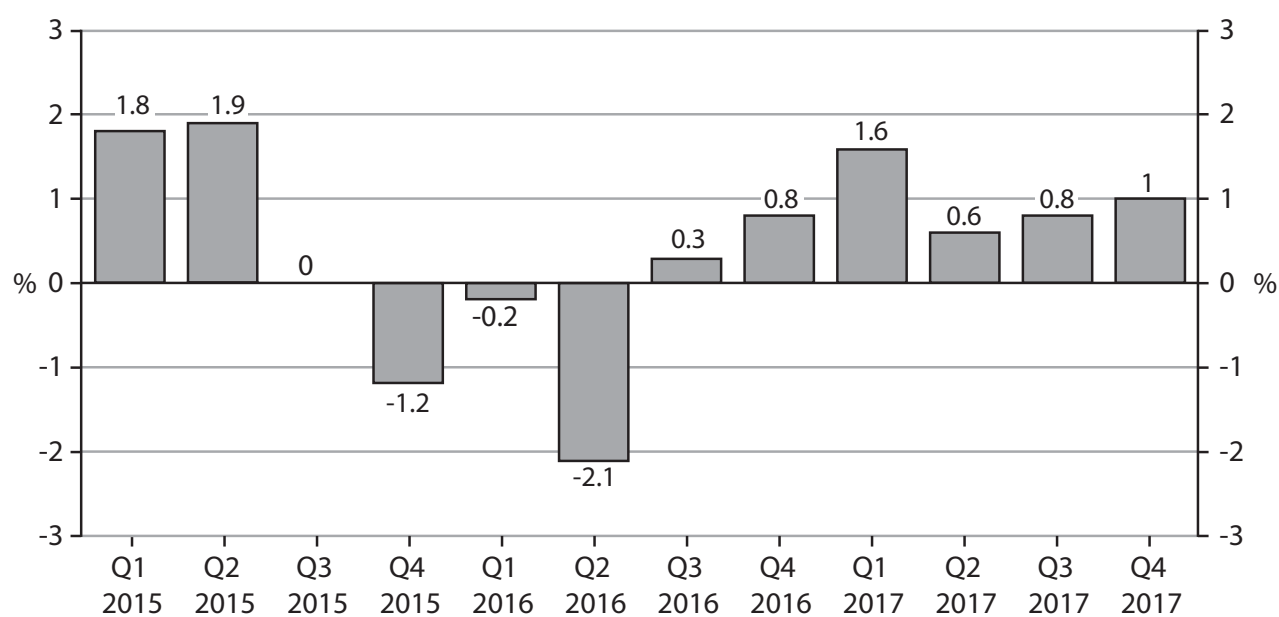


Figure 2 Quarterly GDP growth rate (%), 2015 – 2017



Extract A The problems facing the economy

Argentina is South America's second largest economy. Mauricio Marci was elected as its President in 2015. He faced the difficult task of controlling inflation which was between 30%–40% per year. He also needed to reduce the large budget deficit which was 7.1% of GDP. Between the end of 2015 and the beginning of 2016 the economy went into recession. This was caused by a significant reduction in government spending in an attempt to balance the budget. The purchasing power of consumers declined as wages fell and the rate of inflation rose to 40%. A fall in demand for Argentina's exports also contributed to the decrease in economic growth.

5

Extract B Improving economic outlook

Since coming out of recession in 2016, economic growth in Argentina has stabilised at an annual rate of around 3% per year. However, high inflation is still a major problem. Inflation was 25% in 2017. The effect of this inflation is damaging to both households and businesses. Rising prices have reduced domestic business investment as firms are unsure about future costs. One of the Argentinian Government's key economic policies is to stabilise prices to encourage consumption and investment.

5

A fall in the value of the Argentinian currency, the peso, against the dollar also caused inflationary pressure. In 2018 the peso lost around 12% of its value against the dollar. This makes importing goods from the USA very expensive. At the same time there was a decrease in the value of commodity exports, causing a current account deficit. In an attempt to reduce the rate of inflation and to stabilise the currency, the Central Bank of Argentina increased the base rate of interest to 40%.

10

However, the situation is not all bad. Real wages are rising in many sectors and consumer spending is increasing. Also, the Government plans to spend US\$14 billion on infrastructure. These positive changes have helped Argentina to attract investment from Japanese transport companies such as Mitsubishi and Marubeni Corp, and the American technology company, Apple.

15

(14)



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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

- 13** China's economic growth has resulted in a significant increase in pollution within the country. It is believed that recent government legislation to lower pollution will cause China's real GDP to increase at a slower rate.

Evaluate the view that conflicts between macroeconomic objectives are inevitable.

(Total for Question 13 = 20 marks)

OR

- 14** Increasing household consumption is a major factor contributing to India's high rate of economic growth.

Evaluate the view that rising consumer expenditure will always benefit an economy.

(Total for Question 14 = 20 marks)



SUB-TOPIC 2.3.2.3

INVESTMENT (I)

Sub-topic 2.3.2.3 · 16 questions · 69 marks · lowest tariff first



5 In Japan, private sector investment increased by 1.9% in the second quarter of 2019.

Which **one** of the following was the most likely cause of this increase in investment?

- ☐ A A decrease in the rate of economic growth
- ☐ B An increase in indirect taxation
- ☐ C An increase in the tax on company profits
- ☐ D A decrease in interest rates

(Total for Question 5 = 1 mark)

6 In Denmark the marginal propensity to consume is estimated to be 0.49.

Based on this estimate, which **one** of the following is the value of the multiplier for Denmark?

- ☐ A 0.51
- ☐ B 1.96
- ☐ C 2.04
- ☐ D 4.90

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS



5 Which **one** of the following is most likely to result in an increase in investment?

- ☐ A An increase in the rate of corporation tax
- ☐ B An increase in the rate of tax relief for investment
- ☐ C An increase in the central bank's interest rate
- ☐ D An increase in commercial banks' reserve asset (liquidity) requirements

(Total for Question 5 = 1 mark)

6 The table shows the GDP and the population for India and Pakistan in 2019.

	GDP \$ billion	Population (billions)
India	2 590.0	1.372
Pakistan	278.2	0.205

Which **one** of the following can be deduced from the table?

GDP per capita was

- ☐ A \$202.77 in Pakistan
- ☐ B \$1 357.07 in India
- ☐ C \$1 887.76 in India
- ☐ D \$12 634.15 in Pakistan

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS



SECTION A

Answer ALL questions in this section.

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 ☐.

1 Which **one** of the following represents net investment?

- ☐ A Gross investment minus corporation tax
- ☐ B Gross investment minus capital depreciation
- ☐ C Gross investment minus the rate of inflation
- ☐ D Gross investment minus money supply

(Total for Question 1 = 1 mark)

2 In Chad unemployment is higher in the winter months than in the summer months. This is because the demand for agricultural labour is lower in the winter months.

Which **one** of the following best describes the cause of this unemployment in Chad?

- ☐ A Frictional unemployment
- ☐ B Real wage inflexibility
- ☐ C Seasonal unemployment
- ☐ D Structural unemployment

(Total for Question 2 = 1 mark)

3 Between 2020 and 2022 Qatar's GNI increased from \$141.37 billion to \$229.01 billion.

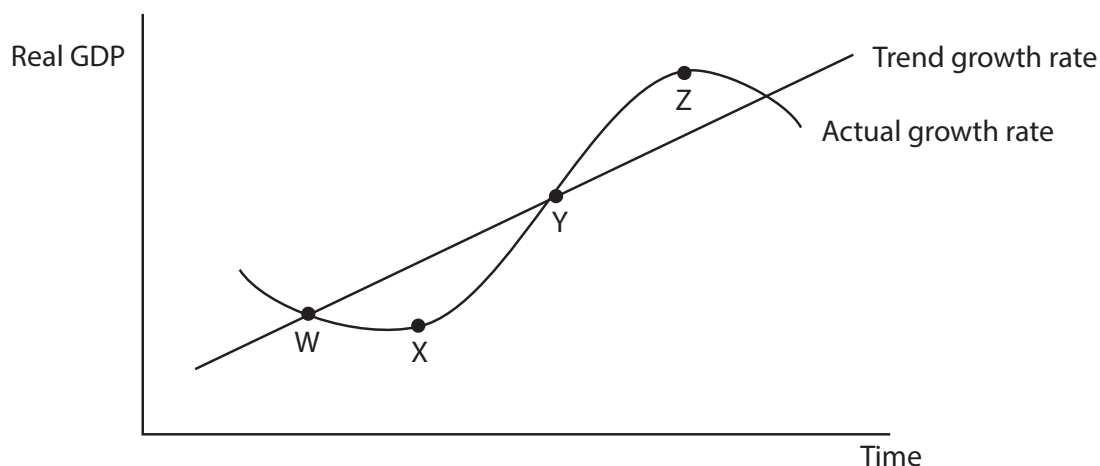
Which **one** of the following is the ratio of Qatar's GNI in 2022 to its GNI in 2020?

- ☐ A 1 : 0.62
- ☐ B 1 : 1.62
- ☐ C 1 : 61.99
- ☐ D 1 : 87.64

(Total for Question 3 = 1 mark)



4 The diagram shows a country's trend growth rate and its actual growth rate.



With reference to the diagram, which **one** of the following is most likely to be associated with a movement from point Y to point Z?

- ☐ A A decrease in government tax revenue
- ☐ B An increase in profits for firms
- ☐ C An increase in the rate of unemployment
- ☐ D A decrease in business confidence

(Total for Question 4 = 1 mark)

5 In Austria investment was \$98 billion in 2012 and it increased to \$129 billion in 2022.

Which **one** of the following is most likely to have caused this increase in investment?

- ☐ A An increase in the availability of credit
- ☐ B An increase in the rate of tax on company profits
- ☐ C An increase in the base rate of interest
- ☐ D An increase in commodity prices

(Total for Question 5 = 1 mark)

SECTION A

Answer ALL questions in this section.

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

1 Which **one** of the following is a withdrawal from the circular flow of income?

- ☐ A Exports
- ☐ B Savings
- ☐ C Investment
- ☐ D Consumption

(Total for Question 1 = 1 mark)

2 Between November 2023 and December 2023, Thailand's private sector investment decreased by 10.2%.

Which **one** of the following was the most likely cause of this decrease in investment?

- ☐ A An increase in the availability of credit
- ☐ B A decrease in the tax on company profits
- ☐ C A decrease in business confidence
- ☐ D An increase in the rate of economic growth

(Total for Question 2 = 1 mark)

3 In France the marginal propensity to consume was estimated to be 0.21 in January 2023.

Based on this estimate, which **one** of the following was the value of the multiplier for France?

- ☐ A 0.04
- ☐ B 0.79
- ☐ C 1.27
- ☐ D 4.76

(Total for Question 3 = 1 mark)



SECTION C

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'corporation tax' (Extract A, lines 4 and 5). (2)
- (b) Explain what is meant by Gross National Income (Extract A, line 24). (4)
- (c) With reference to Extract A, analyse **two** reasons for the improvement in living standards in Ireland between 2015 and 2022. (6)
- (d) With reference to Figure 1 and Extract A, examine **two** reasons why Ireland's rate of economic growth was expected to decrease in 2023. (8)
- (e) With reference to Figure 2, Extract A and your own knowledge, discuss the limitations of using GDP to compare living standards between countries. (14)



Sources for use with Section C

The economy of Ireland

Figure 1 Annual real GDP growth rate (%), 2013 to 2022

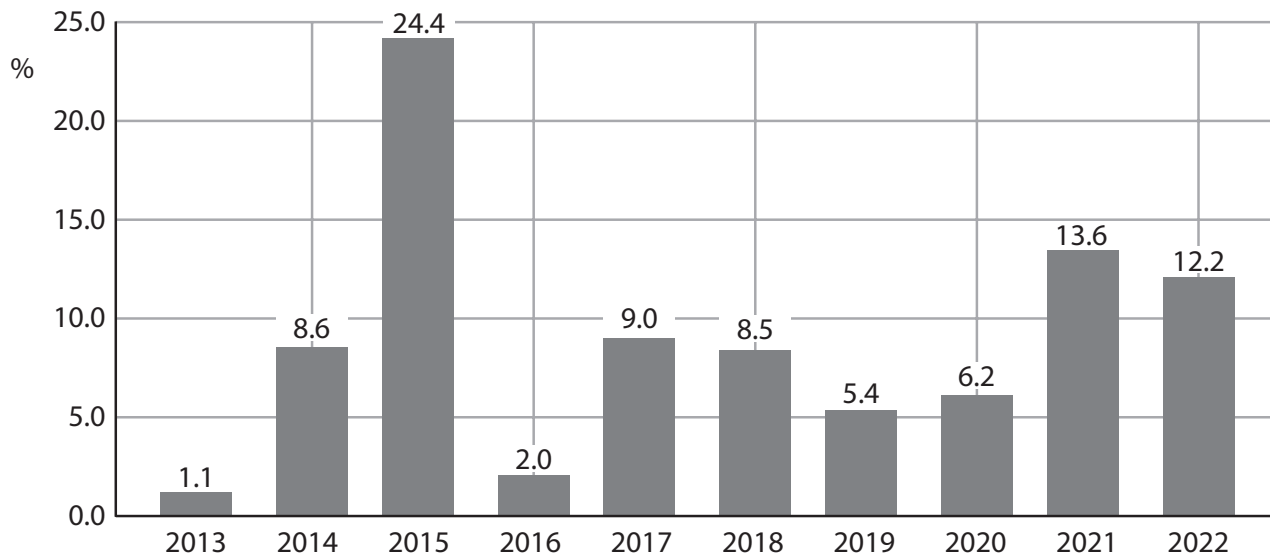
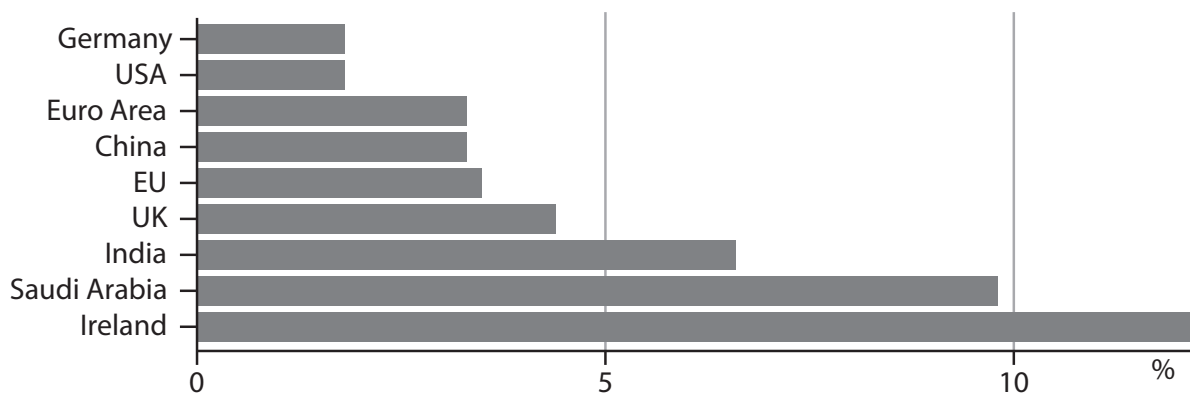


Figure 2 Annual real GDP growth rate (%) for selected countries, 2022



Extract A Limitations of using GDP

Many economists argue that Ireland's high rate of economic growth for 2022 is not accurate. They claim that Ireland only experiences high rates of economic growth because international companies take advantage of the country's low corporation tax rate of 12.5%. This tax rate is lower than the corporation tax rates of many other European countries and has attracted over 1 500 international companies. 5

Some of these companies are so large that the country's GDP figures may be overstated. For example, Apple Inc., the world's largest technology company, moved its European base to Ireland in 2015. This resulted in a significant increase in the country's rate of economic growth. In 2018 the global sales of Apple iPhones accounted for 25% of the GDP growth rate in Ireland. 10

In 2022 there were large fluctuations in Ireland's industrial production data. It rose or fell by more than 10% from one month to the next. This led to Ireland's central bank reviewing how it calculated seasonal adjustments when measuring the country's GDP.

Economists suggested that Ireland's GDP data was meaningless as a guide to how the economy is performing. For example, they argued that using GDP can mislead analysis of matters related to income inequality and the environment. 15

However, Ireland's central bank defended this measurement of the country's rate of economic growth for 2022. It indicated that the activities of international companies had a positive impact on living standards in Ireland. Between 2015 and 2022 employment increased from 2.06 million to 2.55 million. This contributed to a significant increase in government revenues from income tax and corporation tax. In 2022 the country's corporation tax receipts rose to an all-time high of €22.6 billion. 20

Ireland's central bank also uses Gross National Income (GNI) as an alternative measure of economic growth. This measure removes the impact of international companies and provides a better understanding of domestic demand. According to the GNI measure, Ireland's rate of economic growth was much lower at 5.9% in 2022. 25

In 2023 Ireland's rate of economic growth was expected to decrease to just 4%, as measured by GDP. This is as a result of a high rate of inflation, rising interest rates and the weakening state of the global economy. Forecasts also suggest that between 2024 and 2027, GDP is likely to grow by an average of 3.5% per year. 30

1

12 (a) Define the term ‘corporation tax’ (Extract A, lines 4 and 5). (2)

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(b) Explain what is meant by Gross National Income (Extract A, line 24). (4)

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- 9 Since 2012 the United Arab Emirates (UAE) has experienced a high rate of economic growth. This has resulted in rising business confidence.

Explain **one** possible impact of increased business confidence on the economy of the UAE.

(Total for Question 9 = 4 marks)



Explain **one** possible impact of this increase in the availability of credit on the level of investment on the economy of Serbia.

(Total for Question 5 = 4 marks)



SECTION B

Answer ALL questions in this section in the space provided.

- 7** The French Government is to offer €5 billion in tax relief for business investment.

Explain **one** likely economic effect of this investment tax relief.

(Total for Question 7 = 4 marks)



11 The table shows the value of gross investment in Tanzania for 2015 and 2020.

	Gross investment (\$ billions)
2015	15.5
2020	25.6

(Source: <https://data.worldbank.org>)

With reference to the table, explain what is meant by 'gross investment'.

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(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

8 Between July 2021 and July 2022 there was a fall in business confidence in Germany.

Draw an AD and LRAS diagram to show the likely impact of a fall in business confidence on the economy of Germany.

(Total for Question 8 = 4 marks)



SECTION C

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'real GDP' (Figure 1). (2)
- (b) With reference to Figure 2, explain the difference between disinflation and deflation. (4)
- (c) With reference to Figure 1 and the first paragraph of Extract A, analyse **two** influences on the level of investment in the eurozone. (6)
- (d) Examine the likely effects of 'the increase in the exchange rate of the euro against the US dollar' (Extract A, lines 25–26) on the net trade balance of the eurozone. (8)
- (e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the ECB's monetary policy on the eurozone economy. (14)

Sources for use with Section C

The eurozone economy

Figure 1 Annual real GDP growth rate, Q1 2018 to Q3 2020

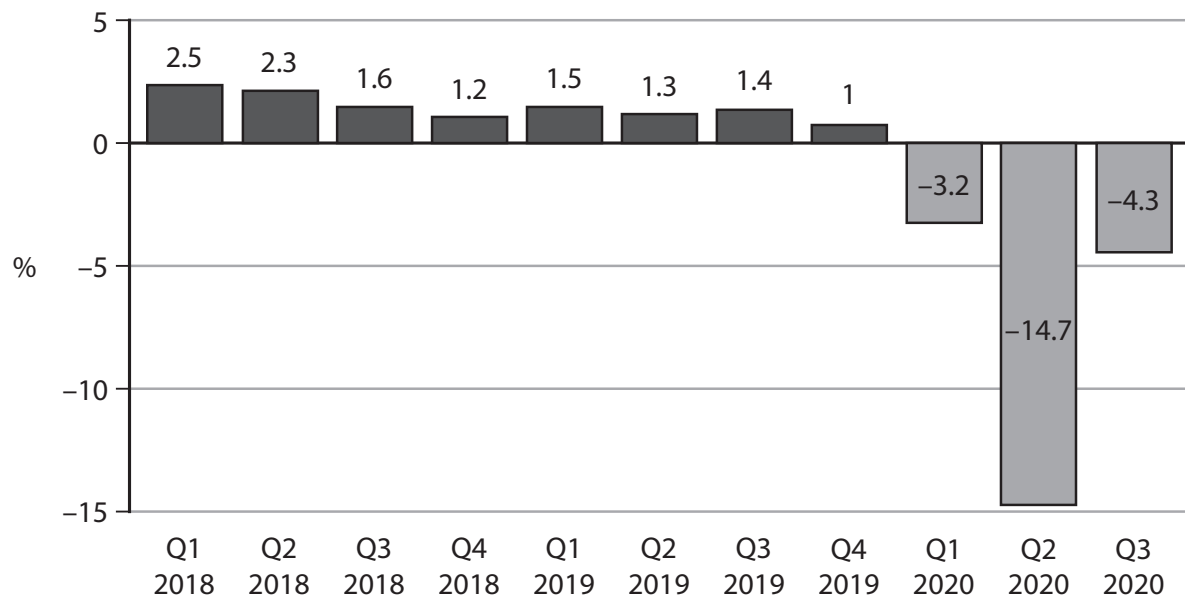
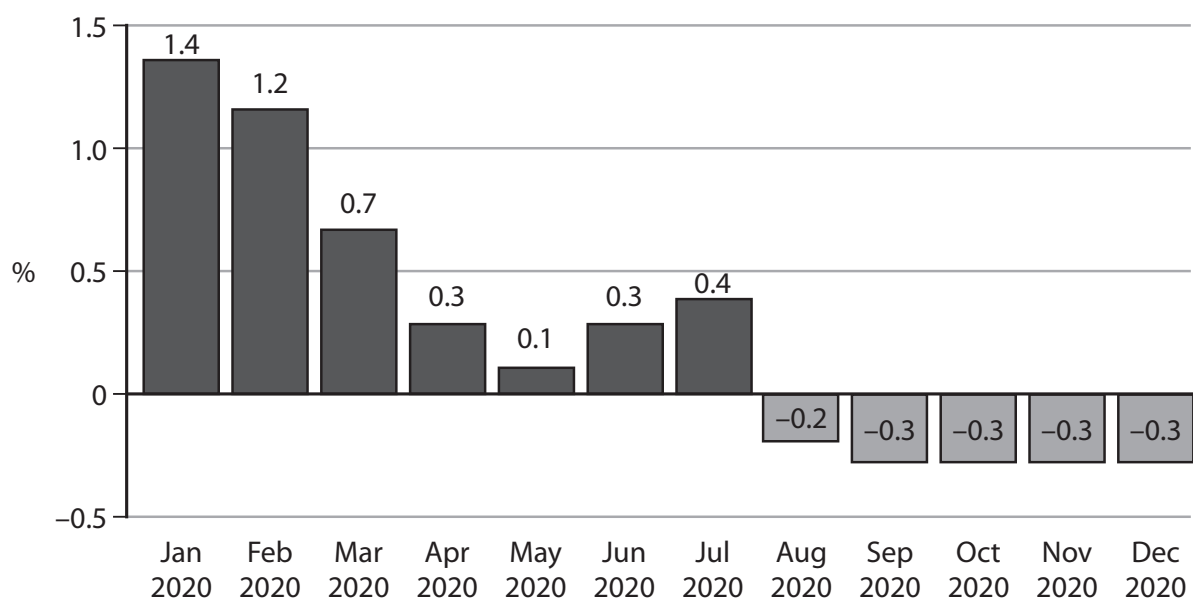


Figure 2 Inflation rate, as measured by the Consumer Price Index (CPI), January 2020 to December 2020



Extract A Monetary policy

In November 2020 the European Central Bank (ECB) highlighted that there were “worrying signals” about the future state of the eurozone economy. It indicated that low business confidence had caused a fall in the demand for bank loans. At the same time, there was a decrease in the availability of credit. These factors resulted in significantly lower levels of investment. 5

In response the ECB immediately launched an additional round of quantitative easing in December 2020. This programme was reintroduced to help the eurozone economy to recover from negative rates of economic growth, rising unemployment and to prevent another recession. It announced a €500 billion increase in the size of its quantitative easing programme for the period January 2021 to September 2021. 10

The ECB also announced the provision of extra low-cost funding for banks, aimed at encouraging an increase in bank lending. It agreed to finance the banks at negative interest rates of –1% until June 2022. This meant that the ECB would be paying banks to borrow more money, provided they continue to lend. 15

Economists have suggested that a reflationary policy could be needed for years, given the weak state of the eurozone economy. In 2020 economic growth in the eurozone was –6.7%. The ECB forecast an economic growth rate of only 3.9% in 2021, 4.2% in 2022 and 2.1% in 2023. The ECB also forecast that the rate of inflation in 2023 will increase but remain below its 2% target. 20

However, it is unlikely that the ECB can manage the entire burden of supporting the eurozone recovery. Market forces have already reduced the effectiveness of existing policies. For example, in 2020 the eurozone’s currency, the euro, traded at its highest level against the US dollar for more than two years. The ECB said it was “very carefully” monitoring the impact of the increase in the exchange rate of the euro against the US dollar. 25

Economists are concerned that the ECB’s asset purchases will have a limited impact because interest rates are already extremely low. They argue that reflationary fiscal policy will be necessary to stimulate economic recovery.

(6)



SECTION C

Study Figure 1, Figure 2, Extract A and Extract B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'GDP per capita' (Figure 1). (2)
- (b) With reference to Figure 1, explain the likely impact of higher real incomes on subjective happiness. (4)
- (c) Examine the likely impact on the UK's real output of 'the rising cost of energy' (Extract A, line 4). (8)
- (d) With reference to Figure 2 and Extract A, analyse **two** factors that influence business investment. (6)
- (e) With reference to the information provided, discuss supply-side policies that the UK Government has introduced to increase the country's productive potential. (14)



Sources for use with Section C

The UK economy

Figure 1 Real GDP per capita, £ thousands, 2010-2022

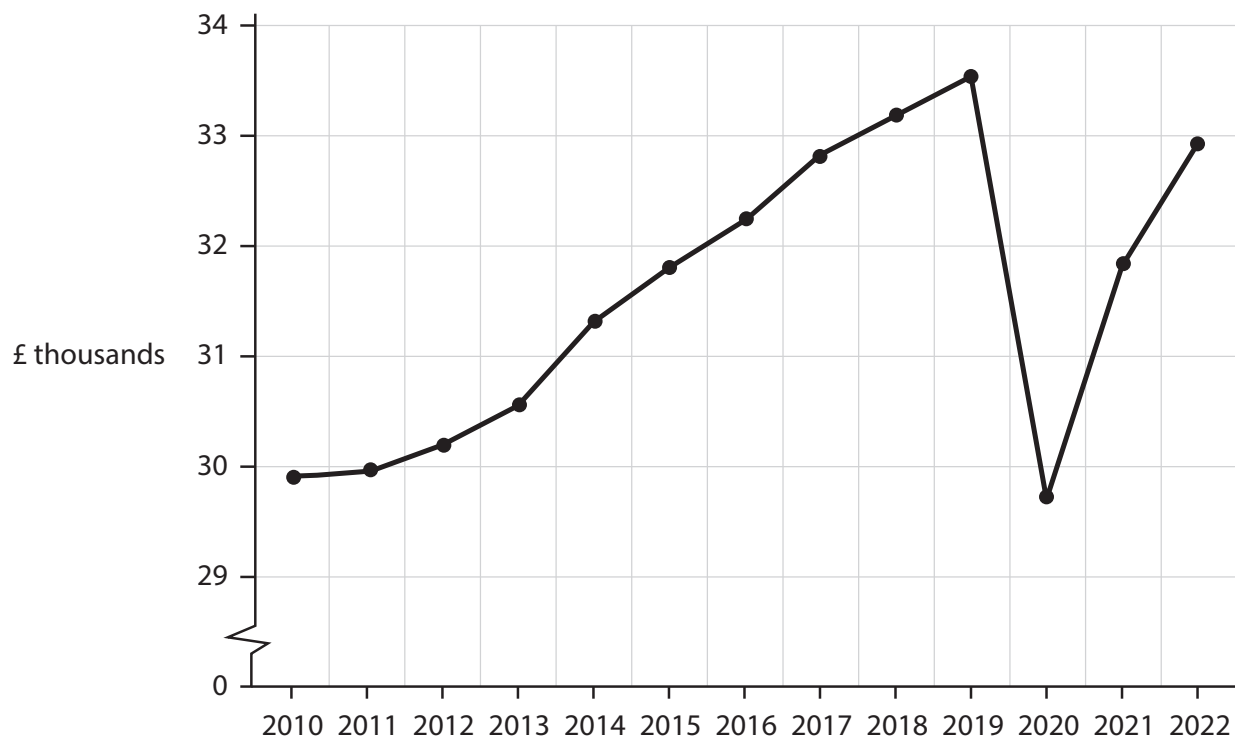


Figure 2 Index of business investment between 2010 and 2022, (Q1 2016=100)



Extract A Low rate of economic growth

The UK's real GDP at the end of 2022 was smaller than it was at the start of 2020. There are two main reasons why the UK's rate of economic growth has been low since the start of 2020. Firstly, the global health crisis of 2020 and secondly, the rising cost of energy in 2022. For example, the price of natural gas rose by more than 100%. The UK is a net importer of natural gas.

5

However, some economists believe these two reasons are insufficient to explain why the UK economy has been unable to increase its level of real GDP. They identified additional reasons:

- labour market participation has declined significantly since the start of the global health crisis of 2020. As a result, between 2020 and 2022, the UK labour force decreased by 520 000 10
- low levels of productivity in the UK labour market. Workers in the UK have lower skills than workers in other advanced economies. There was also a shortage of skilled and unskilled labour 15
- the UK's decision to leave the European Union in 2016 resulted in lower levels of business investment
- high costs of bureaucracy and strict planning regulations associated with the construction of infrastructure projects, such as building power plants and energy facilities. 20

In the last quarter of 2022 various international institutions forecast that the UK would continue to be one of the worst-performing advanced economies in 2023.

Extract B Supply-side policies

In March 2023 the UK Government introduced a range of supply-side policies to increase the productive potential of the UK economy. These included:

- increased financial support for childcare to reduce economic inactivity and increase the rate of employment 5
- 100% tax relief on business investment for three years
- subsidies to support the development of new technologies including artificial intelligence
- relaxing immigration rules to attract more workers in five sectors of the economy where severe labour shortages exist e.g. construction and healthcare. 10

These policies would cost the UK Government nearly £20 billion.

However, the Government did not announce any plans to tackle the UK's strict planning laws. In addition, there were no measures to improve the skills of the workforce. Increasing labour productivity is just as important as increasing the number of workers.



(6)



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SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'fiscal policy' (Extract A, line 6). (2)
- (b) With reference to Figure 1, explain the term 'real GDP growth'. (4)
- (c) With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax. (6)
- (d) With reference to the information provided, examine the likely impact of increased investment on Romania's economy. (8)
- (e) Discuss the likely effects of the increase in the rate of inflation on Romania's economy. (14)



Sources for use with Section C.

The Romanian economy

Figure 1 Year-on-year real GDP growth by quarter, 2016-2017

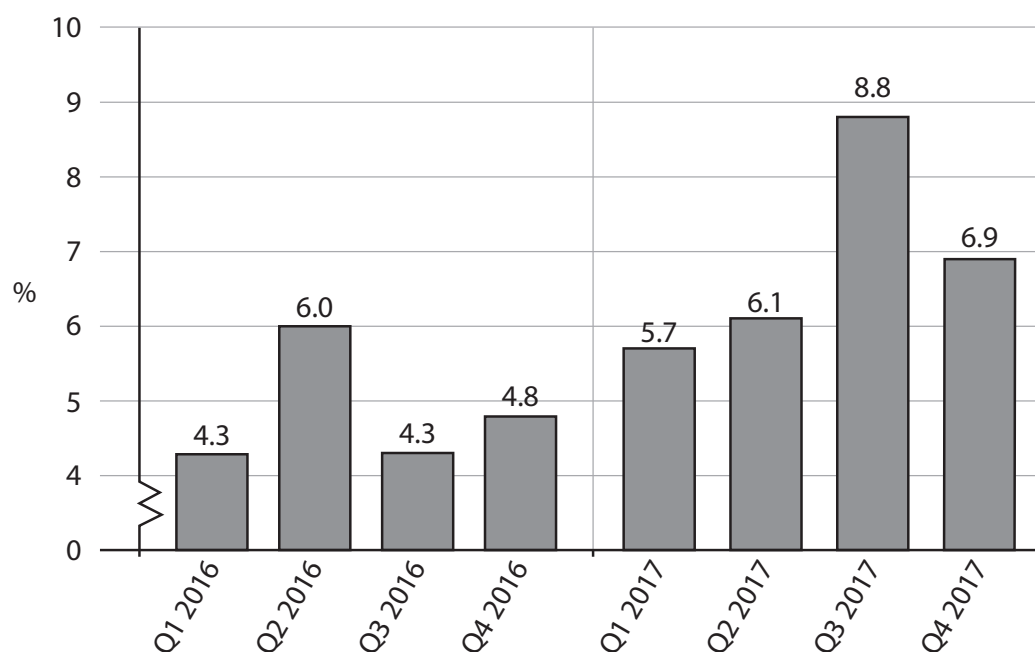
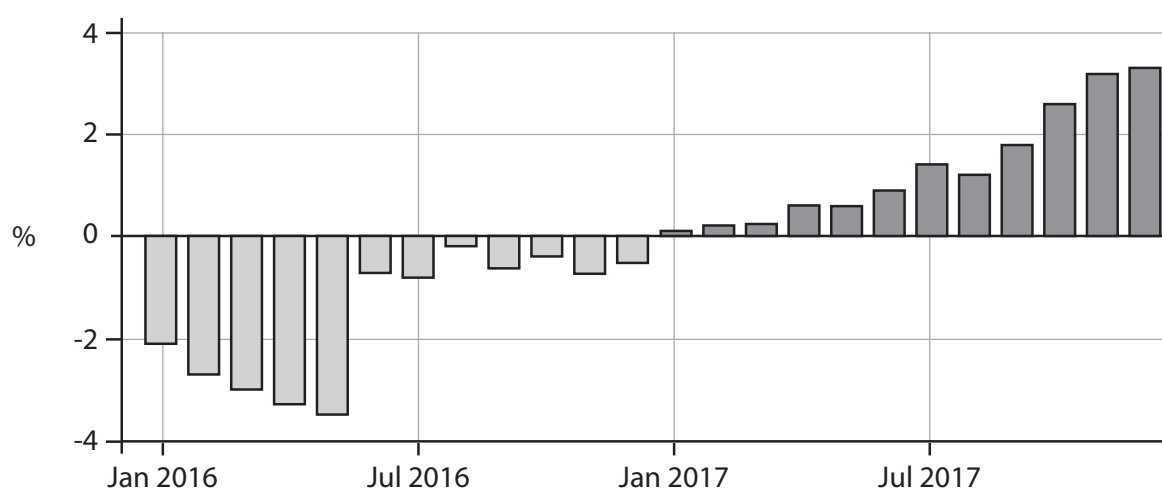


Figure 2 The rate of inflation, as measured by the consumer price index, 2016-2017



Extract A Romania's economic growth

For many years Romania had been viewed as a poor country by European standards, experiencing low wages and a slow rate of economic growth. However, since 2015, Romania's rate of economic growth outperformed other European countries. This growth was stimulated by a number of factors including the Government's expansionary fiscal policy, increased household consumption and high levels of investment in new technology for manufacturing industries. 5

In 2015 the Government cut VAT from 24% to 20%. It planned to double the minimum wage over a four-year period. It also increased the salaries of public sector employees. However, wage levels are still low compared to other European countries leading to high levels of migration out of the country. This resulted in labour shortages as businesses found it hard to fill vacancies. The unemployment rate fell to 4.6% in 2017. 10

Romania has one of the fastest broadband internet speeds in the world, behind Singapore, Hong Kong, South Korea and Iceland. It also has a very well-educated workforce, with excellent language, maths and science skills. The technology sector is expanding fast in the country, and many large foreign firms such as Siemens and Ford have set up factories in Bucharest, the Romanian capital. This has increased production in the country and generated strong growth in exports. 15

Extract B Inflationary pressures

As disposable incomes have risen, consumption has also increased significantly reaching a ten-year peak in 2017. The rate of inflation has risen throughout 2017. This was partly caused by a 3.8% increase in food prices and by a 4.1% price increase in non-food products. 5

The central bank responded to this inflationary pressure by increasing its base interest rate for the first time in 10 years from 1.75% to 2%. Mugur Isarescu, the Governor of the central bank, suggested that the Romanian Government's fiscal policies are to blame for the higher rate of inflation. The fiscal deficit rose to 3% of GDP in 2016. The Government defended its position, believing that reductions in tax rates and increased government spending on infrastructure will lead to long-term economic growth. 10

(8)



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SECTION C

Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 12.

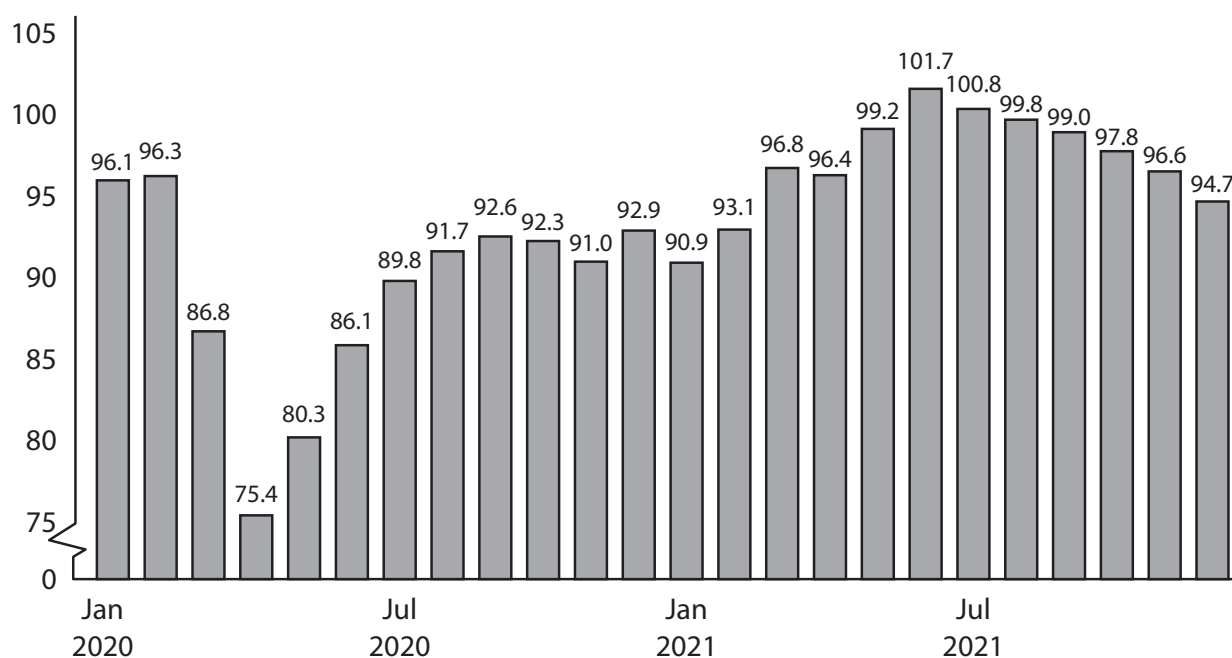
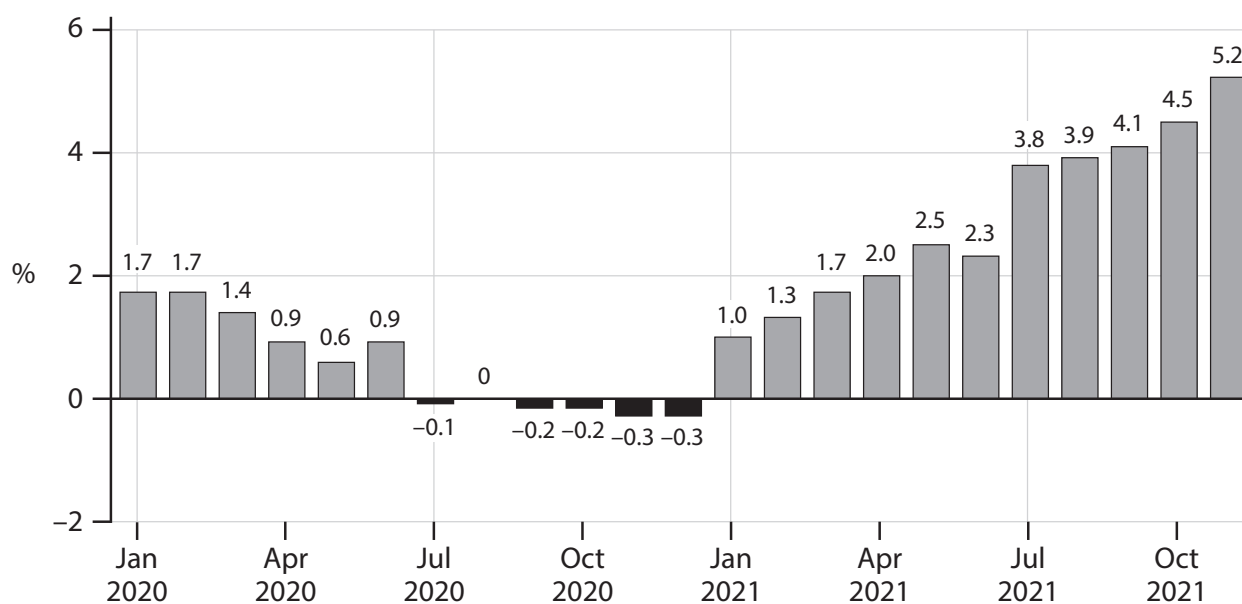
Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'seasonally adjusted' (Figure 1). (2)
- (b) With reference to Figure 2, explain the difference between disinflation and deflation. (4)
- (c) With reference to Extract A, analyse **two** roles of a central bank. (6)
- (d) With reference to Figure 1 and Extract A, examine the likely impact of a fall in business confidence on Germany's real output. (8)
- (e) With reference to the information provided, discuss the likely macroeconomic effects of a high rate of inflation on the German economy. (14)



Sources for use with Section C

The German economy

Figure 1 Index of business confidence (January 2015=100), seasonally adjusted, January 2020 to December 2021**Figure 2 Inflation rate*, as measured by the consumer price index (CPI), January 2020 to November 2021**

*This is the year-on-year inflation rate calculated monthly

Extract A Economic outlook

In 2021 production in Germany's large manufacturing sector suffered from delays and shortages of materials caused by supply chain constraints. Its larger services sector, including retail, tourism and hospitality, was also negatively affected by the global health crisis. These factors led to a decline in business confidence in both the manufacturing and services sectors from June 2021 onwards. 5

Consequently, the country's central bank, the Bundesbank, estimated that Germany's real output was likely to fall in the last quarter of 2021. Many economists predicted that the German economy could enter a recession in 2022. However, industrial production, especially vehicle manufacturing, had started to increase in the third quarter of 2021. Therefore, it was likely that net exports would increase in the first six months of 2022. 10

According to the Bundesbank, households had built up extra savings worth 10% of their disposable income during the global health crisis. The Bundesbank predicted that "this will strongly boost consumption" once consumer confidence increased.

The Bundesbank also warned of inflation risks. It raised its forecast for Germany's annual rate of inflation to 3.6% for 2022. This is above the European Central Bank's (ECB) inflation target rate of 2% for the eurozone area. The Bundesbank has therefore indicated that the ECB will need to increase the base rate of interest to control the rising rate of inflation in the eurozone. 15

There was evidence that the supply chain constraints caused an increase in inflationary pressures. In November 2021, Germany's producer (wholesale) price index increased by 19.2% from the previous year. This was primarily as a result of rising prices for energy, metal and wood. The Bundesbank predicted that the supply chain constraints would not be resolved until the end of 2022. 20

(8)





SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'Consumption' (Extract A, line 9). (2)
- (b) With reference to Figure 1, explain the term 'real GDP growth rate'. (4)
- (c) With reference to Extract A, analyse **one** possible macroeconomic impact of the increase in house prices on the Canadian economy. (6)
- (d) With reference to Extract B, examine the likely impact of government policies to increase wellbeing. (8)
- (e) Using the information in Figure 2 and Extract A, discuss the impact of low investment on Canada's economy. (14)



Sources for use with Section C.

The Canadian economy

Figure 1 Quarterly real GDP growth rate, quarter 1 2013 – quarter 2 2018

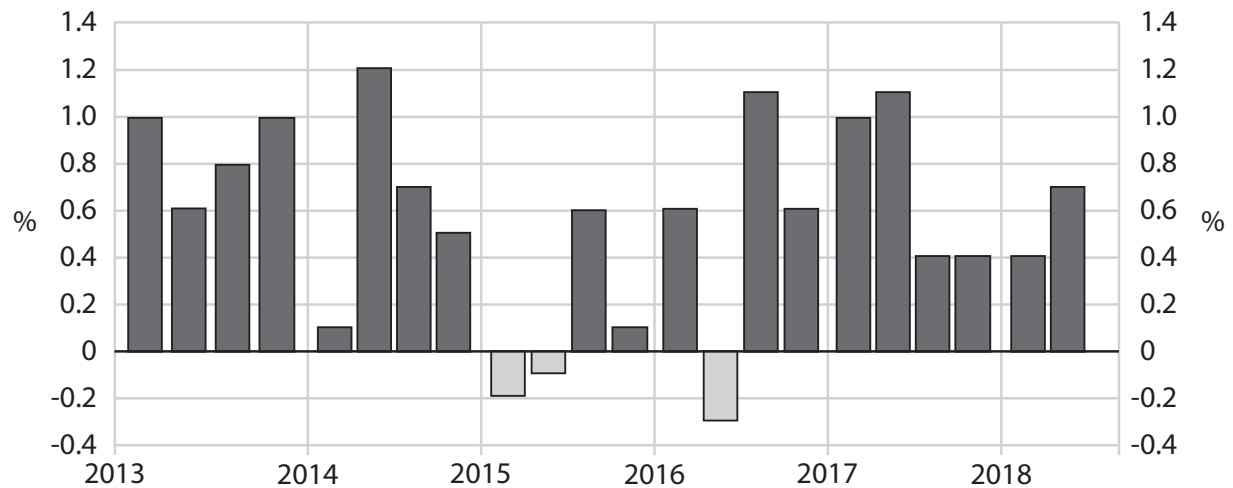
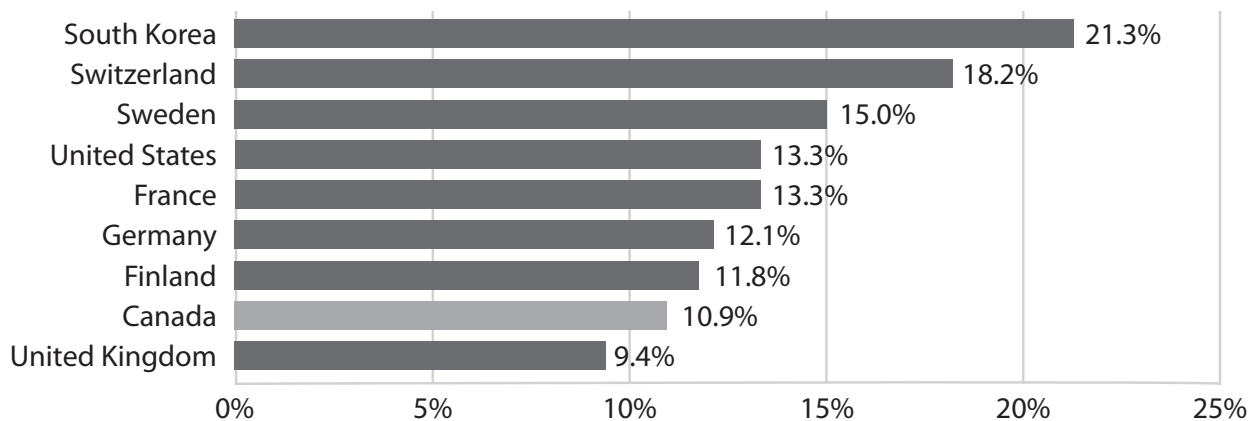


Figure 2 Business investment as a share of GDP in selected countries of the OECD (Organisation for Economic Co-operation and Development), 2015–2017



Extract A The economic climate

After a downturn in 2016, the Canadian economy experienced sustained economic growth. This was partly caused by a significant increase in the demand for exports. Canadian oil and petrol exports grew by 42% compared with 2016. Car exports increased by 3.8%. Most other exports grew by an average of 1%. Much of the increase in foreign demand came from the European Union as its economies started to strengthen. The increase in exports caused an improvement on the current account on the balance of payments. The exchange rate of the Canadian dollar also increased. 5

Consumption also rose during 2017. This was mainly the result of two factors:

- the unemployment rate fell from 7% in 2016 to 5.8% in 2017 10
- average house prices increased by 5.7% in 2017.

However, business investment remains relatively low. In particular, there has been little investment in new machinery and equipment. This has a negative impact on productivity because capital equipment per worker in Canada is very low by international standards.

Extract B Government policies to increase wellbeing

In 2018 the Canadian Government announced its continued commitment to improving the wellbeing of the population. The Government identified the need for increased government spending on wellbeing, particularly for those people who have a very low income. For low-income households the lack of access to basic necessities, such as food and housing, can lead to both mental and physical health problems. Around one in ten people live in low-income households. The 2.7 million people living on a low income do not have enough food, which causes health problems. This often prevents them from working or attending school. 5

The Government has increased the financial benefits to low-income households and to people who are unable to work. There has also been an increase in funding for low-cost housing, healthcare and better quality drinking water. 10

(14)





103

SUB-TOPIC 2.3.2.4

GOVERNMENT EXPENDITURE (G)

Sub-topic 2.3.2.4 · 4 questions · 42 marks · lowest tariff first



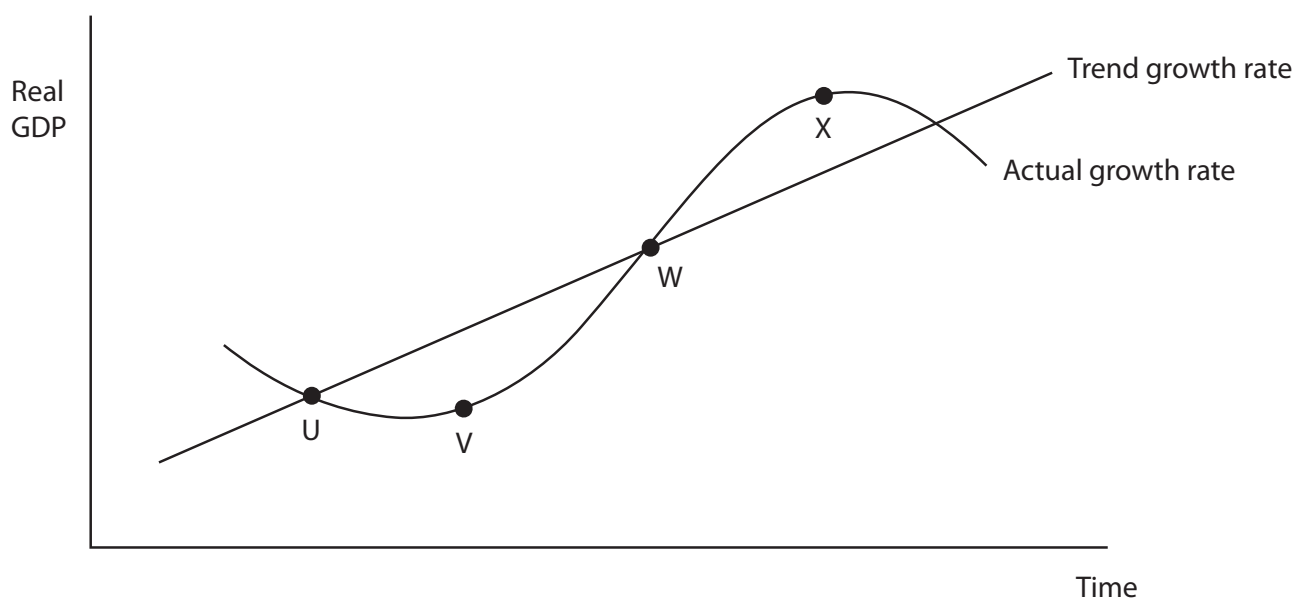
- 3 South Africa's annual government expenditure as a proportion of GDP increased from 31.4% to 34.6% between 2012 and 2019.

Which **one** of the following is most likely to have contributed to this increase in government expenditure as a proportion of GDP?

- ☐ A Lower welfare payments
- ☐ B A lower exchange rate
- ☐ C Less economic activity
- ☐ D Increased business confidence

(Total for Question 3 = 1 mark)

- 4 The diagram shows an economy's actual growth rate and trend growth rate.



Which **one** of the following can be deduced from the diagram?

- ☐ A The economy is in recovery between points U and V
- ☐ B A positive output gap exists at point V
- ☐ C Unemployment is rising between points W and X
- ☐ D A positive output gap exists at point X

(Total for Question 4 = 1 mark)

SECTION A

Answer ALL questions in this section.

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 ☒.

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

- ☐ A Investment
- ☐ B Savings
- ☐ C Imports
- ☐ D Consumption

(Total for Question 1 = 1 mark)

2 In 2022 Kuwait experienced an increase in real GDP of 8.7%.

Which **one** of the following is most likely to be a benefit of *actual* economic growth?

- ☐ A A decrease in profits for firms
- ☐ B A decrease in the rate of inflation
- ☐ C A decrease in the rate of unemployment
- ☐ D A decrease in government tax revenues

(Total for Question 2 = 1 mark)

3 In China, government expenditure was CN¥24.64 trillion in 2021 and CN¥20.37 trillion in 2022.

Which **one** of the following is the percentage decrease in China's government expenditure between 2021 and 2022?

- ☐ A 4.27
- ☐ B 17.33
- ☐ C 20.96
- ☐ D 82.67

(Total for Question 3 = 1 mark)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

- 13** In 2020 Japan's rate of inflation was -0.6% compared with 2019. Between 2019 and 2020 household consumption fell and the savings ratio increased from 33% to 44% of disposable income. Falling world oil prices also contributed to deflation.

Evaluate possible causes of deflation.

Illustrate your answer with an appropriate diagram.

(Total for Question 13 = 20 marks)

OR

- 14** The Government of the Philippines increased expenditure on infrastructure from ₱681 billion in 2020 to ₱1 200 billion in 2021.

Evaluate the possible effects of an increase in government expenditure on infrastructure on a country's economy.

Illustrate your answer with an appropriate diagram.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

- 13** In 2022 the Government of China decided to invest 1.48 trillion yuan in many new transportation, energy and telecommunication infrastructure projects.

Evaluate the likely benefits of an increase in government expenditure on infrastructure.

Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

- 14** Between 2012 and 2022 the productivity rate in Turkey increased by 39.2%.

Evaluate the likely benefits of an increase in the productivity rate.

Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)



SUB-TOPIC 2.3.2.5

NET TRADE BALANCE (X-M)

Sub-topic 2.3.2.5 · 18 questions · 81 marks · lowest tariff first



3 The Moroccan economy had a large negative output gap in 2017.

Which **one** of the following is usually associated with a negative output gap?

- ☐ **A** Demand-pull inflation and decreasing unemployment
- ☐ **B** Cost-push inflation and high employment rates
- ☐ **C** Real GDP growth less than the long-term productive potential
- ☐ **D** Real GDP growth more than the long-term productive potential

(Total for Question 3 = 1 mark)

4 Between 2010 and 2016 Indonesia recorded a 44.4% fall in the value of its exports. This resulted from a decrease in the demand for Indonesian clothing.

Ceteris paribus, which **one** of the following is likely to result from this situation?

	Rate of unemployment	Rate of inflation
☐ A	Falling	Rising
☐ B	Falling	Falling
☐ C	Rising	Rising
☐ D	Rising	Falling

(Total for Question 4 = 1 mark)

- 6 The chart shows the value of the Canadian dollar in terms of the US dollar exchange rate, January 2018 to December 2018.



(Source: <https://www.cbc.ca/news/business/loonie-canadian-dollar-1.4964691>)

What can be deduced from this chart?

- ☐ A Canadian exports will be less competitive in the USA
- ☐ B Canadian imports from the USA will be more competitive
- ☐ C Between the start of February and the end of June, the Canadian dollar increased in value against the US dollar
- ☐ D Between the start of October and the end of December, the Canadian dollar decreased in value against the US dollar

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

- 2 The table shows the annual percentage change in South Korea's producer (wholesale) price index.

Date	Annual percentage change in producer price index (%)
July 2019	-0.3
August 2019	-0.6
September 2019	-0.7

Which **one** of the following was the most likely effect of the changes shown in South Korea?

- ☐ A The real incomes of households were likely to fall
- ☐ B Cost-push inflation was likely to occur
- ☐ C Consumer prices were likely to fall
- ☐ D Its central bank was likely to raise the base rate of interest

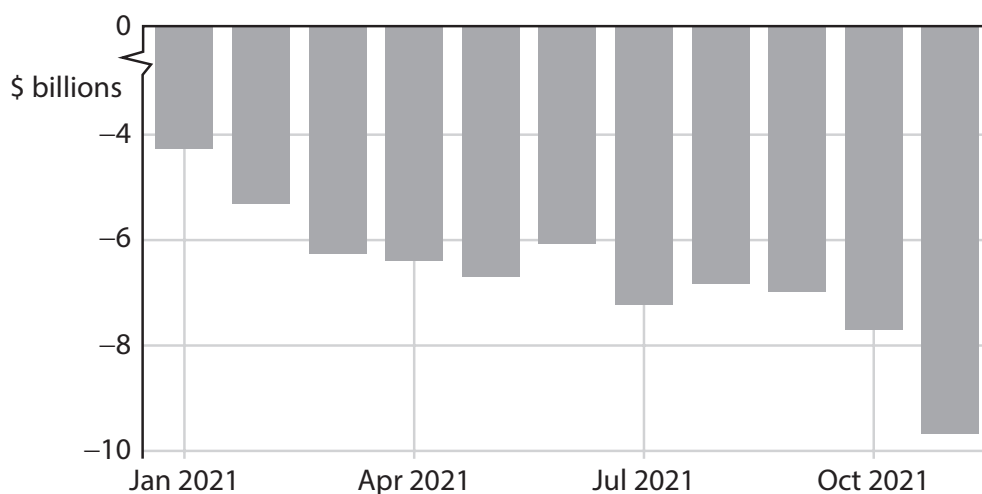
(Total for Question 2 = 1 mark)

- 3 Which **one** of the following is most likely to cause a deterioration in a developed country's trade balance?

- ☐ A An increase in the non-price competitiveness of the country's products
- ☐ B A fall in the real incomes of the country's citizens
- ☐ C A fall in the non-price competitiveness of a major trading partner's products
- ☐ D An increase in the country's exchange rate against other currencies

(Total for Question 3 = 1 mark)

- 4 The chart shows France's monthly balance of trade in goods and services, January 2021 to November 2021.



(Source: adapted from <https://tradingeconomics.com/france/balance-of-trade>)

Which **one** of the following is the most likely reason for this trend in France's balance of trade in goods and services?

- ☐ A An increase in the savings ratio
- ☐ B An increase in relative productivity
- ☐ C An increase in the exchange rate
- ☐ D An increase in the quality of exports

(Total for Question 4 = 1 mark)

- 5 Between January 2021 and December 2021 the central bank of the USA increased its asset purchases (quantitative easing) from \$7.3 trillion to \$8.8 trillion.

Which **one** of the following is the most likely impact of an increase in asset purchases (quantitative easing)?

- ☐ A A decrease in the availability of credit
- ☐ B A decrease in the rate of inflation
- ☐ C An increase in the rate of unemployment
- ☐ D An increase in the money supply

(Total for Question 5 = 1 mark)

- 4 Between January 2023 and March 2023, Brazil's net monthly balance of trade in goods and services surplus increased from \$2 609 billion to \$10 956 billion.

Which **one** of the following is the most likely reason for this change in Brazil's balance of trade in goods and services surplus?

- ☐ A A decrease in income tax rates in Brazil
- ☐ B A decrease in the quality of Brazil's goods and services
- ☐ C A decrease in the savings ratio in Brazil
- ☐ D A decrease in the external value of Brazil's currency

(Total for Question 4 = 1 mark)

- 5 Governments use fiscal policies to meet their macroeconomic objectives.

Which **one** of the following is a fiscal policy instrument?

- ☐ A Changes in quantitative easing
- ☐ B Changes in taxation
- ☐ C Changes in lending criteria
- ☐ D Changes in liquidity requirements

(Total for Question 5 = 1 mark)

- 4 The net monthly balance of trade deficit in goods and services for Honduras increased from \$475.8 million in April 2022 to \$647.9 million in April 2023.

Which **one** of the following is the most likely reason for this increase in the balance of trade deficit for Honduras?

- ☐ A A decrease in its rate of inflation relative to its trading partners
- ☐ B An increase in the external value of its currency
- ☐ C A decrease in the real incomes of its citizens
- ☐ D An increase in the quality of its goods and services

(Total for Question 4 = 1 mark)

- 5 The unemployment rate in Sri Lanka increased from 5.2% in 2021 to 6.7% in 2022.

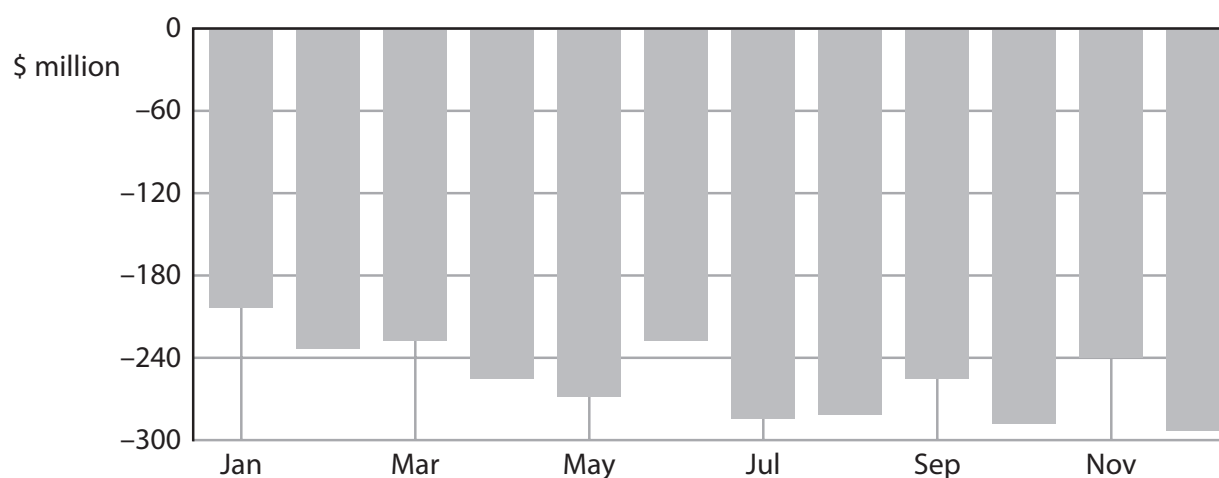
Which **one** of the following is the most likely effect of this increase in the unemployment rate?

- ☐ A An increase in national happiness in Sri Lanka
- ☐ B An increase in the level of profits for firms in Sri Lanka
- ☐ C A decrease in tax revenues for Sri Lanka's Government
- ☐ D A decrease in welfare payments by Sri Lanka's Government

(Total for Question 5 = 1 mark)



- 6 The chart shows Maldives' net monthly balance of trade in goods and services, January 2023 to December 2023.



Which **one** of the following is the most likely cause of the worsening in Maldives' balance of trade in goods and services?

- ☐ A A low rate of inflation relative to its trading partners
- ☐ B A fall in the real incomes of the citizens of Maldives
- ☐ C A decrease in the external value of Maldives' currency
- ☐ D A deterioration in the quality of Maldives' goods and services

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

9 In the USA real incomes increased by 1.8% in the year to September 2018.

Explain **one** possible impact of increased real incomes on the USA's net trade balance.

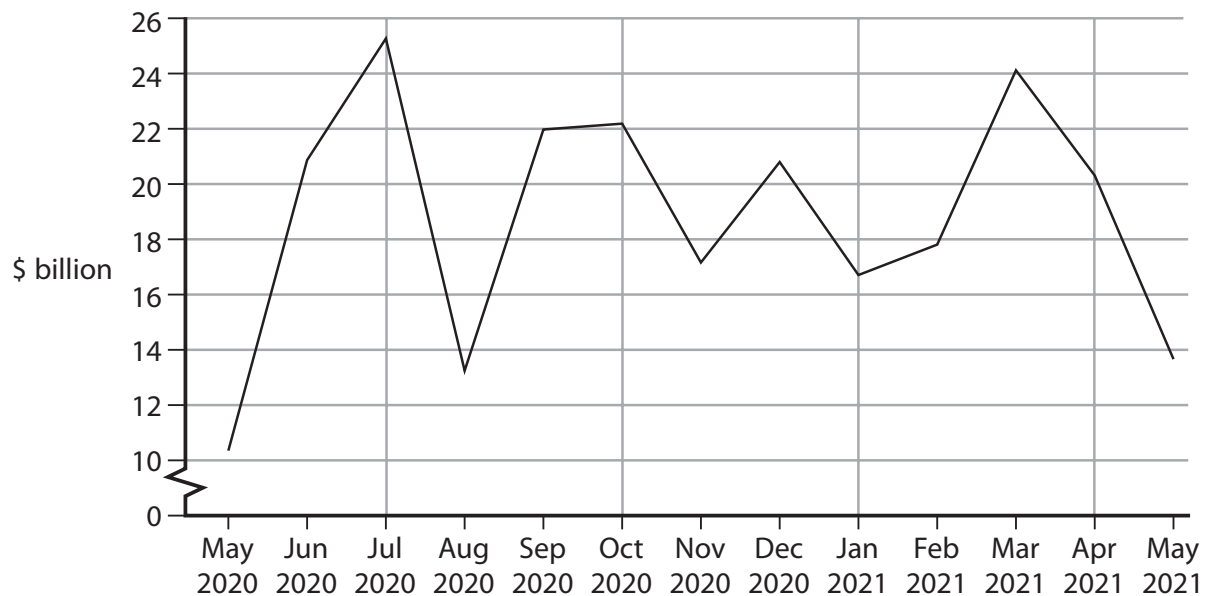
(Total for Question 9 = 4 marks)



SECTION B

Answer ALL questions in this section in the space provided.

- 7 The chart shows Malaysia's net monthly balance of trade in goods and services, May 2020 to May 2021.



(Source: <https://tradingeconomics.com/malaysia/balance-of-trade>)

With reference to the chart, explain **one** likely reason for the surplus in Malaysia's balance of trade in goods and services.

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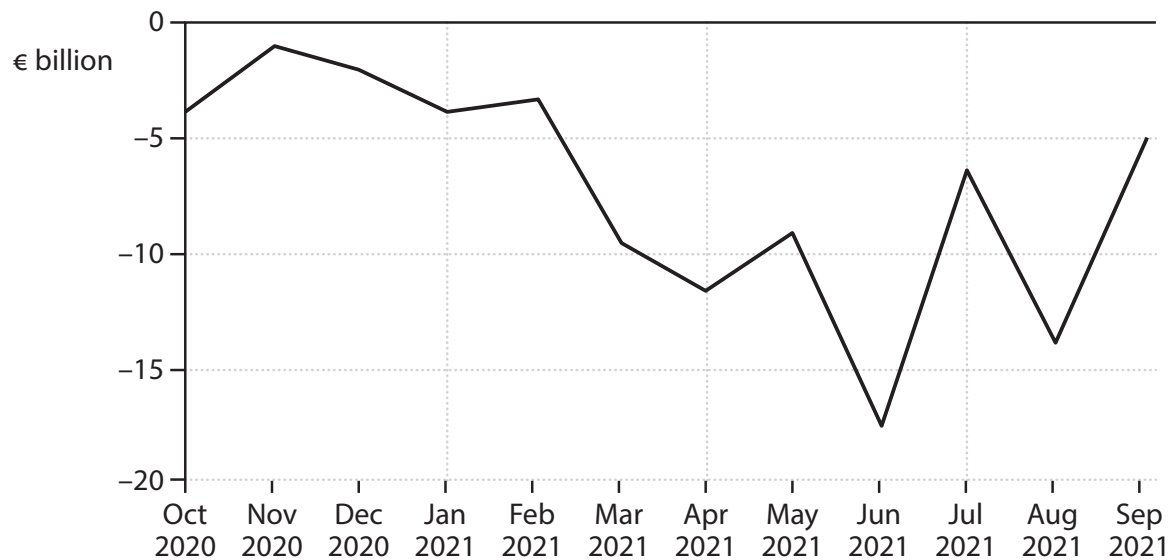
(Total for Question 7 = 4 marks)



SECTION B

Answer ALL questions in this section in the space provided.

- 7** The chart shows Austria's net monthly balance of trade in goods and services, October 2020 to September 2021.



With reference to the chart, explain **one** likely cause of the deficit in Austria's balance of trade in goods and services.

[illegible]

(Total for Question 7 = 4 marks)

SECTION C

Study Figure 1, Extract A and Extract B in the Source Booklet before answering Question 12.

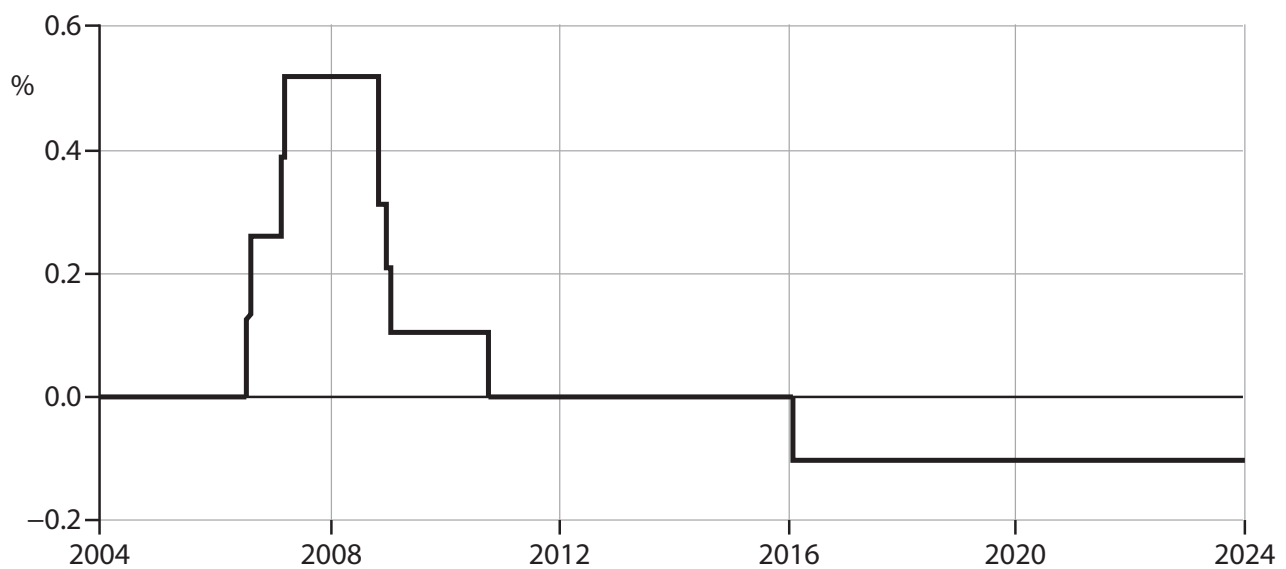
Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'recession'. (2)
- (b) With reference to the third paragraph of Extract A, explain the term 'exchange rate'. (4)
- (c) Analyse **one** likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income. Illustrate your answer with a circular flow diagram. (6)
- (d) With reference to Extract A, examine the likely impact on Japan's real output of the fall in domestic consumption. (8)
- (e) With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate. (14)

Sources for use with Section C

The Japanese economy

Figure 1 Base interest rate, January 2004 to December 2023



Extract A Economic growth

Between quarter 1 (Q1) 2023 and quarter 2 (Q2) 2023, the rate of economic growth in Japan increased from 0.9% to 1.5%. This increase in Japan's real Gross Domestic Product (GDP) was double the original forecast. Therefore, concerns that the country was exposed to a recession were eased.

5

The main reason for the increase in real GDP was an increase in exports that rose by 3.2% in Q2 2023. This was mainly as a result of higher exports of cars caused by an improvement in supply chains. There was also an increase in the number of overseas visitors to Japan. The contribution of tourism to GDP is included in net trade figures and returned to more than two-thirds of pre-global health crisis levels. The number of tourists was expected to grow in the second half of 2023 after China ended restrictions on group tours to a number of countries including Japan.

10

However, economists warned that the fall in domestic consumption, following the global health crisis, remained a concern. They suggested that this was mainly the result of Japan's weak exchange rate. Domestic consumption, which makes up more than half of Japan's economy, fell by 0.5% between Q1 2023 and Q2 2023. During the same period, Japan's imports decreased by 4.3%, which was one of the largest reductions ever recorded. This indicated that the rising rate of inflation was having a significant impact on consumer expenditure.

15

Until the end of 2022 Japan had faced several years of deflation and no wage growth. However, in 2023 consumers experienced significant increases in the prices of goods and services. Japan's weak exchange rate resulted in an increase in the price of raw materials and energy for businesses. It also created greater uncertainty that had an impact on business investment.

20

Extract B Monetary policy

The aim of Japan's central bank, the Bank of Japan (BoJ), is to achieve a 2% inflation target. In Q2 2023 the annual rate of inflation averaged 3.3%. Upward pressure on prices caused workers to demand higher wages, resulting in a rise in inflationary expectations.

The BoJ argued that this increase in the rate of inflation was temporary. Therefore, it continued to maintain the base interest rate at a low level.

5

Economists claimed that the BoJ's argument was weak. They stated that even the Government of Japan expected the annual rate of inflation to be 2.6% in 2023 against the BoJ's forecast of 1.8%. Therefore, there would no longer be a case for maintaining a low base interest rate, that was introduced at a time when the rate of inflation was below the inflation target. Moreover, the probability of a global recession, considered to be a significant risk to Japan's economy, had diminished. To achieve the inflation target of 2% an increase in the base interest rate would be necessary.

10

12 (a) Define the term 'recession'.

(2)

(b) With reference to the third paragraph of Extract A, explain the term 'exchange rate'.

(4)



SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'base rate of interest' (Figure 1). (2)
- (b) With reference to Figure 2, explain the term 'recession'. (4)
- (c) With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments. (6)
- (d) With reference to the information provided, examine the likely impact of inflation on the economy of Argentina. (8)
- (e) Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption. (14)



Sources for use with Section C.

The economy of Argentina

Figure 1 The base rate of interest for Argentina, April 2013 – April 2018

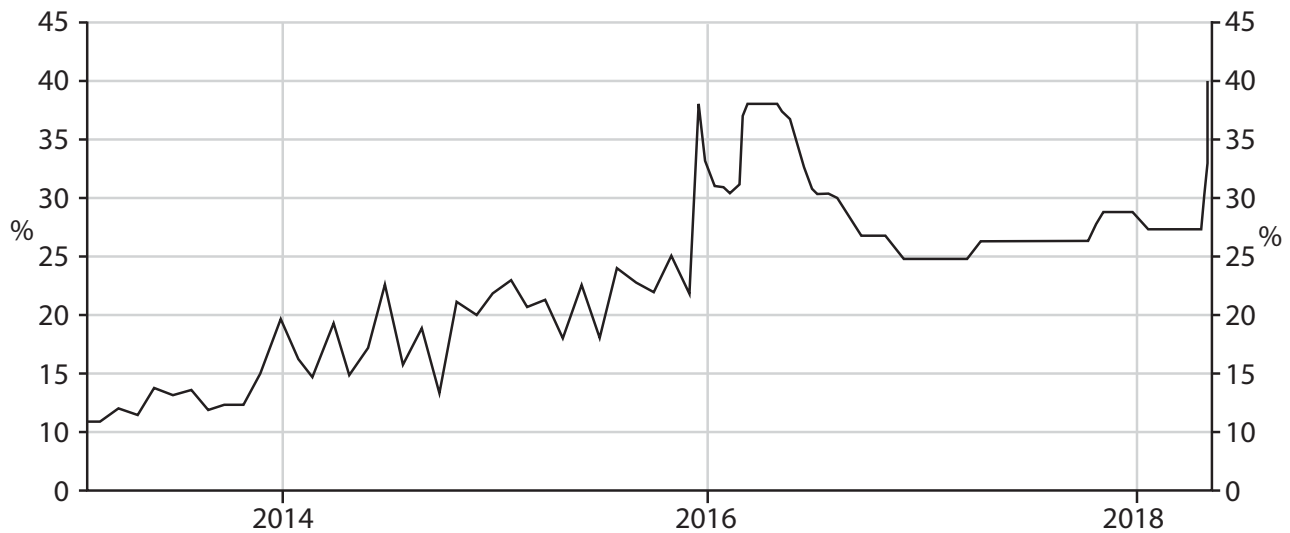
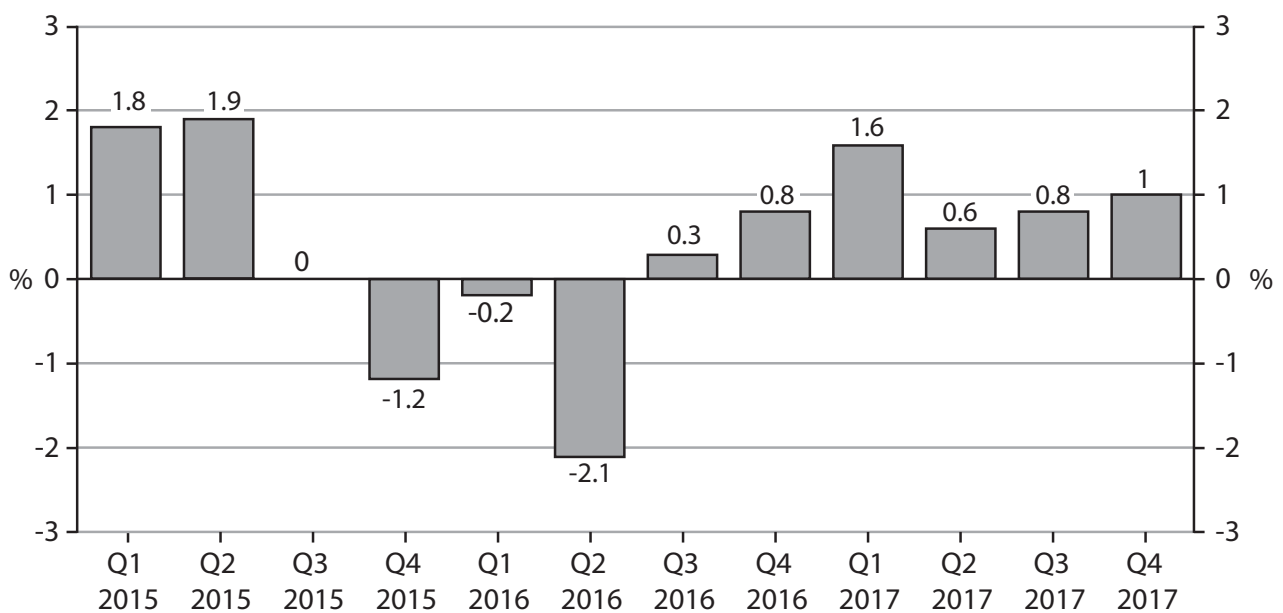


Figure 2 Quarterly GDP growth rate (%), 2015 – 2017



Extract A The problems facing the economy

Argentina is South America's second largest economy. Mauricio Marci was elected as its President in 2015. He faced the difficult task of controlling inflation which was between 30%–40% per year. He also needed to reduce the large budget deficit which was 7.1% of GDP. Between the end of 2015 and the beginning of 2016 the economy went into recession. This was caused by a significant reduction in government spending in an attempt to balance the budget. The purchasing power of consumers declined as wages fell and the rate of inflation rose to 40%. A fall in demand for Argentina's exports also contributed to the decrease in economic growth.

5

Extract B Improving economic outlook

Since coming out of recession in 2016, economic growth in Argentina has stabilised at an annual rate of around 3% per year. However, high inflation is still a major problem. Inflation was 25% in 2017. The effect of this inflation is damaging to both households and businesses. Rising prices have reduced domestic business investment as firms are unsure about future costs. One of the Argentinian Government's key economic policies is to stabilise prices to encourage consumption and investment.

5

A fall in the value of the Argentinian currency, the peso, against the dollar also caused inflationary pressure. In 2018 the peso lost around 12% of its value against the dollar. This makes importing goods from the USA very expensive. At the same time there was a decrease in the value of commodity exports, causing a current account deficit. In an attempt to reduce the rate of inflation and to stabilise the currency, the Central Bank of Argentina increased the base rate of interest to 40%.

10

However, the situation is not all bad. Real wages are rising in many sectors and consumer spending is increasing. Also, the Government plans to spend US\$14 billion on infrastructure. These positive changes have helped Argentina to attract investment from Japanese transport companies such as Mitsubishi and Marubeni Corp, and the American technology company, Apple.

15

(c) With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments.

(6)

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

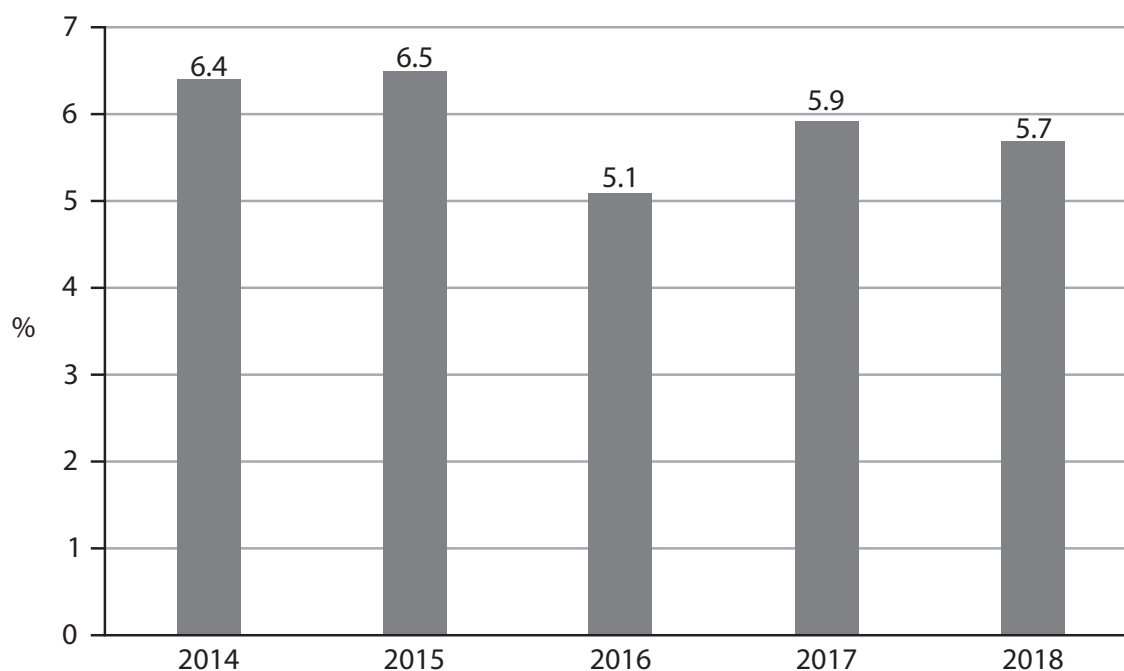
Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'monetary policy'. (Extract A, line 8) (2)
- (b) With reference to Extract A, explain the term 'foreign direct investment'. (4)
- (c) With reference to Figure 1 and Extract A, examine **two** likely impacts of the annual GDP growth rates on the people living in East African countries. (8)
- (d) With reference to Figure 2, analyse **one** macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies. (6)
- (e) With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies. (14)



Sources for use with Section C.**East African* economies**

* Countries include Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, South Sudan, Tanzania and Uganda.

Figure 1 Annual real GDP growth, 2014–2018**Figure 2 Current account on the balance of payments as a percentage of GDP, 2016–2018**

	East African economies
2016	-6.7
2017	-5.4
2018	-5.3

Extract A Rapid growth in East Africa

East Africa was the fastest growing region of Africa in 2018. Increasing commodity prices helped the agricultural and mining sectors contribute most to this growth. Higher foreign direct investment (FDI) in the region also contributed to economic growth. Growth in FDI in 2018 was 67% in Uganda, 27% in Kenya and 18% in Tanzania. Governments in East Africa have been investing in infrastructure, such as roads, seaports and airports. 5

As a result of rapid economic growth, the rate of inflation increased to 13.1% in 2016 and 14.4% in 2017. Appropriate monetary policy in the region helped the rate of inflation to fall to 8.9% in 2019.

Despite rapid economic growth rates, unemployment remains high. Many consumers struggle to meet their basic needs. The governments of the region have been advised to focus on interventionist supply-side policies. These should include continued investment in infrastructure, improving the health and skills of the labour force and increasing the supply of housing. 10

Extract B East African infrastructure investment needed

East African economies have under-invested in infrastructure. The roads in East Africa are in a poor condition. The combination of low speeds and long distances causes high transport costs. Rail transport is poor, which means most goods have to be transported on a congested road system. Funds from China are being used to build two rail routes in the region. 5

Inadequate energy supply is the biggest infrastructure problem. East Africa has the lowest energy generating capacity per capita on the continent. Poor energy supply causes blackouts. However, the region has the potential to develop hydro, wind and fossil fuel resources that could increase energy supply. 10

The region has the smallest proportion of their population with telephone lines and access to mobile phone networks in Africa. However, recently there has been a high level of investment in telecommunications infrastructure. This will result in significant improvements in communications.

(6)





SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

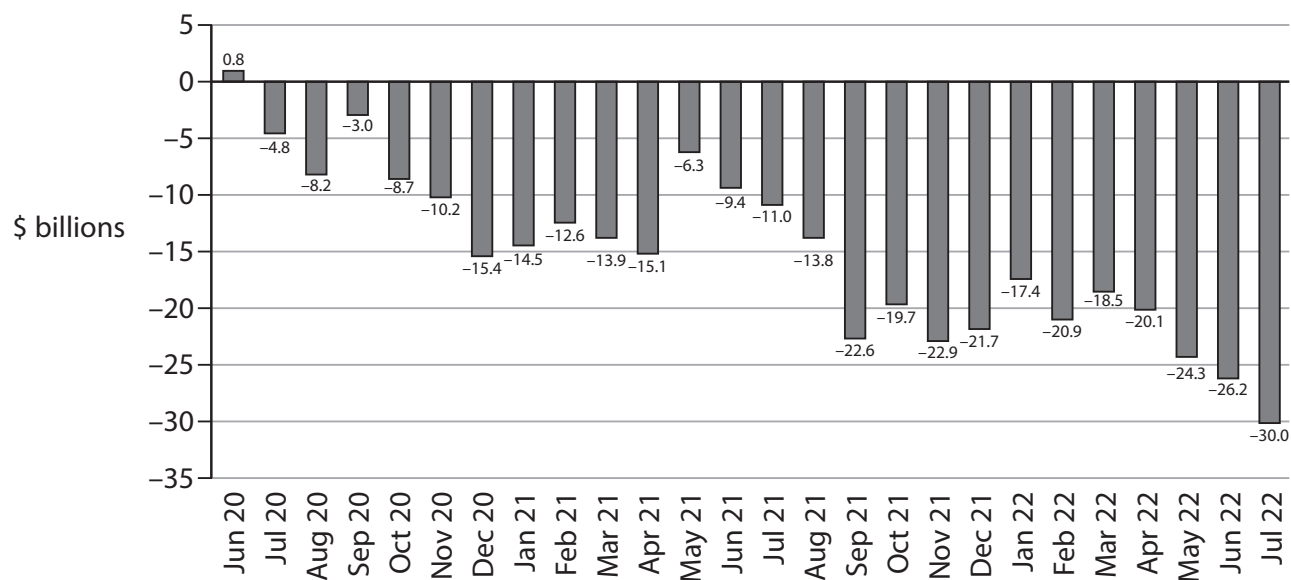
- 12** (a) Define the term 'GDP growth rate' (Extract A, line 23). (2)
- (b) With reference to Figure 1, explain the difference between a balance of trade deficit and a balance of trade surplus. (4)
- (c) Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9). (6)
- (d) Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7). (8)
- (e) With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy. (14)



Sources for use with Section C

The Indian economy

Figure 1 Balance of trade, June 2020 to July 2022



Extract A Balance of trade, inflation and economic growth

In 2022 the Indian economy was experiencing several challenges following the global health crisis. In particular, there was a rising rate of inflation caused by its dependence on imported oil. Oil accounts for 30% of India's imports by value. This is more than double the average of 14.7% for other major Asian economies, such as China, Japan and South Korea. In July 2022 India reported a record balance of trade deficit of \$30 billion, largely caused by the increased expenditure on imported oil. This deficit was one of the largest of all the Asian economies. Economists expect the rate of inflation to increase which will have a further negative impact on India's balance of trade. 5

The rate of inflation was 7.01% in June 2022 compared with June 2021. This was the second highest rate of inflation of the larger Asian economies. This higher rate of inflation reduced the purchasing power of consumers in India. As a result, many consumers were struggling to afford basic necessities. According to economists there were increasing signs that consumer expenditure would increase at a slower rate in the second half of 2022 than in the first half of 2022. This was likely to cause a fall in the rate of economic growth. 10 15

During 2022, India's currency, the rupee, fell in value against the US dollar. In order to prevent the rupee from falling further, and to control the rising rate of inflation, India's central bank raised the country's base rate of interest to 4.9% in June 2022. This represented an increase of 0.5 percentage points from the previous month. 20

Unlike several other Southeast Asian countries, exports of services contribute more to India's economic growth rate than exports of goods.

The Asian Development Bank (ADB) decreased its projected GDP growth rate for India to 6.7% for 2022. This was as a result of the high rate of inflation in India and the deflationary monetary policy adopted by India's central bank. The ADB predicted a small increase in consumer expenditure in the second half of 2022. However, it believed that this increase in consumption will not be sufficient to maintain India's rate of economic growth. 25

(6)





SECTION C

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12** (a) Define the term 'real GDP' (Figure 1). (2)
- (b) With reference to Figure 2, explain the difference between disinflation and deflation. (4)
- (c) With reference to Figure 1 and the first paragraph of Extract A, analyse **two** influences on the level of investment in the eurozone. (6)
- (d) Examine the likely effects of 'the increase in the exchange rate of the euro against the US dollar' (Extract A, lines 25–26) on the net trade balance of the eurozone. (8)
- (e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the ECB's monetary policy on the eurozone economy. (14)

Sources for use with Section C

The eurozone economy

Figure 1 Annual real GDP growth rate, Q1 2018 to Q3 2020

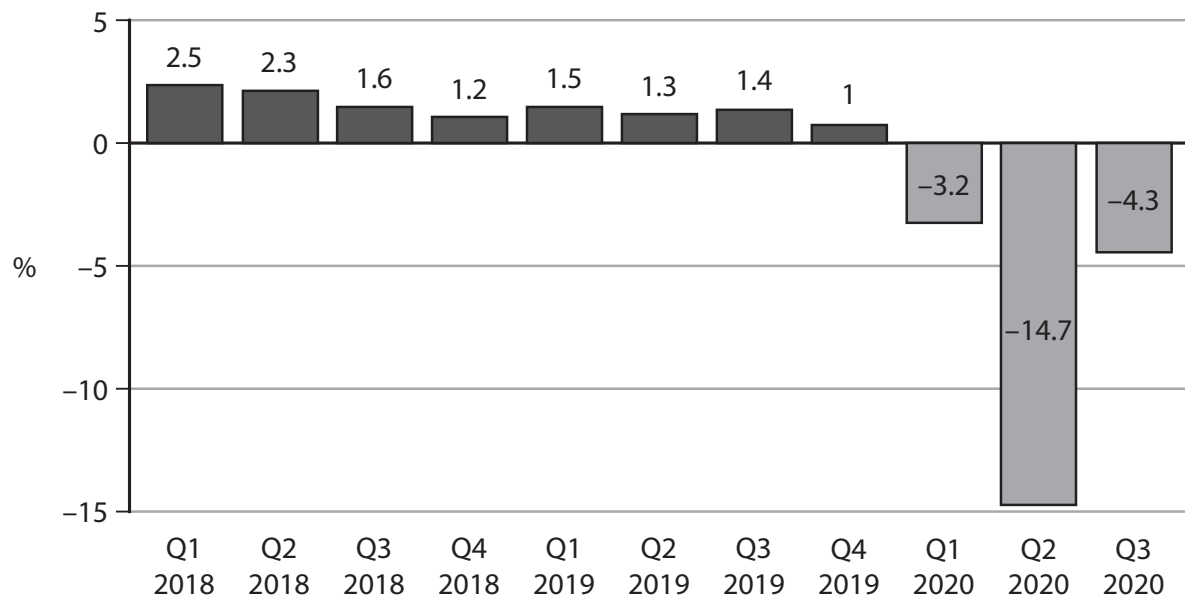
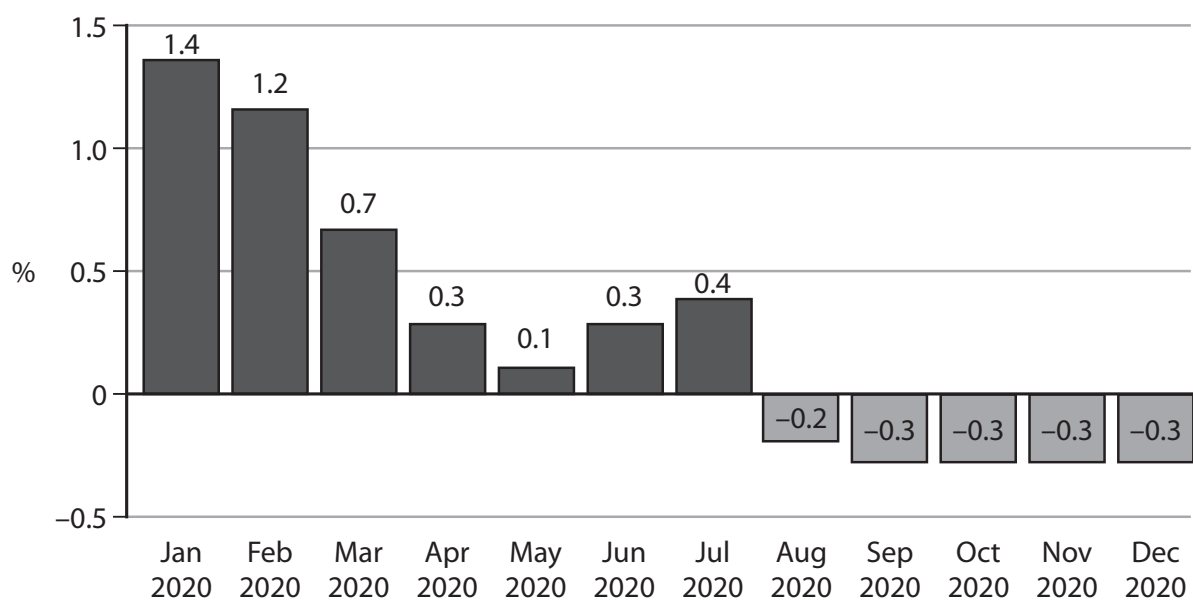


Figure 2 Inflation rate, as measured by the Consumer Price Index (CPI), January 2020 to December 2020



Extract A Monetary policy

In November 2020 the European Central Bank (ECB) highlighted that there were “worrying signals” about the future state of the eurozone economy. It indicated that low business confidence had caused a fall in the demand for bank loans. At the same time, there was a decrease in the availability of credit. These factors resulted in significantly lower levels of investment. 5

In response the ECB immediately launched an additional round of quantitative easing in December 2020. This programme was reintroduced to help the eurozone economy to recover from negative rates of economic growth, rising unemployment and to prevent another recession. It announced a €500 billion increase in the size of its quantitative easing programme for the period January 2021 to September 2021. 10

The ECB also announced the provision of extra low-cost funding for banks, aimed at encouraging an increase in bank lending. It agreed to finance the banks at negative interest rates of –1% until June 2022. This meant that the ECB would be paying banks to borrow more money, provided they continue to lend. 15

Economists have suggested that a reflationary policy could be needed for years, given the weak state of the eurozone economy. In 2020 economic growth in the eurozone was –6.7%. The ECB forecast an economic growth rate of only 3.9% in 2021, 4.2% in 2022 and 2.1% in 2023. The ECB also forecast that the rate of inflation in 2023 will increase but remain below its 2% target. 20

However, it is unlikely that the ECB can manage the entire burden of supporting the eurozone recovery. Market forces have already reduced the effectiveness of existing policies. For example, in 2020 the eurozone’s currency, the euro, traded at its highest level against the US dollar for more than two years. The ECB said it was “very carefully” monitoring the impact of the increase in the exchange rate of the euro against the US dollar. 25

Economists are concerned that the ECB’s asset purchases will have a limited impact because interest rates are already extremely low. They argue that reflationary fiscal policy will be necessary to stimulate economic recovery.

(d) Examine the likely effects of 'the increase in the exchange rate of the euro against the US dollar' (Extract A, lines 25–26) on the net trade balance of the eurozone.

(8)





SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

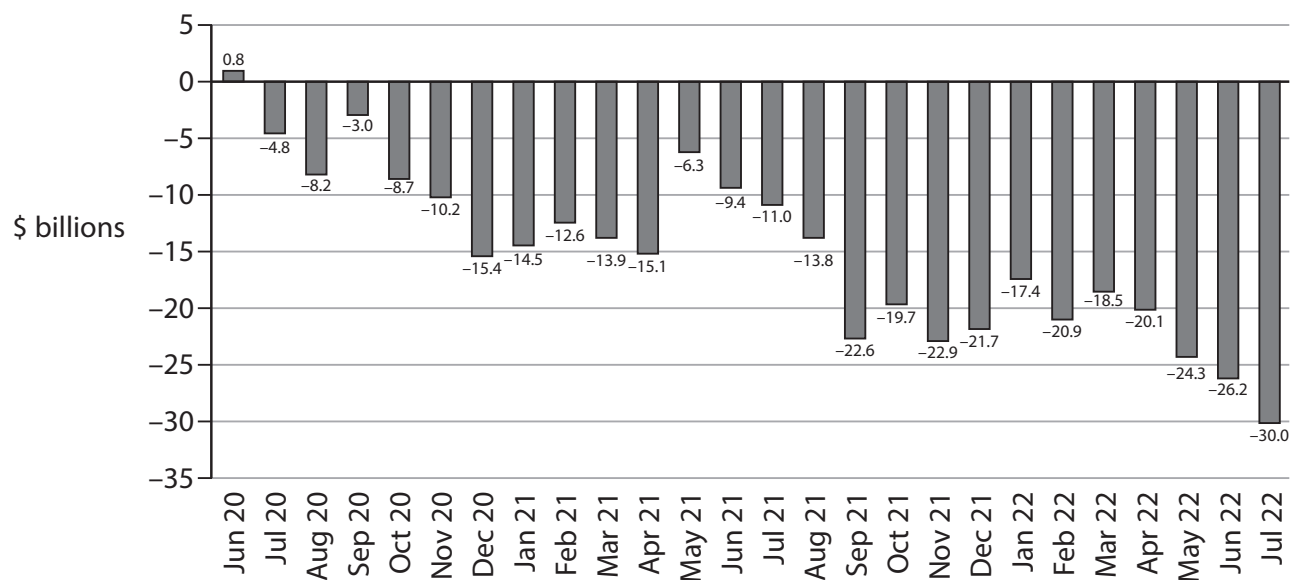
- 12** (a) Define the term 'GDP growth rate' (Extract A, line 23). (2)
- (b) With reference to Figure 1, explain the difference between a balance of trade deficit and a balance of trade surplus. (4)
- (c) Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9). (6)
- (d) Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7). (8)
- (e) With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy. (14)



Sources for use with Section C

The Indian economy

Figure 1 Balance of trade, June 2020 to July 2022



Extract A Balance of trade, inflation and economic growth

In 2022 the Indian economy was experiencing several challenges following the global health crisis. In particular, there was a rising rate of inflation caused by its dependence on imported oil. Oil accounts for 30% of India's imports by value. This is more than double the average of 14.7% for other major Asian economies, such as China, Japan and South Korea. In July 2022 India reported a record balance of trade deficit of \$30 billion, largely caused by the increased expenditure on imported oil. This deficit was one of the largest of all the Asian economies. Economists expect the rate of inflation to increase which will have a further negative impact on India's balance of trade. 5

The rate of inflation was 7.01% in June 2022 compared with June 2021. This was the second highest rate of inflation of the larger Asian economies. This higher rate of inflation reduced the purchasing power of consumers in India. As a result, many consumers were struggling to afford basic necessities. According to economists there were increasing signs that consumer expenditure would increase at a slower rate in the second half of 2022 than in the first half of 2022. This was likely to cause a fall in the rate of economic growth. 10 15

During 2022, India's currency, the rupee, fell in value against the US dollar. In order to prevent the rupee from falling further, and to control the rising rate of inflation, India's central bank raised the country's base rate of interest to 4.9% in June 2022. This represented an increase of 0.5 percentage points from the previous month. 20

Unlike several other Southeast Asian countries, exports of services contribute more to India's economic growth rate than exports of goods.

The Asian Development Bank (ADB) decreased its projected GDP growth rate for India to 6.7% for 2022. This was as a result of the high rate of inflation in India and the deflationary monetary policy adopted by India's central bank. The ADB predicted a small increase in consumer expenditure in the second half of 2022. However, it believed that this increase in consumption will not be sufficient to maintain India's rate of economic growth. 25

(8)





SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

- 13** From 2009 to 2019 the value of Cambodia's currency significantly increased. Over the same period its balance of trade deficit increased from 1.6% of GDP to 8% of GDP.

Evaluate whether the exchange rate of a country's currency is the main factor influencing the country's balance of trade.

(Total for Question 13 = 20 marks)

OR

- 14** From 2004 to 2018 the Ethiopian economy grew at an average rate of over 10% per year. Over this period there has been significant deforestation in the country. Forests have been cleared to make space for farming and the wood has been used for fuel and construction.

Evaluate whether the costs of economic growth outweigh the benefits.

(Total for Question 14 = 20 marks)



MARK SCHEMES

official mark schemes, in the same order as the questions



Question	Quantitative skills assessed	Answer	Mark
1		B	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	C	(1)
3		B	(1)
4		A	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	D	(1)
6	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	A	(1)



Section A

Question	Quantitative skills assessed	Answer	Mark
1	-	A	(1)
2	QS2: Calculate, use and understand, percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	B	(1)
3	-	B	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	C	(1)
5	-	D	(1)
6	QS4: Construct and interpret a range of standard graphical forms	B	(1)



Question Number	In January 2016 the world price of oil was \$29.78 per barrel. By May 2019 this had increased to \$66.83 per barrel. Saudi Arabia is a net exporter of oil. Draw a diagram showing the change in AD for Saudi Arabia's economy following the increase in the price of oil. Show the effect on the price level and real output. Answer	Mark
9	Knowledge 1, Application 3 Quantitative skills assessed: QS4 Construct and interpret a range of standard graphical forms Knowledge 1 mark for drawing original SRAS and AD curves with correctly labelled axis and initial equilibrium Application 1 mark for rightward shift in AD 1 mark for new equilibrium with increased price level, 1 mark for new equilibrium with increased real output	(4)

Question Number	With reference to the overall trend of the data, explain what is meant by the term 'growth of real GDP'.	Mark
	Answer	
10	Knowledge 2, Application 2 Quantitative skills assessed: QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge Up to 2 marks for defining what is meant by "growth of real GDP": • An increase in the total value of output/expenditure/ income (1) adjusted for inflation (1) Application 1 mark for the trend e.g. • Growth rate increases between Q1 and Q2/Q3/Q4/ between Q2 and Q3 (1) 1 mark for explicit use of data e.g. • In Q1 2019 real GDP did not grow (1) • Quoting one or more of the quarterly figures (1)	(4)

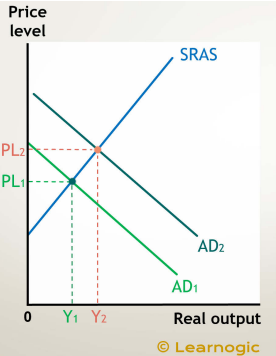
Question Number	<i>Ceteris paribus</i> , calculate the aggregate demand for the USA in 2018. Answer	Mark
11	Knowledge 1, Application 3 Quantitative skill assessed QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 mark for correct definition or formula for AD: $C+I+G+(X-M)$ (1) Application up to 3 marks for correct application $\\$13.95\text{tn} + \\$3.65\text{tn} + \\$3.52\text{tn}$ (1) + $(\\$2.50\text{tn} - \\$3.10\text{tn})$ (1) $=\\$20.52$ trillion (1) NB: If correct answer (\$20.52 trillion) is given, award full marks regardless of working An answer of "\$20.52" or "20.52trillion" or "20.52" will gain 3 marks.	(4)

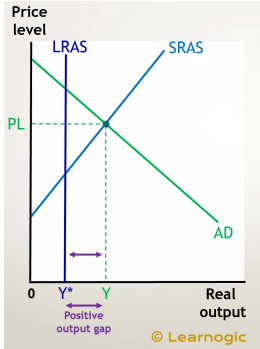
Section C

Question Number	Define the term 'monetary policy'. (Extract A, line 8)	Mark
	Answer	
12(a)	Knowledge 2 1 mark for the definition of monetary policy: - The use of interest rates/the base rate/quantitative easing to control the money supply (1) 1 mark for further development e.g. - A demand-side policy/targeted to shift AD (1) - Conducted by monetary authority/central bank (1) - Often used to help achieve an inflation target (1) - Deflationary monetary policy helped reduce inflation in East Africa (1)	(2)

Question Number	With reference to Extract A, explain the term 'foreign direct investment'.	Mark
	Answer	
12(b)	Knowledge 2, Application 2 Knowledge Up to 2 marks for offering a definition of FDI: - The transfer of funds from one country to another (1) to purchase physical capital (1) - Where TNCs invest funds (1) to establish a new business/purchase an existing business in another country (1) - An injection into an economy coming from abroad (1) Application Up to 2 marks for reference to Extract A e.g. "FDI in the region also contributed to economic growth" (1) - Growth in FDI in 2018 was 67% in Uganda/27% in Kenya/18% in Tanzania (1)	(4)



Question	Draw an AD and SRAS diagram to show the likely impact of this change in the savings ratio on the economy of the USA.	Mark
8	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms  Knowledge Correctly drawn diagram with correctly labelled AD/SRAS curves showing the original equilibrium price level and real output (1) Application Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the right (1) • Showing correct higher price level (1) (not rewarded if 'price' is used on the axis) • Showing correct higher real output (1) (not rewarded if 'quantity' is used on the axis)	(4)
Question	Calculate the value of aggregate demand for this economy in 2022.	Mark
9	Knowledge 1, Application 3 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for correct definition or formula for AD: • $C + I + G + (X - M)$ (1) Application Up to 3 marks for correct application: • $\\$15.76\text{bn} + \\$2.30\text{bn} + \\$6.14\text{bn}$ (1) $+ (\\$8.43\text{bn} - \\$7.01\text{bn})$ (1) • $= \\$25.62 \text{ billion}$ (1) NB If the correct answer is given (\$25.62 billion/\$25.6 billion /\$26 billion), award full marks regardless of working NB If the answer is given as \$25.62/\$25.6/\$26 without the billion sign, award only 3 marks	(4)

Question	Draw an AD/AS diagram to show a positive output gap.	Mark
8	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms  Knowledge Correctly drawn SRAS and AD curves with correctly labelled axes (1) Application Up to 3 marks for the following information included on the diagram: • Drawing LRAS to the left of short-run equilibrium (1) • Labelling the short-run equilibrium (Y) and full employment level of output (Y*) (1) • Correct labelling of the positive output gap (1)	(4)

Question	Calculate the value of consumption for this economy in 2023. Show your workings.	Mark
9	Knowledge 1, Application 3 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for correct definition or formula for AD / consumption: • $AD = C + I + G + (X - M)$ / $C = AD - (I + G + (X - M))$ (1) Application Up to 3 marks for correct application: • $\\$32.91\text{bn} - (\\$4.57\text{bn} + \\$9.22\text{bn} + (\\$7.64\text{bn} - \\$5.89\text{bn}))$ (1) • $\\$32.91\text{bn} - (\\$13.79\text{bn} + (\\$1.75\text{bn}))$ (1) • $= \\$17.37 \text{ billion}$ (1) NB If the correct answer is given (\$17.37 billion/\$17.4 billion /\$17 billion), award full marks regardless of working NB If the answer is given as \$17.37/\$17.4/\$17 without the billion sign, award only 3 marks	(4)

Question	In the USA 11.2% of graduates were working in low-skilled jobs in June 2023. At the same time, 25.7 million people were working part-time. Many of these part-time employees wanted to work more hours. With reference to the information above, explain the term 'underemployment'.	Mark
10	Knowledge 2, Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge Up to 2 marks for defining 'underemployment', e.g.: - Occurs when people are in work/employment/have a job (1) but want to work more hours/or in a more skilled job (1) Application Up to 2 marks for applying to the USA, e.g.: 11.2% of graduates were working in low-skilled jobs (1) 25.7 million people were working part-time (1)	(4)

Question	With reference to Extract A, analyse one macroeconomic effect of the reduction in indirect tax.	Mark
12 (c)	Knowledge 2, Application 2, Analysis 2 QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge Award 1 for understanding of indirect tax, e.g: • A tax levied by the government on goods and services that can be passed onto the consumer OR • An expenditure tax OR • Examples VAT, excise duty or another relevant example (1) Award 1 for one relevant macroeconomic effect identified, e.g: • Reducing tax leads to a fall in prices (1) • Falling prices increases demand for domestic goods (1) • SRAS shifts to the right due to reduced cost of production (1) • Correct shift of SRAS on diagram (1) Analysis Up to 2 marks for explaining the macroeconomic effect of lower VAT, e.g.: • Reducing tax leads to a fall in prices- incomes have a greater purchasing power (1) increased consumption (1) • Falling prices increases demand for domestic goods- so output of firms increases (1) resulting in a reduction in unemployment (1) • Higher consumption due to lower prices (1) shift along the AD (1) • Use of a diagram to analyse the impact on real output and price level (1) Application Up to 2 marks for reference to the data. • VAT has fallen (1) from 24% to 20% (1)	(6)

4	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A B is not correct because Portugal's exports are dependent on consumption and the savings ratios of its trading partners C is not correct because the fall in the savings ratio is likely to cause higher consumption and more demand for goods and services leading to more demand for workers D is not correct because a lower savings ratio implies a reduction in withdrawals	(1)
5	QS4: Construct and interpret a range of standard graphical forms QS8: Make calculations of elasticity and interpret the result QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A B is not correct because at the full employment level of real output, the LRAS would be perfectly inelastic C is not correct because the LRAS would be perfectly elastic at high levels of spare capacity D is not correct because the LRAS would be perfectly elastic at high levels of spare capacity	(1)
6	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B A is not correct because there is a budget deficit of \$100bn C is not correct because the data relate to the budget and not to exports and imports D is not correct because there is a budget deficit which implies that there is a net withdrawal out of the economy	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	-	The only correct answer is A <i>B is not correct as this is not measured by PPP, but by the World Happiness Index</i> <i>C is not correct as this does not consider the price differences of goods in other countries</i> <i>D is not correct as PPP does not compare CPI or RPI in different countries as these are measures of inflation</i>	(1)
2	QS5: Calculate and interpret index numbers QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct as 100 is the base year</i> <i>B is not correct as this is the index number for 2019 using 2018 as the base year</i> <i>C is not correct as this is the index number for 2018 using 2017 as the base year</i>	(1)
3	QS1: Calculate, use and understand ratios and fractions	The only correct answer is C <i>A is not correct because this will increase the value of the multiplier</i> <i>B is not correct because this will increase the value of the multiplier</i> <i>D is not correct because this will increase the value of the multiplier</i>	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because the value of exports is smaller than the value of imports</i> <i>B is not correct as this represents a budget deficit when government spending > taxation</i> <i>C is not correct as balance of trade is always in deficit as indicated by the negative values</i>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct as there are more withdrawals from the CFI</i> <i>B is not correct as savings are a withdrawal from the CFI</i> <i>D is not correct as imports are likely to fall as the savings ratio increases</i>	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS4: Construct and interpret a range of standard graphical forms	The only correct answer is C <i>A is not correct because this is an injection into the circular flow of income</i> <i>B is not correct because this is not a withdrawal</i> <i>D is not correct because this is an injection into the circular flow of income</i>	(1)
2	QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because this conflict is best illustrated by the short-run Phillips curve</i> <i>C is not correct because this conflict is best illustrated by the short-run Phillips curve</i> <i>D is not correct because this conflict is best illustrated by the short-run Phillips curve</i>	(1)
3	QS4: Construct and interpret a range of standard graphical forms QS8: Make calculations of elasticity and interpret the result QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct because the classical LRAS will be perfectly inelastic, and the economy will be operating at full capacity</i> <i>C is not correct because the economy will be operating at full capacity</i> <i>D is not correct because at full employment level of real output, the classical LRAS would be perfectly inelastic</i>	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because an increase in house prices will lead to positive wealth effects</i> <i>C is not correct because this is an impact on firms and not on existing homeowners</i> <i>D is not correct because an increase in house prices would result in greater confidence and then to an increase in consumer expenditure</i>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because fiscal policy involves the use of taxation and government spending as policy instruments</i> <i>B is not correct because fiscal policy involves the use of taxation and government spending as policy instruments</i> <i>C is not correct because this will involve the ECB increasing its asset purchases</i>	(1)

6	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct as consumer confidence is likely to decrease</i> <i>C is not correct as average house prices fell by 1.65% between November 2022 and December 2022</i> <i>D is not correct as there will be less incentive for construction companies to build new houses</i>	(1)
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Section B

Question	In 2021 net migration in Nepal was approximately 300 000. Explain one impact of this net migration on <i>employment</i> in Nepal.	Mark
7	Knowledge 1, Analysis 2, Application 1 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge and analysis 1 knowledge mark for defining net migration, e.g.: - Immigration <i>minus</i> emigration (1K) OR 1 knowledge mark and up to 2 marks for linked analysis, e.g.: - It will result an increase in employment (1K) if immigrants come to Nepal to fill job vacancies (1AN) that people in Nepal are unable to fill (1AN) - Firms employ more people (1K) to increase output as positive net migration results in an increase in population/more people (1AN) causing higher levels of household consumption (1AN) - Higher employment (1K) as increased immigration could increase the size of the labour force/increase labour supply (1AN) meaning more people are available for work (1AN) Application 1 mark for appropriate reference to Nepal, e.g.: - In 2021 net migration in Nepal was approximately 300 000 (1)	(4)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct because net investment is gross investment minus capital depreciation</i> <i>C is not correct because net investment is gross investment minus capital depreciation</i> <i>D is not correct because net investment is gross investment minus capital depreciation</i>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct as this occurs when people move between jobs</i> <i>B is not correct as this occurs when wages are set above the equilibrium wage rate</i> <i>D is not correct as this occurs when there is a mismatch between the skills that workers have and the skills demanded by employers</i>	(1)
3	QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct as this is the ratio of Qatar's GNI in 2020 to its GNI in 2022</i> <i>C is not correct as this is 1 : percentage change in GNI</i> <i>D is not correct as this is 1 : difference between the GNI values</i>	(1)
4	QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct as this will increase aggregate demand</i> <i>B is not correct as this will cause a rightward shift in the SRAS curve</i> <i>D is not correct as this will increase aggregate demand /shift the LRAS curve to the right</i>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct as house prices are likely to fall</i> <i>B is not correct as the rate of inflation is likely to fall</i> <i>C is not correct as business confidence is likely to fall</i>	(1)
6	QS5: Calculate and interpret index numbers QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct as this will be a result of a fall in consumer confidence</i> <i>B is not correct as the price level will rise</i> <i>C is not correct as real output will rise</i>	(1)

Section B

Question	Between quarter 2 2022 and quarter 2 2023 average house prices in Canada decreased by 8.5%. With reference to the information above, explain one likely macroeconomic impact of this decrease in house prices on existing homeowners.	Mark
7	Knowledge 1, Analysis 2, Application 1 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 knowledge mark for: - Decrease in consumption/ Decrease in consumer spending/ Decrease in AD (1) Analysis Up to 2 analysis marks for linked development, e.g.: - Identification of negative wealth effects (1) - Decrease in confidence of existing homeowners (1) - Decrease in real output and/or price level (this may be shown with an accurately labelled AD/AS diagram showing a leftward shift of AD) (1) Application 1 mark for appropriate reference to Canada house prices, e.g.: - Between quarter 2 2022 and quarter 2 2023 average house prices in Canada decreased by 8.5% (1)	(4)

Section C

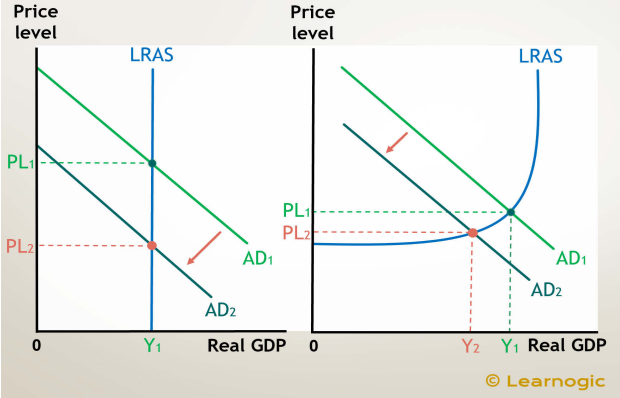
Question	Define the term 'Consumption' (Extract A, line 9).	Mark
	Answer	
12 (a)	Knowledge 2 Up to 2 marks for offering a definition of consumption e.g.: • Consumption is the total spending on goods and services (1) by households/at a given price level/in a given time period (1) • Consumption is a component of AD (1) • The part of income that is not saved (1) • Consumption rose in Canada during 2017 (1)	(2)
	Answer	
12 (b)	Knowledge 2, Application 2 QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 marks for offering a definition of real GDP growth rate: Definition of GDP: value of goods and services produced by a country in a year (1) The growth rate measures the percentage change in GDP (1) accounting for inflation (1) Application Up to 2 marks for reference to Figure 1 e.g.: • GDP growth was at its highest in Q2 2014 at 1.2% (1) • GDP growth was negative in Q1 2015 (1) • GDP growth was positive between Q3 2016 and Q2 2018 (1)	(4)

Question	With reference to the overall trend of the data, explain what is meant by 'the savings ratio'.	Mark
10	Knowledge 2 Application 2 Knowledge Up to 2 marks for defining what is meant by the savings ratio: • Savings represent that part of income which is not spent (1) • The savings ratio is the proportion or % of total disposable income (1) that is saved (1) • Total savings/Total disposable income (1) Application 1 mark for explicit reference to the data and 1 mark for identifying the direction of the overall trend e.g.: • In Jan 2017 the savings ratio was 8.3% (1) it then fell (1) • By July 2017 the savings ratio fell (1) to 6.0% (1) • The change in the savings ratio was a 1.7 percentage points (1) decrease (1) • Between Jan 2015 and July 2017 savings ratio reduced (1) from 8.5% to 6% (1)	(4)

Question	Draw a SRAS and AD diagram to show the possible impact of this increase in consumption on the price level and real output. Answer	Mark
10	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge 1 mark for drawing original AD and SRAS curves showing the equilibrium price level and real output (1) Application 1 mark for correct shift in AD 1 mark for labelling new higher price level 1 mark for labelling new real GDP/output level	(4)

Question	Using the information above, calculate the change in GDP per capita between 2016 and 2017. Show your workings. Answer	Mark
11	Knowledge 1, Application 3 QS1: calculate, use and understand ratios and fractions. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge EITHER 1 mark for GDP per capita formula GDP/population (1) OR GDP per capita is a measure of a country's economic output that accounts for its number of people (1) Application Up to three marks from the following 2017: \$19390.6 billion / 0.3257 billion (1) = \$59 535.16 (1) \$59 535.16 - \$57 589.70 = \$1 945.46 (1) OR (\$59 535.16 - \$57 589.70) / \$57 589.70 = 3.38% (1) NB: if correct answer (\$1 945.46 / 3.38%) is given, award full marks regardless of working	(4)

Question Number	In the first quarter of 2019 average house prices decreased by 15% in real terms in Sydney, Australia.	Mark
	Explain one possible impact of this change in house prices on the level of consumption.	
	Answer	
8	Knowledge 1, Analysis 2, Application 1 Knowledge and Analysis 1 mark for one impact of the link between house prices and consumption and up to 2 marks for linked expansion: - As the value of a consumers assets fall (1AN) they feel less wealthy and start to become less confident (1AN) so they start to reduce their consumption of goods and services (1K) - As the value of a consumer's assets fall they feel less wealthy (1AN) and reduce their consumption of goods and services (1AN) leading to a fall in AD/fall in real output and price level (1K) Application One mark for applying to Sydney, Australia - House prices have decreased 15% (1)	(4)

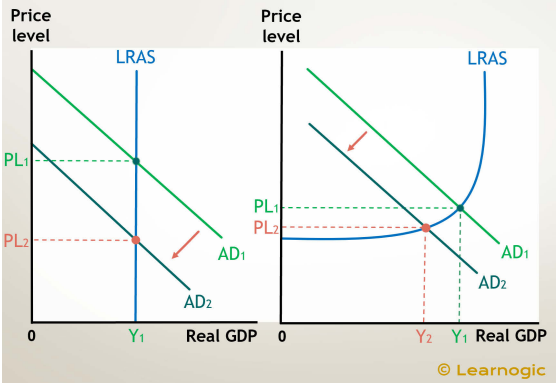
Question	Draw a LRAS and AD diagram to show the possible impact of this change in consumer confidence on the average price level and real output level in Australia.	Mark
8	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms  Knowledge 1 mark for drawing the original AD and LRAS curves (accept either Keynesian or Classical) with correctly labelled axes Application 1 mark for leftward shift in AD 1 mark for new real GDP/output level 1 mark for new price level NB Depending on level of spare capacity shown on a diagram using a Keynesian LRAS curve, price level and real output level may decrease or stay the same. NB If SRAS drawn but labelled LRAS, award 1 mark for correct leftward shift in AD only NB If both AD and LRAS curves are shifted, award 1 mark for Knowledge and 1 mark for correct leftward shift in AD only	(4)

Question	With reference to the chart, explain one likely macroeconomic impact of this increase in house prices on existing homeowners.	Mark
10	Knowledge 1, Analysis 2, Application 1 Quantitative Skill assessed QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 knowledge mark for: • Increase in consumption/consumer spending/AD (1) Analysis Up to 2 analysis marks for linked development, e.g.: • Identification of wealth effects (1) • Increase in confidence of existing homeowners' (1) • An accurately labelled AD/AS diagram showing a rightward shift of AD with increasing real output and price level (1) Application 1 mark for appropriate reference to Turkey house prices, e.g.: • Between October 2019 and October 2020, house prices in Turkey increased by around 22 <i>percentage points</i> / • House prices increased by around 6% in October 2019 and by around 30% in October 2020 (1)	(4)

Section C

Question	Define the term 'recession' (Extract A, line 2).	Mark
12 (a)	Knowledge 2 Negative economic growth / fall in real GDP (1) for two <i>consecutive/successive</i> quarters / six months (1)	(2)

Question	With reference to Figure 1, explain what is meant by the savings ratio.	Mark
12 (b)	Knowledge 2, Application 2 Quantitative Skill Assessed QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge Up to 2 marks for defining what is meant by the savings ratio: - total savings/total disposable income (1) x 100 (1) - proportion or percentage of total disposable income (1) that is saved/not spent (1) - savings represent that part of income which is not spent (1) Application Up to 2 marks for relevant application, e.g.: - Savings ratio has increased (1) from 3.6% in Q3 2018/to 22% Q2 2020 (1) - Between Q2 2020 and Q3 2020, savings ratio fell (1) from 22% in Q2 2020 to 18.7% in Q3 2020/by 3.3 percentage points (1)	(4)

Question	In 2021 average house prices in the Philippines fell by over 10%. This had a significant impact on existing homeowners. Based on this information, draw an AD and LRAS diagram to show the likely impact of this fall in house prices on the price level and real output in the Philippines. Answer	Mark
8	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms  Knowledge Correctly drawn diagram with correctly labelled AD/LRAS curves showing the original equilibrium price level and real output (1) Application Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the left (1) • Showing correct lower price level (1) (not rewarded if 'price' is used on the axis) • Showing correct lower real GDP/income/output (1) (not rewarded if 'quantity' is used on the axis) NB: Award a maximum of 2 marks if LRAS shifted along with AD	(4)

Question	Calculate the change in Canada's balance of trade between 2019 and 2020. Show your workings.	Mark
	Answer	
9	Knowledge 1, Application 3 Quantitative Skill assessed QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for correct formula/implicit understanding, e.g.: • Net trade balance = $(X-M) /$ • Value of exports – value of imports (1) Application Up to 3 marks for use of data in calculation from the following, e.g.: • 2019 → $\\$555.8\text{bn} - \\$583.6\text{bn} = -\\$27.8\text{bn}$ (1) • 2020 → $\\$477.1\text{bn} - \\$510.8\text{bn} = -\\$33.7\text{bn}$ (1) • Change → $-\\$33.7\text{bn} - -\\$27.8\text{bn} = -\\$5.9\text{bn}$ (1) NB: if correct answer (-\$5.9 billion/\$5.9 billion/21.2%) is given, award full marks regardless of working. NB: award 3 marks if billion is not included in the final answer	(4)

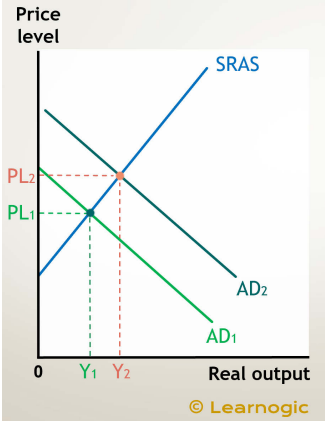
Question	With reference to this information, explain one likely macroeconomic impact of an increase in house prices on existing homeowners.	Mark
10	Knowledge 1, Analysis 2, Application 1 Quantitative Skill assessed QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 knowledge mark for: • Increase in consumption/consumer spending (1) Analysis Up to 2 analysis marks for expansion, e.g.: • Identification of wealth effects/increase in the value of physical assets (1) • An increase in confidence of existing homeowners (1) • Encourages homeowners to save less (1) • Increase in AD/ shift rightwards (1) Reward relevant AD/AS diagram • Increases economic growth/real output/inflationary pressure (1) Application 1 mark for appropriate reference to UK house prices, e.g.: • By Sept 2021 average house price had risen by 11.5%/ In Sept 2021 average house price in the UK was £287 843 (1)	(4)

Question	With reference to the trend shown in the chart, explain what is meant by the 'savings ratio'.	Mark
11	Knowledge 2, Application 2 Quantitative Skills Assessed QS1: Calculate, use and understand ratios and fractions QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge Up to 2 marks for defining savings ratio, e.g.: • The savings ratio is the proportion or % of total disposable income (1) that is saved/not spent (1) • Total savings/Total disposable income (1) x 100 (1) • Savings represent that part of income which is not spent (1) Application 1 mark for explicit reference to the data and 1 mark for identifying the direction of the overall trend, e.g.: • Savings ratio in Latvia rose (1) from 5.78% in 2017 to 8.89% in 2020 (1) • Savings ratio in Latvia decreased (1) from 5.78% to 5.61% (1) • Between 2016 and 2021 there was an increase in savings ratio (1) by 12.41 <i>percentage points</i> (1) • Savings ratio was highest at 17% in 2021 (1) Savings ratio was lowest at 4.59% in 2016 (1)	(4)

Section C

Question	Define the term 'seasonally adjusted' (Figure 1).	Mark
12 (a)	Knowledge 2 QS12: Understand the meaning of seasonally adjusted figures • Time series data (1) that has seasonal variations/changes removed (1) • Economic data (1) that has been adjusted to remove the effect of seasonality/seasonal factors (1) • Data/values/figures/statistics (1) that are updated by seasons/at different times of the year (1)	(2)



Question	Between October 2022 and February 2023 consumer confidence increased in the eurozone. Draw an AD and SRAS diagram to show the likely impact of this increase in consumer confidence in the eurozone.	Mark
8	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms  Knowledge Correctly drawn diagram with correctly labelled AD/SRAS curves showing the original equilibrium price level and real output (1) Application Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the right (1) • Showing correct higher price level (1) (not rewarded if 'price' is used on the axis) • Showing correct higher real output (1) (not rewarded if 'quantity' is used on the axis) Award maximum of 1 mark where an LRAS curve is drawn.	(4)

Question	It was estimated that an increase in investment of \$150 million in an economy would eventually result in an increase in the country's national income of \$1 500 million. Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.	Mark
9	Knowledge 1, Application 3 Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for knowledge of multiplier formula - Multiplier = $1/(1-MPC)$ or $1/MPW$ OR 1 mark for understanding of marginal propensity to consume (MPC) $MPC = \Delta C/\Delta Y$ - MPC is the proportion of one additional unit of income that is spent by households Application Calculate that the multiplier ratio = $\\$1\,500\text{mn}/\\$150\text{mn} = 10$ (1) Calculate that $(1-MPC)$ or MPW = 0.1 OR $1/10$ (1) Calculate that the MPC = 0.9 (1) NB If the correct answer is given (0.9), award full marks regardless of working NB If the answer is given as 0.9 million/\$0.9/\$0.9 million, award only 3 marks	(4)

Question	In 2022 average house prices increased by 6% in India. For example: - in the city of Bengaluru, average house prices increased by 9% - in the city of Ahmedabad, average house prices increased by 3% With reference to the data, explain what is meant by the 'wealth effect'.	Mark
11	Knowledge 2, Application 2 Quantitative skills Assessed: QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge Up to 2 marks for defining the wealth effect, e.g.: - When an increase in asset prices e.g. house prices (1) results in an increase in consumer confidence / an increase in consumption and/or AD (1) Application Up to 2 marks applying this to the context of India, e.g.: - Average house prices increased by 6% in India (1) - In Bengaluru average house prices increased by 9% (1) - In Ahmedabad average house prices increased by 3% (1)	(4)

Question	With reference to Extract A, analyse one possible macroeconomic impact of the increase in house prices on the Canadian economy. Answer	Mark
12 (c)	Knowledge 2, application 2, analysis 2 Knowledge Up to 2 marks for: • Identification of wealth effect (1) • Definition of wealth effect: As the value of assets increases (1) consumer spending increases (1) • Houses are assets (1) Application 2 marks for reference to Extract A: • Average house prices increased by 5.7% in 2017 (1) • Consumption had risen in 2017 (1) • Consumer confidence has risen (1) Analysis Up to 2 marks for explaining the impact of higher house prices, e.g.: • Increased house prices increase the value of assets (1) this increases confidence and consumption (1) • Leading to increased aggregate demand (1) causing inflationary pressure/real GDP growth (1) • Wealth effect causes an increase in the demand for loans (1) this increases consumption (1) • Also accept accurate diagram showing increase in price level (1) and change in output (1)	(6)

Question	With reference to Extract B, examine the likely impact of government policies to increase wellbeing.	Mark
	Indicative content	
12(d)	Knowledge 2, application 2, analysis 2, evaluation 2 Knowledge and Analysis 1 mark for knowledge of wellbeing e.g.: Measures factors such as happiness/health/quality of life (1) Up to 2 marks for identification of impacts of government policies to increase wellbeing and up to 2 marks for linked explanations showing the impact on wellbeing, e.g.: • Better access to food (1k) making people healthier and able to attend school or work (1an) • Better quality housing improves mental and physical health (1k) reducing long-term unemployment (1an) • Higher levels of school attendance increase skills (1k) increasing the productive capacity of the economy in the long-run (1an) Application Up to 2 marks for reference to Extracts: • Canadian Government announced its continued commitment to improving the wellbeing of the country (1) • Increased government spending on wellbeing (1) • Low-income households lack access to basic necessities such as food and housing (1) • Lack of essential goods and services can lead to both mental and physical health problems (1) • Around one in ten people live in low-income households (1) • 2.7 million people living on a low income do not have enough food causing health problems (1) • Health problems can stop households working or children attending school (1) • The government has increased the financial benefits to low-income households and to people who are unable to work (1) • Increase in funding for low-cost housing, healthcare and better quality drinking water (1) Evaluation Up to 2 marks for evaluative comments, e.g.: • Wellbeing is a subjective concept (1) which is hard to quantify (1) • Increased benefits do not guarantee the money is spent on healthy food (1) which may not improve wellbeing (1) • Improved health may not improve employment levels (1) as individuals may not have the skills to find work (1) • There may not be demand for workers in the economy (1) as unemployment is still 5.8% (1)	(8)

Question	With reference to the second paragraph of Extract A, analyse two factors that caused household consumption to increase in quarter 3, 2020.	Mark
12(c)	Knowledge 2, Application 2, Analysis 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge and analysis 1 knowledge mark for defining consumption, e.g.: - Consumer spending on goods and services (1K) <i>AND/OR</i> Up to 2 knowledge marks for identifying two influences on the level of consumption in Australia and up to 2 analysis marks for linked development of two influences identified: - House prices (1K) when rising, increase consumer confidence/ cause the wealth effect (1AN) - Interest rates (1K) when low implies low reward for saving and low cost of borrowing (1AN) - Level of welfare payments (1K) when increased results in higher disposable income and consumption (1AN) - Consumer confidence (1K) implies consumers are likely to make more purchases as they expect their financial situation to improve (1AN) Application Up to 2 marks for use of the data or reference to context, e.g., - Household consumption fell by 12.5% in the second quarter of 2020 (1) but increased by 7.9% in third quarter (1) - household consumption supported Australia's economic recovery (1)	(6)

Question	With reference to Extract A, examine the likely impact on Japan's real output of the fall in domestic consumption.	Mark
12 (d)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 knowledge mark for understanding of real output, e.g.: • Output adjusted for inflation (1) <i>AND</i> 1 knowledge mark for identifying the impact: • Fall in Japan's real output (1) Analysis Up to 2 marks for analysing the impact (1+1), e.g.: • Consumption is a component of AD ($C+I+G+(X-M)$) (1) so AD is likely to fall (this can also be shown on an accurately drawn AD/AS diagram) (1) • Higher savings (1) so increases withdrawals from Japan's circular flow of income (1) Application Up to 2 marks for reference to Extract A, e.g.: • Fall in domestic consumption ... remained a concern (1) • Makes up more than half of Japan's economy (1) • Fell by 0.5% (1) • Consumers in Japan experienced significant increases in the prices of goods and services (1) Evaluation Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of the fall in domestic consumption is relatively small (1) so impact on real output is insignificant (1) • The impact on real output may be reversed in the long-run if the exchange rate gets stronger (1) and Japanese imports become relatively cheaper (1) • Real output may not fall in long-run (1) if other components of AD rise, e.g. government spending (1) • Impact on real output depends on elasticity of LRAS (1); real output will decrease if AD lies on elastic segment of LRAS (1)	(8)

Question	Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption.	
	Indicative content	
12(e)	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (8) – indicative content • Consumption is the total household expenditure in the economy • Identification of supply and demand side policies • Subsidies to businesses to lower prices • Reduce tax, such as income tax to increase disposable income leading to higher consumption • Further increasing government spending would increase consumer confidence, encouraging more consumption • Government spending on infrastructure may increase employment, increasing incomes and consumption • Government could stop cutting spending, and increase welfare payments. Those on a fixed income would be able to purchase more goods and services	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.



	Evaluation (6 marks) – indicative content • Consumer confidence may remain low due to high inflation • If interest rates don't change, consumers may choose to save their income • Increased government spending will further increase the government budget deficit • More demand will further increase inflationary pressure • Spending on infrastructure may only increase employment levels by a small amount • Magnitude of changes in tax/spending • Time lags of changing tax/spending	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the view that rising consumer expenditure will always benefit an economy.	
14	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (12 marks) – indicative content • An explanation of what is meant by consumer expenditure • Consumer expenditure a component of aggregate demand • Impact of rising consumption on AD (diagrammatic analysis) • Rising consumer expenditure may increase employment, reduce unemployment and reduce underemployment • Rising consumer expenditure may increase economic growth • Increased profits for firms • Incentive for increased investment • Increased tax revenues/ which may lead to increased public services • Improvements in standards of living • An increase in the MPC would lead to an increase in the value of the multiplier Students may take the alternative view and evaluation becomes KAA	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.



	Evaluation (8 marks) – indicative content • Other components of aggregate demand may be falling • The significance of consumption as a component of AD- some countries may rely on exports • Negative impacts of fall in savings ratio e.g. increase in personal debt may cause demand-pull inflation • It depends on the level of household incomes • Magnitude – it depends on how significant the level of consumption is • Negative impacts of growth on the environment e.g. negative externalities, resource depletion • Negative impact on current account of balance of payments • My cause demand-pull inflation	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

4	QS4 Construct and interpret a range of standard graphical forms QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D A is not correct because between U to V the economy is experiencing a downturn/ negative economic growth B is not correct because at point V there is a negative output gap C is not correct because between W and X the economy is growing and with more output unemployment is likely to be falling	(1)
5		The only correct answer is D A is not correct because decreased rate of economic growth will most likely result in reduced levels of investment B is not correct because an increase in indirect taxation adds to the costs of business and will result in reduced investment C is not correct because an increase in the tax on company profits means less profits can be used to fund investment reducing the investment in the economy	(1)
6	QS1 Calculate, use and understand ratios and fractions QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B A is not correct because this is the value of the marginal propensity to withdraw C is not correct because this is $1/\text{MPC} = 1/0.49$ D is not correct because this is the MPC multiplied by 10	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct as there is no data on real wage rates</i> <i>C is not correct because the changes in the table show a short-term increase in unemployment and structural unemployment is a long-term issue</i> <i>D is not correct because the increase is linked to the fall in real GDP</i>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because this policy would cause an increase in AD</i> <i>C is not correct because the Bank of England is using monetary policy</i> <i>D is not correct because the Bank of England is using monetary policy</i>	(1)
3	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because AD would increase</i> <i>B is not correct because government spending is an injection into CFI</i> <i>C is not correct because AS is likely to increase</i>	(1)
4	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct because we do not know about the primary and secondary income balances</i> <i>B is not correct as there is a balance of trade deficit not surplus</i> <i>D is not correct as the value of exports is likely to have risen</i>	(1)
5	-	The only correct answer is B <i>A is not correct as this would reduce investment</i> <i>C is not correct as this would reduce investment</i> <i>D is not correct as banks would have less money available for investment</i>	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS4: Construct and interpret a range of standard graphical forms QS8: Make calculations of elasticity and interpret the result QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because the classical LRAS is perfectly elastic when there is a high level of spare capacity</i> <i>B is not correct because the classical LRAS is perfectly elastic when there is a high level of spare capacity</i> <i>C is not correct because the classical LRAS curve is perfectly inelastic at the full employment level of real output</i>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy</i> <i>C is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy</i> <i>D is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy</i>	(1)
3	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct as this is the percentage-point change</i> <i>C is not correct as this uses the incorrect equation: $\text{change/new} \times 100$</i> <i>D is not correct as this is the sum of the two percentages</i>	(1)
4	QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct because between Y and Z, the government's tax revenue is likely to increase</i> <i>C is not correct because between Y and Z, the rate of unemployment is likely to decrease</i> <i>D is not correct because between Y and Z, business confidence is likely to increase</i>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because this is likely to have caused a decrease in investment</i> <i>C is not correct because this is likely to have caused a decrease in investment</i> <i>D is not correct because this is likely to have caused a decrease in investment</i>	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct because exports are an injection into the circular flow of income</i> <i>C is not correct because investment is an injection into the circular flow of income</i> <i>D is not correct because consumption is neither an injection nor a withdrawal from the circular flow of income</i>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct because this is likely to increase private sector investment</i> <i>B is not correct because this is likely to increase private sector investment</i> <i>D is not correct because this is likely to increase private sector investment</i>	(1)
3	QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct as this is the marginal propensity to consume multiplied by itself</i> <i>B is not correct as this is the value of the marginal propensity to withdraw</i> <i>D is not correct as this uses the incorrect formula of $1/MPC$</i>	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because there is unlikely to be an impact on the rate of corporation tax</i> <i>B is not correct because this is likely to increase the rate of unemployment</i> <i>C is not correct because this is likely to reduce the rate of economic growth</i>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the next two weeks to be considered as unemployed</i> <i>C is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the next two weeks to be considered as unemployed</i> <i>D is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the</i>	(1)

Section C

Question	Define the term 'corporation tax' (Extract A, lines 4 and 5).	Mark
12 (a)	Knowledge 2 1 mark for, e.g. - tax charged by the government / a direct tax / tax on a firm/business/company (1) 1 mark for, - profits (1)	(2)

Question	Explain what is meant by Gross National Income (Extract A, line 24).	Mark
12 (b)	Knowledge 2, Application 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge Up to 2 marks for explaining Gross national income (GNI), e.g. - It is GDP (1) <i>plus</i> net income (positive or negative) from overseas/abroad (1) - It is GDP (1) <i>plus</i> net receipts from abroad from compensation of employees, property income and net taxes less subsidies on production (1) - It is GDP (1) <i>plus</i> money flowing from foreign countries <i>minus</i> money flowing to foreign countries (1) Application Up to 2 marks for application to Extract A, e.g.: - An alternative measure of economic growth (1) - This measure removes the impact of international companies / provides a better understanding of domestic demand (1) - According to the GNI estimate, Ireland's rate of economic growth was much lower / at 5.9% in 2022 (1)	(4)

Question	Explain one possible impact of increased business confidence on the economy of the UAE.	Mark
	Answer	
9	Knowledge 1, Application 1, Analysis 2 Knowledge & Analysis 1 mark for identification of one possible impact of increased business confidence on the United Arab Emirates and Up to 2 marks for development of identified factor e.g. increase in aggregate supply - Increased business confidence increases incentives to invest (1) this increases AD and real output, reducing the output gap (1) - Businesses will increase investment (1) which will have multiplier effects (1) leading to a more than proportionate increase in GDP (1) Reward an accurate outward shift in LRAS/AD if shown on a diagram (1) Application 1 mark for applying to UAE e.g.: - The increase in business confidence is due to high rates of economic growth (1) - Sustained growth since 2012 (1)	(4)

Question Number	Answer	Mark
9	Knowledge 1, Analysis 2, Application 1 Knowledge 1 mark for definition of investment OR availability of credit, e.g.: • Increase in capital stock (1) OR Increase in willingness for banks to lend (1) Analysis Up to 2 marks for explaining the impact of the increase in the availability of credit, e.g.: • If available credit rises there are more funds available for loans (1) • Ceteris paribus, banks will be able to lend more money to businesses, increasing the level of investment in the economy (1) • If available credit rises investment should rise (1) • Firms are more willing to borrow as business confidence rises (1) Application 1 mark for applying to the data, e.g.: • The money supply increased by 8.4%, increasing available funds (1)	(4)

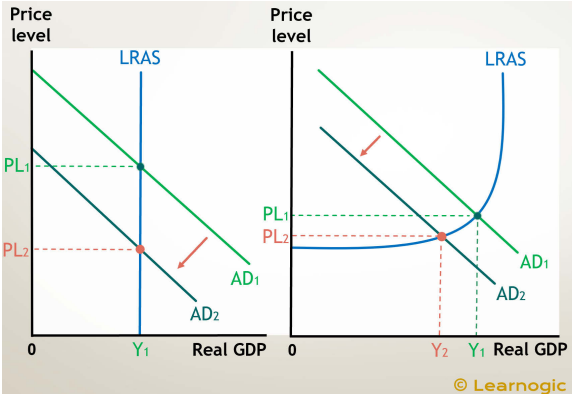
Section B

Question Number	The French Government is to offer €5 billion in tax relief for business investment. Explain one likely economic effect of this investment tax relief. Answer	Mark
7	Knowledge 1, Analysis 2, Application 1 Knowledge and Analysis 1 mark for knowledge of investment or tax relief - Defining investment: spending on capital goods/ OR - Defining tax relief on investment: where firms are charged a lower rate of taxation to encourage investment (1) OR Up to 3 marks for identifying one effect with linked expansion e.g. - It has the effect of lowering the costs for firms who are investing (1) which increases the profit that investment can generate (1) this will encourage increased levels of investment (1) - Tax relief will encourage higher levels of investment (1) this is a component of AD and causing AD to rise (1) this should lead to increased real output/increased price level (1) - Tax relief reduces the tax firms will pay (1) which increases the profits that can be generated from investment (1) so firms will increase investment levels (1) - Tax relief will encourage investment (1) which will help to improve employment (1) and thus lower unemployment (1) - Tax relief will encourage higher levels of investment (1) which will cause a rightward shift in LRAS in the long run (1) will should lead to an increase in real output/decrease in price level (1) Application 1 mark for applying to France e.g. - Tax relief will lower the cost of investment for businesses by €5bn (1)	(4)

Question	With reference to the table, explain what is meant by 'gross investment'.	Mark
	Answer	
11	Knowledge 2, Application 2 Quantitative Skills Assessed QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge Up to 2 marks for defining gross investment, e.g.: - Gross investment = net investment + depreciation (2) - Gross investment includes replacement of worn-out capital stock / Gross investment data includes an estimate for the value of capital depreciation (1) - Investment refers to the increase in the capital stock / Investment is an injection into the CFI (1) Application Up to 2 marks for explicit reference to the data, e.g.: - Gross investment in Tanzania increased (1) from \$15.5bn in 2015 to \$25.6bn in 2020 (1) - Gross investment in Tanzania increased (1) by 65.16% / 65.2% / \$10.1 billion (1)	(4)

Section C

Question	Define the term 'net migration' (Extract A, line 13).	Mark
	Answer	
12(a)	Knowledge 2 - Immigration minus (1) emigration (1) - Difference between number of people entering the country and (1) the number of people leaving the country (1)	(2)

Question	Draw an AD and LRAS diagram to show the likely impact of a fall in business confidence on the economy of Germany.	Mark
8	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms  Knowledge Correctly drawn diagram with correctly labelled AD/LRAS curves showing the original equilibrium price level and real output (1) Application Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the left (1) • Showing correct lower price level (1) (not rewarded if 'price' is used on the axis) • Showing correct lower real output (1) (not rewarded if 'quantity' is used on the axis) NB: also allow LRAS/AD diagram showing a decrease in LRAS as follows • Drawing LRAS shifted to the left (1) • New equilibrium showing correct higher price level (1) (not rewarded if 'price' is used on axis) • New equilibrium showing correct lower GDP/Y/real output/real income (1) (not rewarded if 'quantity' is used on axis) NB: also allow LRAS/AD diagram showing both a decrease in LRAS and a decrease in AD as follows • Drawing LRAS and AD shifted to the left (1) • New equilibrium showing correct price level (1) (not rewarded if 'price' is used on axis) • New equilibrium showing correct lower GDP/Y/real output/real income (1) (not rewarded if 'quantity' is used on axis)	(4)

Question	In 2022 it was estimated that an increase in government spending of \$25 billion in an economy would eventually result in an increase in the country's national income of \$100 billion. Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.	Mark
9	Knowledge 1, Application 3 Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for knowledge of multiplier formula - Multiplier = $1/(1-MPC)$ or $1/MPW$ OR 1 mark for understanding of marginal propensity to consume (MPC) $MPC = \Delta C / \Delta Y$ - MPC is the proportion of one additional unit of income that is spent by households Application Calculate that the multiplier ratio = $\\$100bn / \\$25bn = 4$ (1) Calculate that $(1-MPC)$ or $MPW = 0.25$ (1) Calculate that the $MPC = 0.75$ (1) NB If the correct answer is given (0.75 OR $\frac{3}{4}$), award full marks regardless of working NB If the answer is given as 0.75 billion/\$0.75/\$0.75 billion, award only 3 marks	(4)

Question	With reference to Figure 1 and the first paragraph of Extract A, analyse two influences on the level of investment in the eurozone.	Mark
12(c)	Knowledge 2, Application 2, Analysis 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge and Analysis 1 knowledge mark for defining investment, e.g.: • Increase in the capital stock of the economy (1K) <i>AND/OR</i> Up to 2 knowledge marks for identifying two influences on the level of investment in the eurozone and up to 2 marks for linked explanations of the two influences identified: • Rate of economic growth (1K) fall in GDP will mean firms do not invest in capital goods as there will be lower demand (1AN) • Business confidence (1K) firms will only invest if there is less uncertainty about future costs and revenues, and sales (1AN) • Availability of credit (1K) as investment will only take place if banks are willing to lend and have not applied strict conditions to loans / limited availability of credit may increase interest rate and therefore increase cost of borrowing (1AN) Application 2 marks for use of Figure 1, e.g. • Real GDP growth rate fell by 14.7% in Q2 2020 (1AP) and 4.3% in Q3 2020 (1AP)	(6)

	- Depends on the reliance on natural gas (1) as to the extent of the shift in AS (1) - Forward markets may reduce the impact in the short-run (1) so SRAS may not shift (1)	
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Question	With reference to Figure 2 and Extract A, analyse two factors that influence business investment.	Mark
12(d)	Knowledge 2, Application 2, Analysis 2 Quantitative Skill Assessed QS5: Calculate and interpret index numbers QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge and analysis 1 knowledge mark for identifying each factor and 1 analysis mark for linked development of each factor (2+2) e.g.: - Less economic activity (1K) there will be lower investment as firms expect future demand to decrease/increase more slowly (1AN) - Business confidence/expectations (1K) as firms have less confidence about the state of the UK economy, they are likely to invest less due to greater uncertainty about the future (1AN) - High costs of bureaucracy and strict planning regulations (1K) deter firms from investing as a result of the higher cost of production (1AN) - Lower profits (1K) result in less funds being available to pay for investment (1AN) NB Knowledge and analysis can focus on increased investment NB Analysis mark can only be awarded when the Knowledge mark is in context Application 1 mark for use of Figure 2, e.g., - Between 2010 and 2016, the index of business investment increased from nearly 71 to 102 / Between 2016 and 2020, business investment decreased by nearly 22% / In 2020 business investment decreased significantly (1) AND 1 mark for use of Extract A, e.g., - The UK's rate of economic growth has been low since 2020 / The UK's real GDP at the end of 2022 was smaller than it was at the start of 2020 / The UK's decision to leave the European Union in 2016 / Construction of infrastructure projects, such as building power plants and energy facilities / Global health crisis of 2020 /	(6)



	Rising cost of energy in 2022 (1)	
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Question	With reference to the information provided, examine the likely impact of increased investment on Romania's economy.	Mark
12(d)	Indicative content Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge 2 • Definition of investment: increase in capital stock (1) • Investment is a component of AD (1) • Investment as an influence on LRAS (1) • AD shifted to the right OR LRAS shifted to the right on diagram (1) Application 2 Up to 2 marks for reference to the given sources, e.g.: • Technology investment is expanding in the country (1) • Siemens and Ford have set up in the Romanian capital (1) • Output has increased leading to higher exports (1) • Investment in high internet speeds has attracted businesses to invest further (1) • Spending on education has led to a well-educated workforce, attracting further investment (1) Analysis 2 • Increased production levels in the country, improving efficiency and output (1) • Increased profits for technology firms (1) • Strong growth in exports, as products using high level technology is being produced for export, improving the balance of payment position (1) • Higher levels of exports increase AD, increasing economic growth (1) • Falling unemployment as more investment leads to increasing demand for workers (1) this may also lead to higher wages as unemployment becomes very low, mention of employment shortages in Romania (links to Phillips curve) (1) • Higher levels of net migration as migrants return to Romania seeking better jobs as job prospects have improved. (1) • Increase in productive capacity (1) Accurate AS/AD diagram showing new equilibrium, real output and price level (1) with supporting analysis (1) Evaluation 2 Up to 2 marks for evaluative comments, either 2 evaluative points made or 1 developed e.g.: • Demand for exports will depend on the exchange rate (1) as technology is expensive a strong exchange rate may lead to a fall in demand for the product. (1) • Domestic firms may find it hard to compete with large firms such as Siemens (1) putting them out of business (1) • Increased growth has caused inflationary pressure in Romania (1) • Employment may not increase due to shortages of available labour (1) • Increase in AD from investment may be offset if other components of AD are falling (1) • Ford and Siemens may not agree to pay high taxes to the government (1)	(8)

Question	With reference to Figure 1 and Extract A, examine the likely impact of a fall in business confidence on Germany's real output.	Mark
12 (d)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative Skill Assessed QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 knowledge mark for understanding of business confidence, e.g. - Indicator of expectations of firms/animal spirits/expected profits/investment decisions OR 1 knowledge mark for understanding of real output, e.g.: - Output/GDP adjusted for inflation (1) AND 1 knowledge mark for identifying the impact: - Fall in Germany's real output (1) (May be shown on an AD/AS diagram) Analysis Up to 2 marks for analysing the impact (1+1), e.g.: - Investment is likely to decrease (1) and as investment is a component of AD ($C+I+G+(X-M)$), AD is likely to fall / AS is likely to fall (can be shown on an accurately drawn AD/AS diagram) (1) - Greater uncertainty in markets (1) can reduce injections into the circular flow of income (1) - Increase in business savings/retained profit/repayment of loans/overdrafts (1) leading to fall in investment and lower productivity (1) Application 1 mark for reference to Figure 1, e.g.: - Between January 2015 and November 2021, level of business confidence in Germany fell by 3.4%/ - Between June 2021 and November 2021, business confidence fell from 101.7 to 96.6 (1) AND	

	1 mark for reference to Extract A, e.g.: • A decline in business confidence in the manufacturing and services sectors/ • The Bundesbank, estimated that Germany's real output was likely to fall in the last quarter of 2021/ • Many economists predicted that the German economy could enter a recession in 2022 (1) Evaluation Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of the fall in business confidence is relatively small (1) compared to the fall experienced in April 2020, so impact on real output may not be as large (1) • Fall in business confidence is likely to be short-term (1) as vehicle manufacturing in Germany had started to increase in Q3 2021 which could increase net exports (1) • Impact on real output depends on elasticity of the LRAS (1); real output will only decrease if AD lies on the elastic segment of the LRAS (1) • Real output may not decrease in the long-run (1) as the other components of AD rise, e.g. the Bundesbank predicted "this will strongly boost consumption" once consumer confidence increased (1) NB: do not credit causes of a fall in business confidence in KAA or policies to increase confidence for Evaluation	(8)
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Question	Using the information in Figure 2 and Extract A, discuss the impact of low investment on Canada's economy.	
	Indicative content	
12(e)	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (8 marks) – indicative content • Understanding of investment • Investment is spending on capital goods • Canada's low investments relative to other countries at 10.9% of GDP Impacts include: • AS and AD analysis showing the impact of low investment • Low investment may lead to a fall in long-run economic growth as the productive capacity of the economy does not expand • Low investment may have a negative impact on standards of living; the human capital of the workforce may decline reducing productivity and wages • Low investment may reduce the quality of capital equipment making the labour force less specialised and productive • If low investment causes productivity to fall firms become less competitive and may become less profitable • Low investment and falling productivity reduce demand for Canadian products this may lead to an increase in the current account deficit • Accept relevant macroeconomic analysis using PPF • Business cycle showing a slowing trend growth rate	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question.

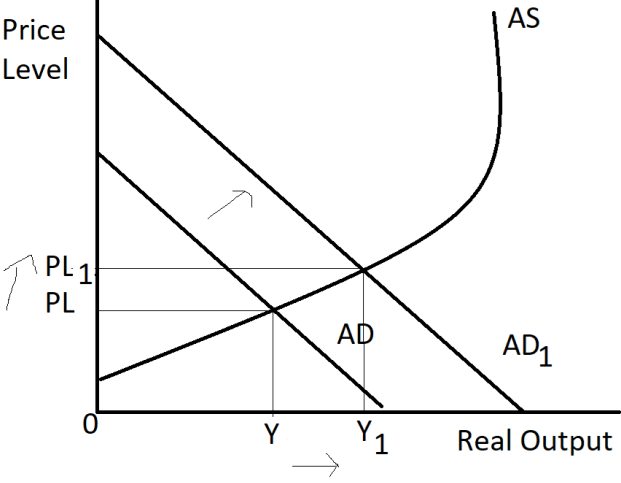
		Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Strong economic growth may encourage investment increasing productivity • Data may reflect increasing GDP rather than low investment therefore relative productivity may not be as low as indicated • Economic growth throughout 2017 and 2018 may be reducing investment as a proportion of GDP, although investment may be rising but at a slower rate • If the economy is mainly service-based low capital investment may not be as significant a problem • Some economies may require higher investment to catch up • Higher exports in Canada may offset low investment levels • Magnitude of how low investment is e.g. compared to South Korea 21.3% • Other countries e.g. the UK has a lower investment rate than Canada • Quality of investment might be more important than the absolute amount of investment for economic growth	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section A

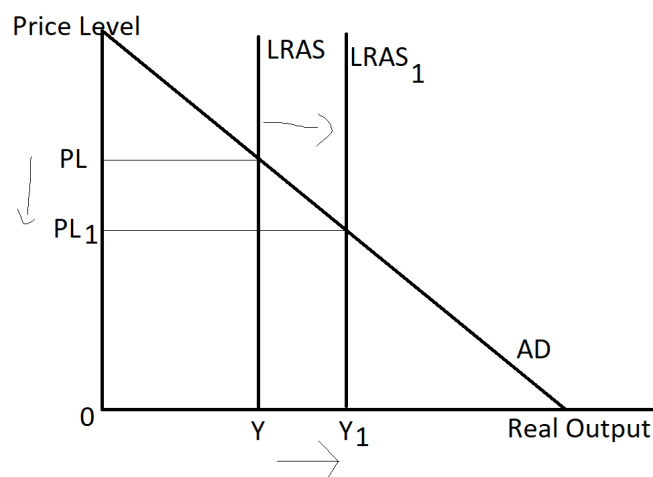
Question Number	Quantitative skills assessed	Answer	Mark
1		The only correct answer is A B is not correct because the students are employed C is not correct because real wage inflexibility relates to a cause of unemployment D is not correct because the students are economically active	(1)
2	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C A is not correct because the inflation rate is always positive throughout the period B is not correct because inflation was experience in May, June, July and August so average price levels would be higher in August D is not correct because the rate of inflation was lowest in July	(1)
3		The only correct answer is C A is not correct because lower welfare payments would reduce government expenditure B is not correct because a lower exchange rate is unlikely to have a direct influence on government expenditure D is not correct because increased business confidence will be likely to lead to higher rates of economic growth reducing the proportion of GDP made up by government expenditure	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct as this is a withdrawal</i> <i>C is not correct as this is a withdrawal</i> <i>D is not correct as this is neither an injection nor a withdrawal</i>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct as it is most likely that there will be an increase in profits for firms</i> <i>B is not correct as it is most likely that there will be an increase in the rate of inflation</i> <i>D is not correct as it is most likely that there will be an increase in government tax revenues</i>	(1)
3	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct as this is the difference in expenditure between 2021 and 2022</i> <i>C is not correct as this uses the incorrect formula $[(new-old)/new] \times 100$ to calculate the percentage change</i> <i>D is not correct as this uses the incorrect formula $[(new/old) \times 100]$ to calculate the percentage change</i>	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus</i> <i>B is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus</i> <i>C is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus</i>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct because this is a monetary policy instrument</i> <i>C is not correct because this is a monetary policy instrument</i> <i>D is not correct because this is a monetary policy instrument</i>	(1)

Question	Evaluate the possible effects of an increase in government expenditure on infrastructure on a country's economy. Illustrate your answer with an appropriate diagram
14	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (12 marks) – indicative content • Infrastructure spending includes spending on transport, power supplies and broadband • Increased infrastructure spending from ₦681 billion in 2020 to ₦1 200 billion in 2022. • The initial infrastructure will see government spending/investment which will boost AD initially • The injection into the economy will result in further rounds of spending via the multiplier effect  • This may cause inflationary pressure and an increase in real output • This helps make doing business easier and cheaper • Reliable power supplies mean production can happen undisrupted • Better transport systems mean raw materials can be moved quicker wasting less time

- Workers will waste less time traveling as there is less traffic/congestion
- Better broadband speeds enable workers to work more quickly not waiting for buffering or information to download and upload
- The workers can therefore be productive for longer
- This lowers production costs for business
- The LRAS shifts rightwards
- This may cause deflationary pressure and an increase in real output
- Employment is likely to increase as people work on the projects directly and indirectly
- Impact on fiscal policy with increased government spending



Diagrams should be rewarded that shift both AD right and LRAS right

NB Award a maximum of Level 3 for answers with no application.

NB Award a maximum of Level 3 for answers with no relevant diagram

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.

		Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
Evaluation (8 marks) – indicative content • Significant time lag for infrastructure projects to be completed • Infrastructure projects can result in delays during construction • No guarantee that infrastructure projects will have a positive impact on productivity • Consideration of effectiveness of infrastructure projects at delivering sustainable growth that does not negatively impact third parties • Privatisation may lead to private monopolies and less efficiency and lower economic growth • This is a substantial increase in spending which should see a larger improvement in GDP • Overall impact depends on size of the multiplier • The increase in investment expenditure may be offset by a decrease in other components of AD • Infrastructure projects may have a negative effect on the environment/third parties		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches.

		Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	In 2022 the Government of China decided to invest 1.48 trillion yuan in many new transportation, energy, and telecommunication infrastructure projects. Evaluate the likely benefits of an increase in government expenditure on infrastructure. Refer to an economy of your choice in your answer.	
13	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (12 marks) – indicative content • Infrastructure spending includes spending on transport, power supplies and telecommunications • Infrastructure projects will increase government spending/investment which will boost AD as government spending/investment is a component of AD (may be shown diagrammatically) • The injection into the circular flow of income will result in further rounds of spending via the multiplier effect (may be shown diagrammatically) • This may increase real output • Improved infrastructure will make doing business easier and cheaper; it lowers production costs for firms • Reliable energy/power supplies mean production can happen undisrupted • Better transport systems mean that raw materials can be moved quicker wasting less time, increasing efficiency • Workers will waste less time traveling as there is less congestion • Better telecommunications e.g. broadband speeds will enable workers to work more quickly, not waiting for information to download or upload • The LRAS shifts rightwards: this may cause deflationary pressure and an increase in potential output (may be shown diagrammatically) • Employment increases as people work on projects directly and indirectly NB Award a maximum of Level 3 for answers with no reference to an economy in their answer	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context.

		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
Evaluation (8 marks) – indicative content - Increased AD may cause greater inflationary pressures - Infrastructure projects may have a negative effect on the environment - The rise in government expenditure may mean that the government cannot meet the objective of achieving a balanced budget - Significant time lag for infrastructure projects to be completed - Infrastructure projects can result in delays during construction - No guarantee that infrastructure projects will have a positive impact on productivity if the value of the projects is lower than the cost of building - Consideration of effectiveness of infrastructure projects at delivering economic growth that does not negatively impact third parties - Overall impact on real output depends on size of the multiplier - Impact on real output/inflation depends on the level of spare capacity in the economy/elasticity of the LRAS - Magnitude- this is substantial spending which should see a larger benefit in terms of increase in GDP - The increase in government spending/investment could be offset by a decrease in the other components of AD e.g. consumption or net trade		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section A

Question	Quantitative skills assessed	Answer	Mark
1	–	A	(1)
2	QS9: Interpret, apply and analyse information in written, graphical and tabular forms	B	(1)
3		C	(1)
4		D	(1)
5	QS4: Construct and interpret a range of standard graphical forms	C	(1)
6	QS2: calculate, use and understand percentages, percentage changes and percentage point changes	B	(1)

5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is A <i>B is not correct because welfare payments would fall when unemployment decreases</i> <i>C is not correct because demand for exports is affected by unemployment rates overseas, not in Spain</i> <i>D is not correct because we cannot tell what happened to economic inactivity rates</i>	(1)
6	QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is D <i>A is not correct because the Canadian dollar depreciated making exports more competitive in the USA</i> <i>B is not correct because the Canadian dollar depreciated making Canadian import from the USA less competitive</i> <i>C is not correct because the Canadian dollar depreciated</i>	(1)

Section B

Question Number	Answer	Mark
7	Knowledge 1, Analysis 2, Application 1 Knowledge 1 mark for definition of subjective happiness OR real income, e.g.: - Value people place on wellbeing (1) OR Income adjusted for inflation (1) Analysis Up to 2 marks for effect of this increase in real incomes e.g.: - Higher incomes may lead to a greater ability to afford goods and services (1) improvement in their sense of wellbeing/ increasing happiness (1) Application 1 mark for applying to stem e.g.: 5.3% increase in real GDP per capita (1)	(4)

Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C A is not correct because potential growth is illustrated by a rightward shift in the LRAS B is not correct because potential growth is illustrated by a rightward shift in the LRAS D is not correct because potential growth is illustrated by a rightward shift in the LRAS	(1)
2	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C A is not correct because a fall in wholesale prices is likely to cause consumer prices to fall and real incomes to rise B is not correct because a fall in wholesale prices implies a fall in costs D is not correct because there are deflationary pressures which would make it more likely that the central bank would reduce interest rates	(1)
3	–	The only correct answer is D A is not correct because an increase in non-price competitiveness is likely to cause an increase in exports and a fall in imports B is not correct because a fall in real incomes is likely to reduce the demand for imports C is not correct because an decrease in the non-price competitiveness of a major trading partner's products is likely to cause the developed country's exports to increase its imports to fall	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct as this does not explain the conflict; shows full employment</i> <i>B is not correct as it shows the relationship between the price level and real output</i> <i>D is not correct as it shows the relationship between the price level and real output</i>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct as demand deficiency is associated with a recession</i> <i>C is not correct as seasonal unemployment is associated with jobs at different times of the year</i> <i>D is not correct as structural unemployment is associated with a change in the sectoral structure of the economy</i>	(1)
3	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because withdrawals will be greater than injections</i> <i>C is not correct because the data relates to the government's budget</i> <i>D is not correct because the data relates to the government's budget</i>	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct because this will improve France's trade balance</i> <i>B is not correct because this will improve France's trade balance</i> <i>D is not correct because this will improve France's trade balance</i>	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D A is not correct as investment and the profits of firms are likely to fall B is not correct as real income is likely to fall and government expenditure is likely to rise C is not correct as unemployment is likely to rise and consumer confidence is likely to fall	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B A is not correct as this implies higher consumption and therefore leads to an increase in the average price level C is not correct as this would lead to higher consumption and therefore an increase in the average price level D is not correct as this would lead to higher consumption/investment and therefore an increase in the average price level	(1)
3	QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C A is not correct as this is calculated using an incorrect formula: $44 / 1.5$ B is not correct as this is calculated using an incorrect formula: 44×1.5 D is not correct as this is calculated using an incorrect formula: $(44 \times 1.5 \times 1000)$	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B A is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras C is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras D is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C A is not correct as incomes will fall and reduce national happiness B is not correct as profits for firms will fall as consumer spending decreases D is not correct as welfare payments will increase	(1)

		next two weeks to be considered as unemployed	
6	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D A is not correct because this will most likely result in an improvement in Maldives' trade balance B is not correct because this will result in an improvement in Maldives' trade balance C is not correct because this will most likely result in an improvement in Maldives' trade balance	(1)

Section B

Question	With reference to this information, explain one benefit of economic growth.	Mark
7	Knowledge 1, Analysis 2, Application 1 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge and Analysis 1 knowledge mark for identification of one benefit and up to 2 marks for linked analysis, e.g.: • More employment opportunities/lower unemployment (1) as demand for labour increases (1) as firms increase production /greater consumer demand for goods and services (1) • Increased tax revenues for the government (1) from income tax/corporation tax/indirect taxes (1) that may be used to improve public services or redistribute incomes (1) • Lower inflationary pressures (1) if economic growth is caused by increases in LRAS (1) will make Macau's exports more price competitive (1) • Higher profits for firms (1) which may be used to improve the quality of products/to produce new innovative products (1) thus giving them a competitive advantage (1) • Higher incomes for consumers (1) who can afford to buy more goods and services/more consumption (1) improving standard of living/increasing national happiness (1) Application 1 mark for appropriate use of the information, e.g.: • Macau's rate of economic growth was the highest in the world / Its annual percentage increase in real GDP was 80.5% (1)	(4)

Question	With reference to the chart, explain the difference between inflation and disinflation.	Mark
	Answer	
8	Knowledge 2, Application 2 QS2: Calculate, use and understand, percentages, percentage changes and percentage point changes QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge Up to 2 marks for definitions of inflation and disinflation e.g.: - Inflation is the sustained rise in the average/general price level (1) - Disinflation is fall in the rate of inflation/average price level increasing at a slower rate (1) Application 1 mark for example of inflation e.g.: - Average prices were increasing throughout the period (1) - There was inflation just over 10% in January 2018 (1) - Inflation peaked in August 2018 at nearly 18% (1) 1 mark for example of disinflation e.g.: - There was disinflation between Jan 2016 and May 2016 (1) - The inflation rate fell from 13% in November 2017 to 10.5% in February 2018 (1)	(4)

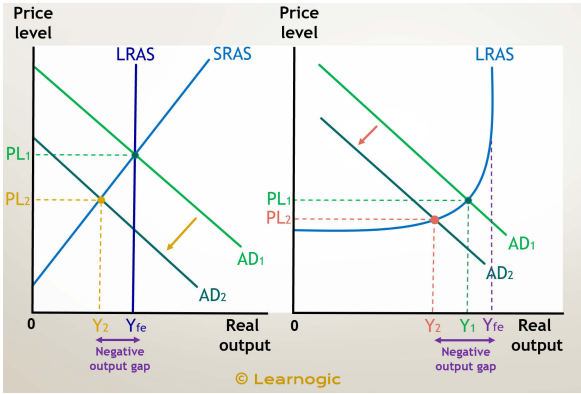
Question	Explain one possible impact of increased real incomes on the USA's net trade balance.	Mark
	Answer	
9	Knowledge 1, Application 1, Analysis 2, Knowledge Up to 1 mark for knowledge e.g.: - Definition of real incomes e.g. income adjusted for inflation (1) - Definition of net trade balance e.g. total value of exported goods and services minus the total value of imported products. (1) Application Up to 1 mark for applying to the data: - Real incomes rose by 1.8% in the USA (1) - There was a small rise in real incomes (1) Analysis Up to 2 marks for explaining how increase real incomes impact net trade balance - If real incomes rise there will be an increase in the demand for imports (1) - Ceteris paribus, higher demand for imports causes a deterioration in the net trade balance (1)	(4)

Question	Draw a LRAS and AD diagram to show the possible long-run impact of this significant increase in the base interest rate on AD, the price level and real output for Turkey. Answer	Mark
10	Knowledge 1, Application 3 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Correct labelling of the axes e.g. price level and real output/GDP (1) Application Up to 3 marks for the following information included on the diagram • Drawing the original AD/LRAS curve (1) • Drawing a new AD curve to the left/decreased (1) • For the correct final equilibrium price level and output (1)	(4)

Section B

Question	With reference to the chart, explain one likely reason for the surplus in Malaysia's balance of trade in goods and services.	Mark
7	Knowledge 1, Analysis 2, Application 1 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge and analysis 1 mark for definition of balance of trade surplus, e.g.: - When the value of exports is greater than value of imports - Exports are greater than imports / ($X > M$) NB Do not award marks for the definition of trade balance OR 1 mark for identification of a reason and up to 2 marks for linked analysis, e.g. • Decreasing real incomes (1K) demand for imports decreases (1AN) as consumers will have a low marginal propensity to import (1AN) • Relatively high productivity (1K) reduces cost per unit (1AN) makes exports relatively cheap, increasing the demand for Malaysian goods and services (1AN) • Depreciation of the exchange rate (1K) makes exports relatively cheaper (1AN) and imports relatively expensive (1AN) • Improvement in the quality of exports (1K) makes Malaysian goods and services more competitive (1AN) increases the demand for exports (1AN) Application 1 mark for appropriate use of the chart, e.g.: • In May 2021 there is a trade surplus of \$13.7 billion (1) • Trade surplus in every month, May 2020 - May 2021 (1) • Positive trade balance throughout the period shown (1) • The value of exports is greater than the value of imports by over \$10 billion every month (1)	(4)

Question	With reference to the chart, explain one likely cause for the deficit in Austria's balance of trade in goods and services.	Mark
7	Knowledge 1, Analysis 2, Application 1 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 mark for identification of a reason, e.g. • Relatively low productivity/ • Relatively high rate of inflation/ • Appreciation of the exchange rate/ • Increasing real incomes/increase in economic growth/ • Deterioration in quality of Austrian goods/services (1) Analysis Up to 2 marks for linked expansion of one reason, e.g. • Low productivity increases cost per unit (1) makes exports relatively expensive/reducing the demand for Austrian goods and services (1) • High rate of inflation makes export prices relatively more expensive (1) and reduces the value of exports (1) • Increase in the external value of Austria's currency will make exports relatively more expensive (1) and its imports relatively cheaper (1) • Demand for imports increases (1) as the marginal propensity to import indicates that changes in imports are dependent on changes in income (1) • Lower quality of Austrian goods or services will reduce demand for its exports (1) and increase demand for imports (1) Application 1 mark for appropriate use of the chart, e.g.: • In Sep 2021, there is a trade deficit of around €5 billion (1) • Trade deficit in every month, from Oct 2020 - Sep 2021 (1) • Deficit was highest in June 2021/was lowest in Nov 2020 (1)	(4)

Question	As a result of the significant decrease in consumer spending in France in 2020, the country's negative output gap was 5.64%. Draw an AD and AS diagram to show the negative output gap.	Mark
8	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms  Knowledge Correctly drawn diagram with correctly labelled AD/AS curves (the diagram must include the LRAS curve) (1) Application Up to 3 marks for the following information included on the diagram: • For showing equilibrium price level and real output at full employment level of real output (may include leftward shift in AD curve but this is not essential) (1) • Equilibrium at real output lower than full employment level / New equilibrium showing lower price level and real output (1) (not rewarded if 'price' and 'quantity' is used on the axis) • Correct annotation of negative output gap showing distance between equilibrium and full employment level of output (1) (not rewarded if 'quantity' is used on axis)	(4)

Question	With reference to the chart, explain one likely cause of the deficit in Colombia's balance of trade in goods and services.	Mark
11	Knowledge 1, Analysis 2, Application 1 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 mark for identification of a reason, e.g. • Relatively low productivity/ • Relatively high rate of inflation/ • Appreciation of the exchange rate/ • Increasing real incomes/increase in economic growth/ • Deterioration in quality of Colombia's goods/services (1) Analysis Up to 2 marks for linked expansion of one reason, e.g. • Low productivity increases cost per unit (1) makes exports relatively expensive/reducing the demand for Colombian goods and services (1) • High rate of inflation makes export prices relatively more expensive (1) and reduces the value of exports/demand for exports (1) • Increase in the external value of Colombia's currency will make exports relatively more expensive/reduce demand for its exports (1) and its imports relatively cheaper/increase demand for its imports (1) • Demand for imports increases (1) as the marginal propensity to import indicates that changes in imports are dependent on changes in income (1) • Lower quality of Colombia's goods or services will reduce the demand for its exports (1) and increase the demand for its imports (1) Application 1 mark for appropriate use of the chart, e.g.: • In 2014 there was a trade deficit of around \$20 billion (1) • Trade deficit was lowest in 2010 / was highest in 2022 (1) • There was a trade deficit every year from 2010 to 2022 (1)	(4)

Section C

Question	Define the term 'recession'.	Mark
12 (a)	Knowledge 2 - Fall in real GDP/negative economic growth/negative output gap/period of decline in economic activity (1) - for two or more consecutive quarters/six months (1)	(2)

Question	With reference to the third paragraph of Extract A, explain the term 'exchange rate'.	Mark
12 (b)	Knowledge 2, Application 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge Up to 2 marks for defining exchange rate: - The <i>value/price</i> of one country's currency (1) in terms of another currency (1) - The rate at which one currency will be exchanged (1) for another currency (1) Application Up to 2 marks for reference to Extract A, e.g.: - Fall in domestic consumption / was mainly the result of Japan's weak exchange rate (1) - Japan's imports decreased by 4.3% (1)	(4)

Question	With reference to Extract B, analyse one possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments. Answer	Mark
12(c)	Knowledge 2, Application 2, Analysis 2 QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge & Analysis Up to 2 marks for knowledge and up to 2 marks for analysis • The exchange rate is the external value of a currency (1K) the current account measures the total value of exports minus the total value imports (1K) • The current account records the payments for goods and services, plus investment income and transfers, between an economy and the rest of the world (1K) • Reward identification/definition of depreciation: a fall in the value of one currency against another currency (1K) • The fall in the value of the peso make imports more expensive (1K) this may lead to fall in consumption of imports (1An) improving the current account balance (1An) • The fall in the value of the peso causes a decrease in the price of commodity exports (1K) this may lead to an increase in the consumption of exports (1An) improving the current account balance (1An) • Argentinian exports become more price competitive (1K) increasing demand for Argentinian exports (1An) leading to an improvement in the current account (1An) • Demand for certain exports is inelastic (1An) causing a decrease in the current account (1An) Application Up to 2 marks for reference to the data. • The current account balance has fallen into deficit (1) • Importing goods from America is very expensive (1) • The peso fell by 12 percentage (points) against the dollar (1) • Decrease in the value of commodity exports from Argentina (1) Reward the use of relevant diagram	(6)

Question Number	With reference to Figure 2, analyse one macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.	
	Answer	Mark
12(d)	Knowledge 2, Application 2, Analysis 2 QS2 Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge and analysis 1 mark for definition of current account deficit - Current account balance looks at the inflow and outflow of goods, services, investment incomes and transfer payments (1)/ the components of the current account are trade in goods, trade in services, investment income and net transfers (1) - A deficit on the current account usually implies that the value of imports is greater than the value of exports (1) Up to 3 marks for explaining one effect of the change in the current account balance e.g. Deficit reducing: - Deficit in the current account is decreasing, showing greater level of export/lower level of import in 2018 compared to recent years (1) so less leakage from the circular flow of income (1) - Improved current account balance likely to indicate greater international competitiveness (1) leading to continued improvement (1) Deficit remaining: - Net withdrawal from the circular flow (1) meaning more withdrawals than injections (1) will have a negative multiplier effect (1) - The deficit will tend to reduce net trade (1) and so reduce AD (1) leading to a fall in price level and real output (1) - Deficit may mean a loss of jobs (1) as exports are falling/imports are rising (1) increasing unemployment/creating a negative output gap (1)	(6)

	Application Up to 2 marks for reference to Figure 2 • The current account balance is a deficit (1) • The size of the deficit as a proportion of GDP has reduced (1) OR • The deficit was -6.7% of GDP in 2016 and -5.3 of GDP in 2018 (1)	
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Question	Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9).	Mark
12(c)	Knowledge 2, Application 2, Analysis 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 knowledge mark for understanding of an increase in the rate of inflation, e.g.: - The annual percentage increase in the general price level of/ average prices of goods and services in the economy (1) AND 1 knowledge mark for identifying the impact: - Could increase India's balance of trade deficit / worsen trade balance (1) Analysis Up to 2 analysis marks for linked development (1+1), e.g.: - An increase in the rate of inflation will increase the price of Indian exports (1) and this may reduce demand for/value of Indian exports (1) - If inflation rises faster than India's main trading partners, it will make Indian exports less price competitive (1) and this could reduce demand for/value of Indian exports (1) - An increase in the rate of inflation may make import prices relatively cheaper (1) and this may increase the demand for/value of Indian imports (1) Application Up to 2 marks for use of Extract A, e.g., - In July 2022 India reported a record balance of trade deficit of \$30 billion (1) - This deficit was one of the largest of all the Asian economies (1) - The rate of inflation was 7.01% in June 2022 compared with June 2021 (1) - This was the second highest rate of inflation of the larger Asian economies (1)	(6)

Question	Examine the likely effects of 'the increase in the exchange rate of the euro against the US dollar' (Extract A, lines 25-26) on the net trade balance of the eurozone.	Mark
12 (d)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 knowledge mark for understanding of the increase in the exchange rate of the euro against the US dollar, e.g.: - when value of one currency increases in terms of another (1) <i>AND</i> 1 knowledge mark for understanding of net trade balance, e.g.: $(X-M)$ / exports minus imports (1) Analysis Up to 2 marks for analysing the effects (1+1), e.g.: - Imports of goods and services become relatively cheaper / exports of goods and services become relatively expensive (1) - Value of imports increases / value of exports decreases (1) Application Up to 2 marks for reference to the data, e.g.: - Net trade balance of the eurozone worsens (1) - the euro traded at its highest level against the US dollar (1) for more than two years (1) - The ECB said it was "very carefully" monitoring the impact (1) - Accurately drawn AD/AS diagram showing leftward AD shift (1) Evaluation Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: - Effects depends on the size of the change in the value of the currency (1) and how long it can be maintained for (1) - The exchange rate is likely to be more significant in the long-run than the short-run (1) due to the pre-agreed contracts for imports and exports (1) - It depends on how sensitive consumers are to price changes for imports and exports (1) which depends on a range of	

	factors, such as non-price issues, the degree of competition, etc (1) Domestic firms may respond to an increase in the value of their currency by lowering price of their goods in their own currency (1) to keep the price constant in the importer's currency (1)	(8)
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Question	Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7).	Mark
12 (d)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 knowledge mark for understanding of real output, e.g.: • Output adjusted for inflation (1) AND 1 knowledge mark for identifying the impact: • Fall in India's real output (1) Analysis Up to 2 marks for analysing the impact (1+1), e.g.: • Net trade is likely to decrease (1) and as net trade is a component of AD ($C+I+G+(X-M)$), AD is likely to fall (this can be shown on an accurately drawn AD/AS diagram) (1) • May result in SRAS shifting to the left (this can be shown on an accurately drawn AD/AS diagram) (1) as oil is a key commodity used in the production process (1) • Increases withdrawals from the circular flow of income (1) Application Up to 2 marks for reference to Extract A, e.g.: • Oil accounts for 30% of India's imports by value (1) • This is more than double the average of 14.7% for other major Asian economies, such as China, Japan and South Korea (1) Evaluation Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of oil imports is relatively large at 30% (1) so impact on real output is likely to be very significant (1) • Real output may not fall/may increase if exports of services (1) are rising at a faster rate than imports of goods (1) • Impact on real output depends on elasticity of LRAS (1); real output will decrease if AD lies on elastic segment of LRAS (1) • Real output may not fall in long-run (1) as other components of AD rise, e.g. consumption (1) NB Accept negative impact on real output as KAA and positive impact as evaluation (or vice versa)	(8)

Section D

Question	Evaluate whether the exchange rate of a country's currency is the main factor influencing the country's balance of trade.
13	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (12 marks) – indicative content • Understanding of an exchange rate • Understanding of trade balance • Over a 10-year period, Cambodia's trade deficit has increased significantly • From 2009 to 2019 the value of Cambodia's currency significantly increased The exchange rate of a country's currency is a significant factor: • As the value of the country's currency increases, as Cambodia's did: ◦ imported goods and services become cheaper to Cambodian residents. They are therefore likely to increase the quantity of imports bought, increasing the value of imports coming into the country ◦ Cambodian exports of goods and services become more expensive to residents of other countries. They are therefore likely to decrease the quantity of exports bought, decreasing the value of exports leaving the country ◦ as the value of imports rises, and the value of exports falls, Cambodia's trade balance worsens • Reference to Cambodia or another country, where a change in the exchange rate has influenced the trade balance. Other significant factors may be: • Real incomes in the country • The state of the global economy • The degree of protectionism • Non-price factors NB Candidates have to analyse why exchange rate is a significant factor and discuss other factors which may influence trade balance as further analysis; then evaluate each of these. NB Award a maximum of Level 3 for answers with no application.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
Evaluation (8 marks) – indicative content • It depends on the size of the change in the value of the currency, and how long it is maintained for • Factors might be different for different countries and at different times • The exchange rate is likely to be more significant in the long-run than the short-run due to pre-agreed contracts for imports and exports • It depends on how sensitive consumers are to price changes for imports and exports, which depends on a range of factors, such as non-price issues, the degree of competition in the market etc. • It depends on firms' responses to the change in the exchange rate, e.g. domestic firms may respond to an increase in the value of their currency by lowering the price of their goods in their own currency to keep the price constant in the importer's currency etc. • The impact of real incomes depends on how sensitive consumers are to income changes, which depends on a range of factors, such as whether the goods are inferior goods, essential products, or luxuries		

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

