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EDEXCEL INTERNATIONAL A LEVEL ECONOMICS: QUESTIONS BY TOPIC

The role of the state in the macroeconomy (4.3.5)

International A Level Economics · Unit 4: Developments in the global economy

57 questions · 380 marks · Mark schemes included
Past papers October 2020 - June 2025 · 4 specification sub-topics

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 Piccadilly Business Centre, Unit C, Aldow Enterprise Park
Blackett Street, Manchester, M12 6AE

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
4.3.5.1 PUBLIC EXPENDITURE		9 Qs · 79 marks	3
1. Q5	IAL Unit 4 June 2021	1	4
2. Q1	IAL Unit 4 October 2021	1	5
3. Q1	IAL Unit 4 (unused) January 2022	1	6
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5. Q2	IAL Unit 4 January 2024	1	8
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4.3.5.2 TAXATION		11 Qs · 75 marks	18
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18. Q7(e)	IAL Unit 4 January 2025	14	32
19. Q9	IAL Unit 4 October 2020	20	38
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4.3.5.3 PUBLIC SECTOR BORROWING AND PUBLIC SECTOR DEBT		18 Qs · 126 marks	40
21. Q1	IAL Unit 4 June 2021	1	41
22. Q1	IAL Unit 4 January 2022	1	42
23. Q4	IAL Unit 4 June 2022	1	43
24. Q2	IAL Unit 4 January 2023	1	44
25. Q1	IAL Unit 4 October 2024	1	45
26. Q2	IAL Unit 4 June 2025	1	46
27. Q7(a)	IAL Unit 4 June 2022	2	47
28. Q7(a)	IAL Unit 4 October 2023	2	52
29. Q7(a)	IAL Unit 4 January 2024	2	56
30. Q7(a)	IAL Unit 4 January 2025	2	60
31. Q7(c)	IAL Unit 4 October 2020	4	64
32. Q7(b)	IAL Unit 4 June 2022	6	68



QUESTION	SOURCE	MARKS	PAGE
33. Q7(d)	IAL Unit 4 January 2025	8	74
34. Q7(e)	IAL Unit 4 January 2024	14	79
35. Q8	IAL Unit 4 October 2020	20	85
36. Q8	IAL Unit 4 (unused) January 2022	20	86
37. Q9	IAL Unit 4 October 2023	20	87
38. Q10	IAL Unit 4A June 2025	20	88
4.3.5.4 MACROECONOMIC POLICIES		19 Qs · 100 marks	89
39. Q1	IAL Unit 4 January 2021	1	90
40. Q2	IAL Unit 4 June 2022	1	91
41. Q3	IAL Unit 4 June 2022	1	92
42. Q3	IAL Unit 4 October 2023	1	93
43. Q7(a)	IAL Unit 4 October 2021	2	94
44. Q7(a)	IAL Unit 4 January 2022	2	98
45. Q7(a)	IAL Unit 4 October 2022	2	103
46. Q7(b)	IAL Unit 4 June 2021	4	107
47. Q7(b)	IAL Unit 4 October 2022	4	111
48. Q7(c)	IAL Unit 4 January 2023	4	115
49. Q7(b)	IAL Unit 4 June 2023	4	119
50. Q7(b)	IAL Unit 4 January 2024	4	123
51. Q7(c)	IAL Unit 4 October 2022	6	127
52. Q7(d)	IAL Unit 4 January 2024	6	132
53. Q7(d)	IAL Unit 4 October 2020	8	137
54. Q7(d)	IAL Unit 4 January 2023	8	142
55. Q7(e)	IAL Unit 4 January 2021	14	147
56. Q7(e)	IAL Unit 4 January 2022	14	153
57. Q7(e)	IAL Unit 4 October 2022	14	160



QUESTIONS

57 questions · 380 marks · 4 sub-topics

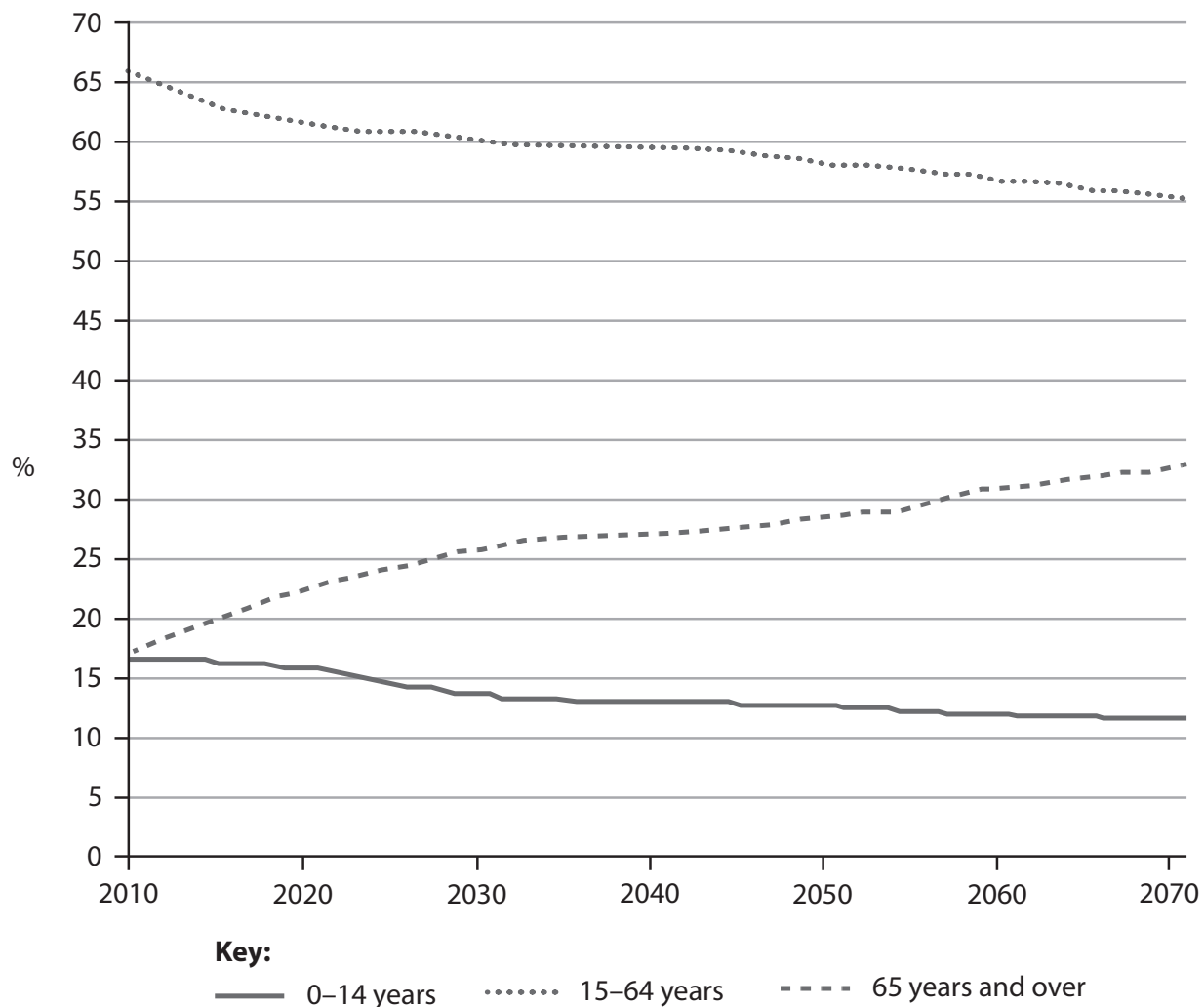
SUB-TOPIC 4.3.5.1

PUBLIC EXPENDITURE

Sub-topic 4.3.5.1 · 9 questions · 79 marks · lowest tariff first



- 5 The chart shows the age distribution of population in Finland between 2010 and 2070. The data is a forecast for 2020 to 2070.



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

- ☐ A The tax burden on the working population is likely to decline by 2070
- ☐ B Finland is likely to experience labour shortages by 2070
- ☐ C The working population is forecast to rise by nearly 16%
- ☐ D Social welfare spending on the population aged 65 years and over is likely to decrease

(Total for Question 5 = 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** Between 2014 and 2019 France's public expenditure as a proportion of GDP fell from 57.2% to 55.6%.

Which **one** of the following is the likely impact of a decrease in public expenditure?

- ☐ **A** A decrease in unemployment
- ☐ **B** A decrease in crowding out
- ☐ **C** An increase in injections
- ☐ **D** An increase in inflationary pressures

(Total for Question 1 = 1 mark)

- 2** New Zealand's Government announced that it planned to increase the tax on fuel by 4 cents per litre from July 2020.

This change in taxation is an example of an increase in which **one** of the following?

- ☐ **A** Progressive tax
- ☐ **B** Proportional tax
- ☐ **C** Regressive tax
- ☐ **D** Direct tax

(Total for Question 2 = 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 The Government of Qatar announced that it would spend \$200 billion to build an airport, new roads, railways and stadiums needed for the 2022 football World Cup.

This change in public expenditure is an example of an increase in which **one** of the following?

- ☐ A Capital expenditure
- ☐ B Current expenditure
- ☐ C Progressive taxation
- ☐ D Transfer payments

(Total for Question 1 = 1 mark)

- 2 In 2020 the value of Norway's currency, the krone, fell significantly against the US dollar. Norway's central bank intervened in the currency markets to increase the external value of its currency.

Which **one** of the following combinations of foreign currency transactions would Norway's central bank be most likely to use if it wanted to raise the value of the krone against the US dollar?

	Krone	US dollar
☐ A	Buy	Buy
☐ B	Buy	Sell
☐ C	Sell	Buy
☐ D	Sell	Sell

(Total for Question 2 = 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 suggests that *primary product dependency* is a constraint on growth and development?

- ☐ A The Prebisch–Singer hypothesis
- ☐ B The Marshall–Lerner condition
- ☐ C The Lewis structural dual-sector model
- ☐ D The Harrod–Domar model

(Total for Question 1 = 1 mark)

2 In 2022 the Australian Government announced that it would invest nearly \$13.6 billion in major infrastructure projects.

This change in public expenditure is an example of an increase in which **one** of the following?

- ☐ A Transfer payments
- ☐ B Automatic stabilisers
- ☐ C Current expenditure
- ☐ D Capital expenditure

(Total for Question 2 = 1 mark)

3 In 2022 South Korea's international competitiveness ranking was four places lower than it was in 2021.

Which **one** of the following measures is most likely to increase South Korea's international competitiveness?

- ☐ A Stricter regulation of product markets
- ☐ B Privatisation of state-owned enterprises
- ☐ C Greater restrictions on free trade
- ☐ D Less spending on education and training

(Total for Question 3 = 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 an economic factor that might constrain the rate of economic growth of a country?

- ☐ A A high level of corruption
- ☐ B A reduced threat of terrorism
- ☐ C An increased access to credit
- ☐ D A lack of foreign currency

(Total for Question 1 = 1 mark)

- 2 In 2022 the Government of Brazil spent \$160 million on 762 infrastructure projects.

This public expenditure is an example of which **one** of the following?

- ☐ A Expenditure on transfer payments
- ☐ B Current expenditure
- ☐ C Capital expenditure
- ☐ D Consumer expenditure

(Total for Question 2 = 1 mark)

- 3 Between 2021 and 2022 the European Union (EU) recorded an increase in the capital and financial account surplus of the balance of payments.

Ceteris paribus, which **one** of the following is the most likely reason for this increase in the EU's capital and financial account surplus?

- ☐ A An increase in inward foreign direct investment (FDI) and portfolio investment
- ☐ B An increase in the value of EU exports and a decrease in the value of EU imports
- ☐ C An increase in public sector borrowing and an increase in public sector debt
- ☐ D An increase in inflows into the primary income component of the EU's balance of payments

(Total for Question 3 = 1 mark)



SECTION B

Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.

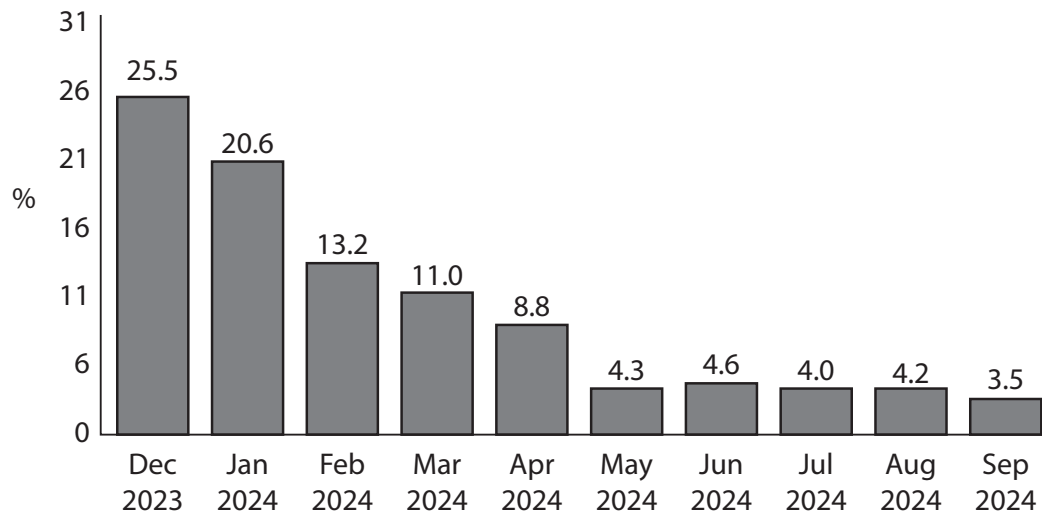
Write your answers in the spaces provided on the following pages.

- 7** (a) With reference to Figure 1, calculate the percentage change in the rate of inflation between December 2023 and September 2024. You are advised to show your working. (2)
- (b) With reference to Extract A, examine the likely effect of the depreciation of the Argentine peso against the US dollar on Argentina's current account **and** its capital and financial accounts. (8)
- (c) With reference to Figure 2, analyse **two** policies that the Central Bank of Argentina can use to limit any further depreciation of the Argentine peso against the US dollar. (6)
- (d) Explain what is meant by 'absolute poverty'. (Extract A, line 20) (4)
- (e) With reference to the information provided and your own knowledge, discuss the likely economic effects of a reduction in public expenditure as a proportion of GDP on Argentina's economy. (14)

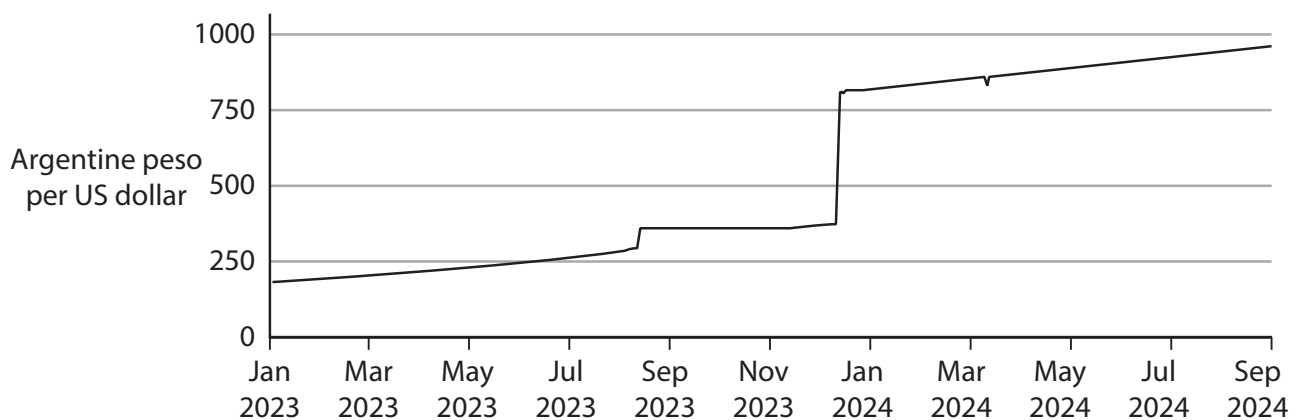


Sources for use with Section B

The economy of Argentina

Figure 1 Annual rate of inflation*, as measured by the consumer price index (CPI), December 2023 to September 2024

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

Figure 2 Argentine peso–US dollar exchange rate, January 2023 to September 2024

Extract A Economic outlook

When Javier Milei became the President of Argentina in December 2023, his first task was to reduce the country's very high rate of inflation. This was mainly caused by increased public expenditure and a depreciation of the country's currency, the Argentine peso, against the US dollar. 5

The Government of Argentina reduced public expenditure from 38% of GDP in 2023 to 32% of GDP in 2024. The largest reductions were made in state pensions, social welfare programmes, and energy and transportation subsidies. This resulted in a fiscal surplus every month in 2024 after more than 10 years of continuous fiscal deficits. By the end of September 2024, these policies had successfully reduced Argentina's high rate of inflation. 10

The Central Bank of Argentina stabilised the exchange rate to prevent any further falls in the external value of its currency against the US dollar. It believed that this would result in greater macroeconomic stability in the country's financial markets. Argentina's current account changed from a deficit in 2023 to a surplus in 2024. 15

However, Argentina still faces numerous economic challenges. GDP was expected to be 3% lower in 2024 than it was in 2023. The country's economic growth forecast is 5.2% in 2025. This would only return Argentina's real GDP per capita to where it was in 2021.

Living standards have been falling since 2004, partly as a result of falling real wages. The share of the population living in absolute poverty increased by 11 percentage points in the first half of 2024 to 53%. 20

Domestic industries that employ most Argentinian citizens — retail, manufacturing and construction — have recovered only slightly from large falls in production. Unemployment in the second quarter of 2024 was 7.6%. Business leaders in manufacturing industries warned that they may continue to make workers redundant as the Government reduces protectionism. 25

Although there are still concerns about salaries, jobs and poverty, economists claim that the Government has achieved macroeconomic stability. However, for this to result in a sustainable rate of economic growth, the Government should remove strict capital and currency controls. This is important in attracting foreign direct investment. 30

(e) With reference to the information provided and your own knowledge, discuss the likely economic effects of a reduction in public expenditure as a proportion of GDP on Argentina's economy.

(14)



Handwriting practice area with 25 horizontal dotted lines.



14

SECTION C**Answer TWO questions from this section.**

- 8** Between 2000 and 2018 Cambodia's terms of trade fell by 31.3%.

Evaluate the macroeconomic effects of a fall in a country's terms of trade on a government's macroeconomic objectives. Refer to a country of your choice in your answer.

(Total for Question 8 = 20 marks)

- 9** In 2017 Yemen received over \$3 billion of development aid, an increase of almost 200% since 2013.

Evaluate the case for promoting *economic development* through aid. Refer to a developing country in your answer.

(Total for Question 9 = 20 marks)

- 10** Between 2012 and 2018 Spain's public expenditure as a proportion of GDP fell from 48.1% to 41.3%.

Evaluate the likely economic effects of a reduction in public expenditure as a proportion of GDP. Refer to a developed country of your choice in your answer.

(Total for Question 10 = 20 marks)



SECTION C**Answer TWO questions from this section.**

- 8** In 2022 the value of Japan's currency, the yen, fell by 35% against the US dollar.

Japan's central bank intervened in the currency markets to increase the external value of the yen. This intervention cost the central bank \$20.8 billion.

Evaluate policies that can be used to prevent a country's exchange rate from depreciating. Refer to a developed country of your choice in your answer.

(Total for Question 8 = 20 marks)

- 9** The eurozone is an economic and monetary union. Member countries of this union share a single currency, the euro. Romania is hoping to become a member of the eurozone by 2026.

Evaluate the costs to a country of becoming a member of an economic and monetary union. Refer to a country of your choice in your answer.

(Total for Question 9 = 20 marks)

- 10** From 2017 to 2021 public expenditure as a proportion of GDP rose from 25.1% to 29.5% in Azerbaijan and from 12.5% to 15.9% in India.

Evaluate possible causes of an increase in public expenditure as a proportion of GDP in a developing economy of your choice.

(Total for Question 10 = 20 marks)



SECTION C**Answer TWO questions from this section.**

- 8** In 2022 Türkiye's deficit on the current account of the balance of payments was \$48.75 billion. In the same year, Canada's deficit on the current account of the balance of payments was \$6.65 billion.

Evaluate measures that could be taken to reduce a current account deficit on the balance of payments. Refer to a country of your choice in your answer.

(Total for Question 8 = 20 marks)

- 9** In 2022 Mozambique had a Human Development Index (HDI) score of 0.46 whereas Guatemala had a HDI score of 0.63.

Evaluate economic factors that constrain the growth **and** development of a developing country. Refer to a developing country of your choice in your answer.

(Total for Question 9 = 20 marks)

- 10** Between 2002 and 2022 Italy's public expenditure as a proportion of GDP increased from 47.1% to 56.7%.

Evaluate the likely economic effects of an increase in public expenditure as a proportion of GDP. Refer to a developed country of your choice in your answer.

(Total for Question 10 = 20 marks)



SUB-TOPIC 4.3.5.2

TAXATION

Sub-topic 4.3.5.2 · 11 questions · 75 marks · lowest tariff first



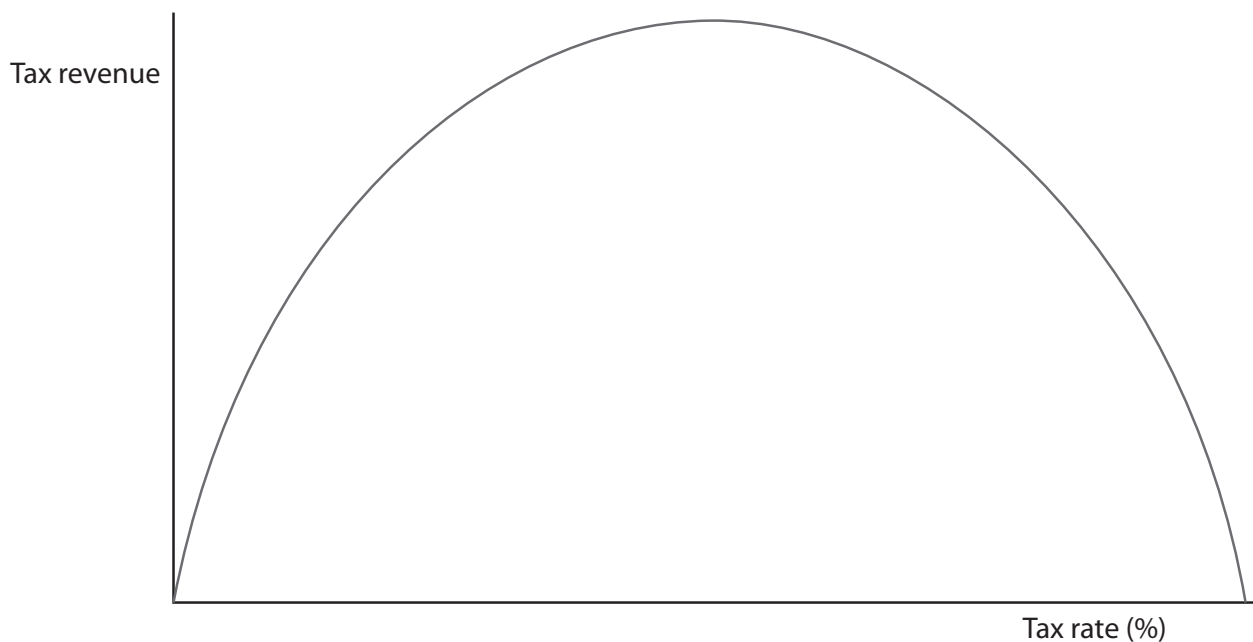
3 In 2018 the value of oil exports accounted for 85% of Nigeria's GDP.

Which **one** of the following is most likely to result from a fall in world oil prices?

- ☐ A A deterioration in Nigeria's current account deficit
- ☐ B An improvement in Nigeria's terms of trade
- ☐ C An increase in transportation costs in Nigeria
- ☐ D A reduction in Nigeria's budget deficit

(Total for Question 3 = 1 mark)

4 The diagram illustrates the relationship between tax rate (%) and government tax revenue.



Which **one** of the following models is represented by this relationship?

- ☐ A The J-curve
- ☐ B The Phillips curve
- ☐ C The Lorenz curve
- ☐ D The Laffer curve

(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** Between 2014 and 2019 France's public expenditure as a proportion of GDP fell from 57.2% to 55.6%.

Which **one** of the following is the likely impact of a decrease in public expenditure?

- ☐ **A** A decrease in unemployment
- ☐ **B** A decrease in crowding out
- ☐ **C** An increase in injections
- ☐ **D** An increase in inflationary pressures

(Total for Question 1 = 1 mark)

- 2** New Zealand's Government announced that it planned to increase the tax on fuel by 4 cents per litre from July 2020.

This change in taxation is an example of an increase in which **one** of the following?

- ☐ **A** Progressive tax
- ☐ **B** Proportional tax
- ☐ **C** Regressive tax
- ☐ **D** Direct tax

(Total for Question 2 = 1 mark)

- 3** In 2020 Denmark's international competitiveness rank was six places higher than in 2019.

Which **one** of the following is the most likely reason for this increase in Denmark's international competitiveness?

- ☐ **A** An increase in its unit labour costs relative to other countries
- ☐ **B** An increase in its transportation costs relative to other countries
- ☐ **C** An increase in its labour productivity relative to other countries
- ☐ **D** An increase in its rate of inflation relative to other countries

(Total for Question 3 = 1 mark)

- 4** In December 2020 the Spanish Government announced that it was increasing the highest rate of income tax from 45% to 47%.

Which **one** of the following is the most likely impact of this change?

- ☐ **A** The Government will receive an additional 2% tax from all workers in Spain
- ☐ **B** The value of Spain's Gini coefficient will fall and the country's Lorenz curve will shift inwards
- ☐ **C** The burden of tax will fall mostly on low income households, as the tax change is regressive
- ☐ **D** There will be an increased incentive for people to set up businesses in Spain

(Total for Question 4 = 1 mark)

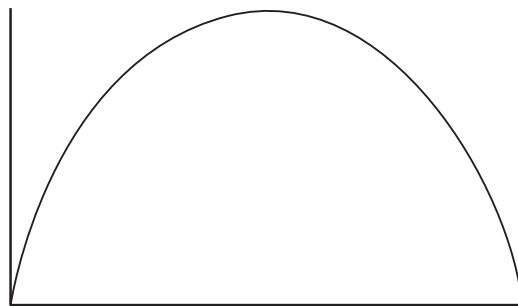
3 Chad is one of the least developed countries in the world with a HDI score of 0.40.

Which **one** of the following interventionist strategies could promote economic development in Chad?

- ☐ **A** Privatisation of nationalised industries
- ☐ **B** Removal of government subsidies
- ☐ **C** Implementation of protectionist policies
- ☐ **D** Trade liberalisation

(Total for Question 3 = 1 mark)

4 The diagram illustrates the Laffer curve for a developed country.



Which **one** of the following statements is true about the Laffer curve?

- ☐ **A** It shows the relationship between the level of investment and the savings rate
- ☐ **B** It shows the relationship between government tax revenue and the tax rate
- ☐ **C** It shows the relationship between the rate of inflation and the unemployment rate
- ☐ **D** It shows the relationship between quantitative easing and the rate of interest

(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** In 2021 the US dollar appreciated by around 10% against the euro.

Which **one** of the following factors is likely to have caused this appreciation of the US dollar?

- ☐ **A** A decrease in confidence in the USA's economy by currency speculators
- ☐ **B** A decrease in the USA's rate of economic growth
- ☐ **C** An increase in capital flight out of the USA into the eurozone
- ☐ **D** An increase in the USA's base interest rate relative to the eurozone

(Total for Question 1 = 1 mark)

- 2** Between 2012 and 2021 Paraguay's national debt increased from \$3.6 billion to \$13.3 billion.

Which **one** of the following is the most likely effect of an increase in the national debt of a country?

- ☐ **A** A decrease in the rate of inflation
- ☐ **B** A decrease in debt servicing costs
- ☐ **C** An increase in crowding out
- ☐ **D** An increase in tax revenues

(Total for Question 2 = 1 mark)

- 3** In 2021 the Nigerian Government introduced a tax of N10 per litre on sugary drinks.

Which **one** of the following can be deduced from this information?

- ☐ **A** It is an ad valorem tax
- ☐ **B** It is a specific tax
- ☐ **C** It is a tax on income
- ☐ **D** It is a tax on company profits

(Total for Question 3 = 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 best describes the role of the World Bank?

- ☐ **A** To maintain exchange rate stability by ensuring international monetary cooperation between countries
- ☐ **B** To provide loans to countries that experience temporary current account deficits on their balance of payments
- ☐ **C** To resolve trade disputes between countries and set the rules of trade
- ☐ **D** To promote economic development through poverty reduction programmes

(Total for Question 1 = 1 mark)

2 The Government of Hungary operates an income tax system in which the proportion of income paid in tax by individuals remains constant as incomes increase.

Which **one** of the following can be deduced from this information?

- ☐ **A** Hungary has a progressive tax system
- ☐ **B** Hungary has a regressive tax system
- ☐ **C** Hungary has a proportional tax system
- ☐ **D** Hungary has a specific tax system

(Total for Question 2 = 1 mark)

3 In 2018 the UK Government introduced tariffs on imported steel. In 2022 it decided to maintain these tariffs until 2024.

Which **one** of the following is the most likely reason why the UK Government maintained these tariffs until 2024?

- ☐ **A** To increase the level of unemployment in the UK steel industry
- ☐ **B** To prevent dumping of steel in the UK from foreign countries
- ☐ **C** To protect transnational companies supplying steel to the UK
- ☐ **D** To decrease government revenue from tariffs on imported steel

(Total for Question 3 = 1 mark)



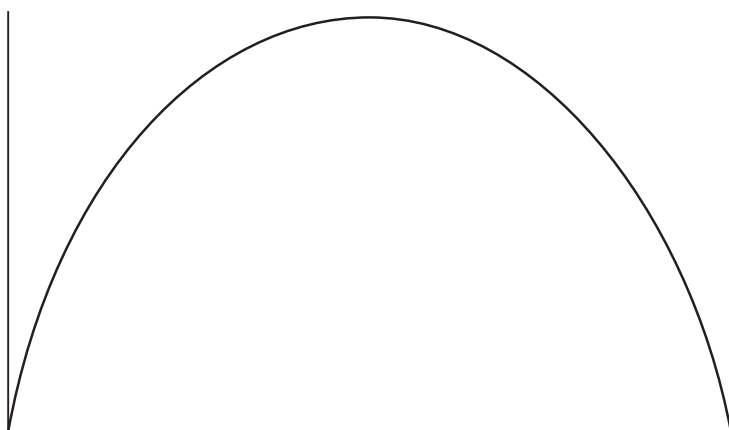
- 4 Between September 2023 and September 2024, Australia's average export prices decreased by 6.8% and their average import prices decreased by 1.1%.

If September 2023 = 100, which **one** of the following was Australia's terms of trade in September 2024?

- ☐ A 6.18
- ☐ B 16.18
- ☐ C 94.24
- ☐ D 106.12

(Total for Question 4 = 1 mark)

- 5 The diagram illustrates the Laffer curve for a developed country.



Which **one** of the following statements is true about the Laffer curve?

- ☐ A It shows the relationship between quantitative easing and the rate of interest
- ☐ B It shows the relationship between the level of investment and the savings ratio
- ☐ C It shows the relationship between the unemployment rate and the rate of inflation
- ☐ D It shows the relationship between tax rates and the government's tax revenues

(Total for Question 5 = 1 mark)

SECTION B

**Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.**

- 7** (a) In 2021, the Government of Pakistan made a debt servicing payment of \$32.27 billion.

With reference to Figure 1, calculate debt servicing payments as a proportion of national debt in 2021. You are advised to show your working.

(2)

- (b) Explain what is meant by a 'foreign currency gap' (Extract A, line 13).

(4)

- (c) With reference to Figure 2 and the first paragraph of Extract A, examine **two** likely effects of the depreciation of the rupee against the US dollar.

(8)

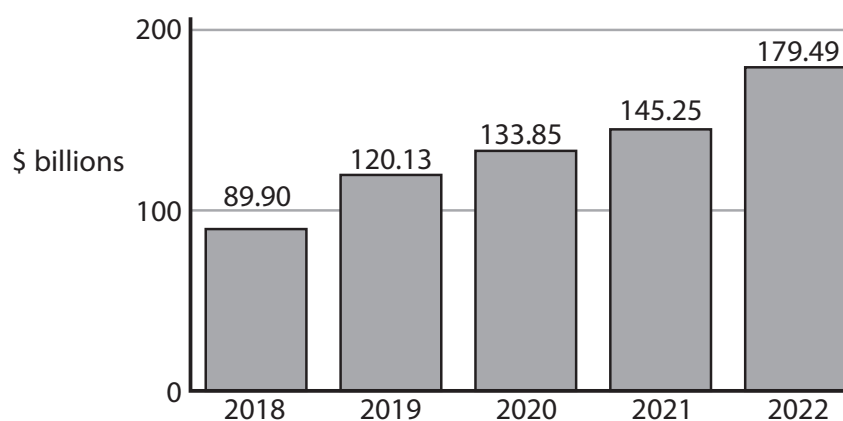
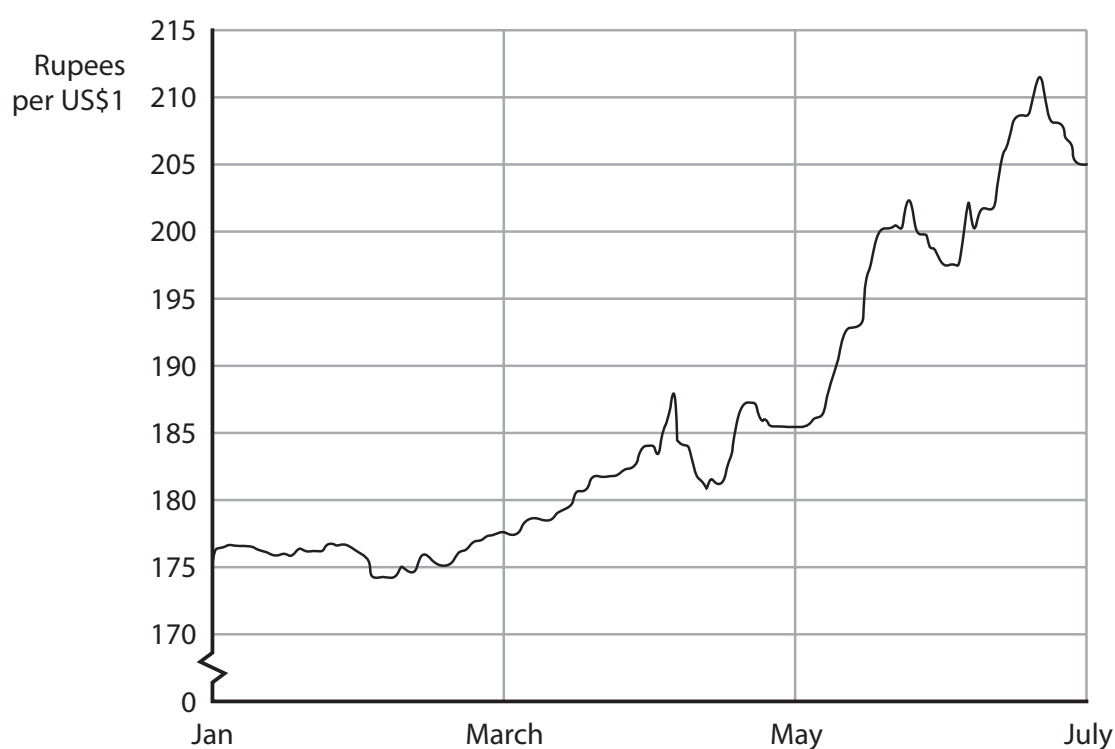
- (d) With reference to Extract A, analyse **two** roles of the IMF.

(6)

- (e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of an increase in income tax rates, aimed at high-income households, on the economy of Pakistan.

(14)



Sources for use with Section B**The economy of Pakistan****Figure 1 National debt, \$ billions, 2018-2022****Figure 2 Rupee-US dollar exchange rate, January 2022 to June 2022**

Extract A Economic outlook

Between January and June 2022 Pakistan's currency, the rupee, depreciated against the US dollar. This was mainly as a result of rising global inflation rates and the strong appreciation of the US dollar. However, economists expected the external value of the rupee to increase against the US dollar in the third quarter of 2022. They anticipated that the dollars earned by Pakistan from its exports would be greater than the dollars paid for its imports and debt servicing. 5

Pakistan experienced a significant decline in foreign currency reserves from \$16 billion in June 2021 to \$10 billion in June 2022. Many economists believed that the economy could be on the verge of an economic collapse in the third quarter of 2022. 10

In June 2022, Pakistan's central bank, the State Bank of Pakistan (SBP), informed Pakistan's Government that the country's rising foreign currency gap would have a negative impact on its ability to import. The SBP claimed that the rising foreign currency gap was likely to increase further because of higher debt servicing payments. To prevent these reserves from running out, the SBP suggested a temporary ban on the import of non-essential goods. 15

Pakistan's Government borrowed \$1.2 billion from the IMF to prevent a further fall in foreign currency reserves. This financial support enabled the Government to reduce its current account deficit of the balance of payments and to help finance the country's national debt. 20

The loan from the IMF required the Government of Pakistan to meet certain conditions. These included a reduction in the fiscal deficit, partly by the removal of fuel and energy subsidies. The IMF also required Pakistan's central bank to raise its base rate of interest to stabilise the rupee. 25

Previous governments of Pakistan have not always met the terms of their loan agreements with the IMF. For example, the fiscal deficit has not been reduced significantly because the government collects very little revenue from direct taxes, especially from the booming property market. Large houses cost anywhere between \$500 000 and \$2 million to purchase but the owners only pay a small proportion as tax. The IMF proposed that high-income households should pay significantly more income tax than low-income and middle-income households. 30

(14)





(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION B

**Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.**

- 7** (a) In 2022, the Gross Domestic Product (GDP) of Ghana was \$72.84 billion.
With reference to Figure 1, calculate the value of Ghana's national debt. You are advised to show your working. (2)
- (b) With reference to Figure 2 and the third paragraph of Extract A, explain what is meant by the 'rate of inflation'. (4)
- (c) With reference to the fourth paragraph of Extract A and your own knowledge, analyse **two** roles of the IMF. (6)
- (d) With reference to Figure 1 and Extract A, examine **two** disadvantages of an increase in Ghana's national debt. (8)
- (e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the introduction of an additional marginal rate of income tax of 35% on the economy of Ghana. (14)



Sources for use with Section B

The economy of Ghana

Figure 1 National debt, % of Gross Domestic Product (GDP), 2010–2022

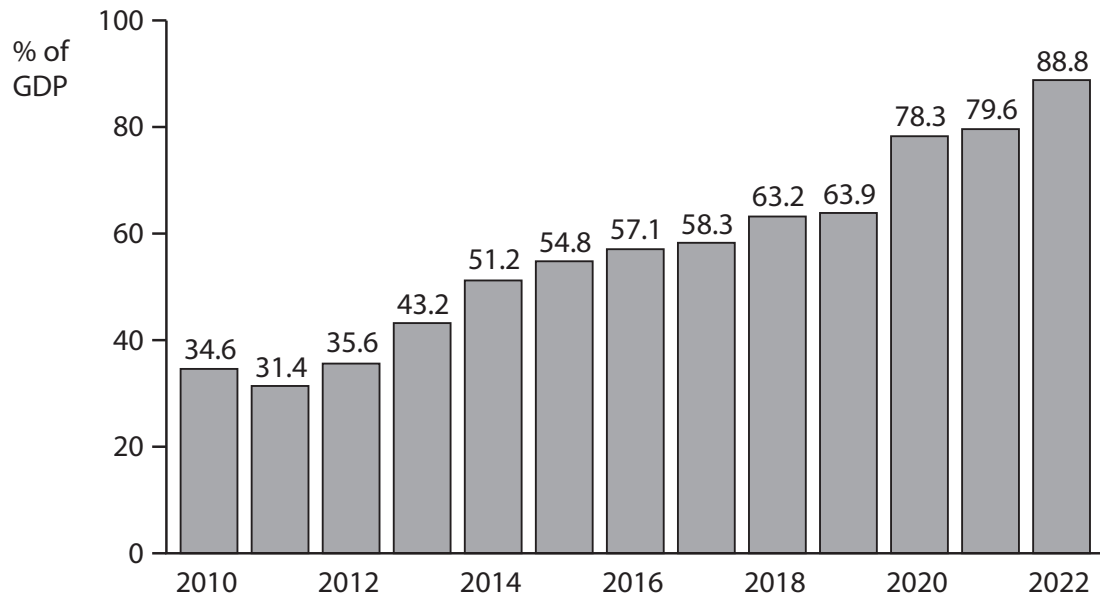
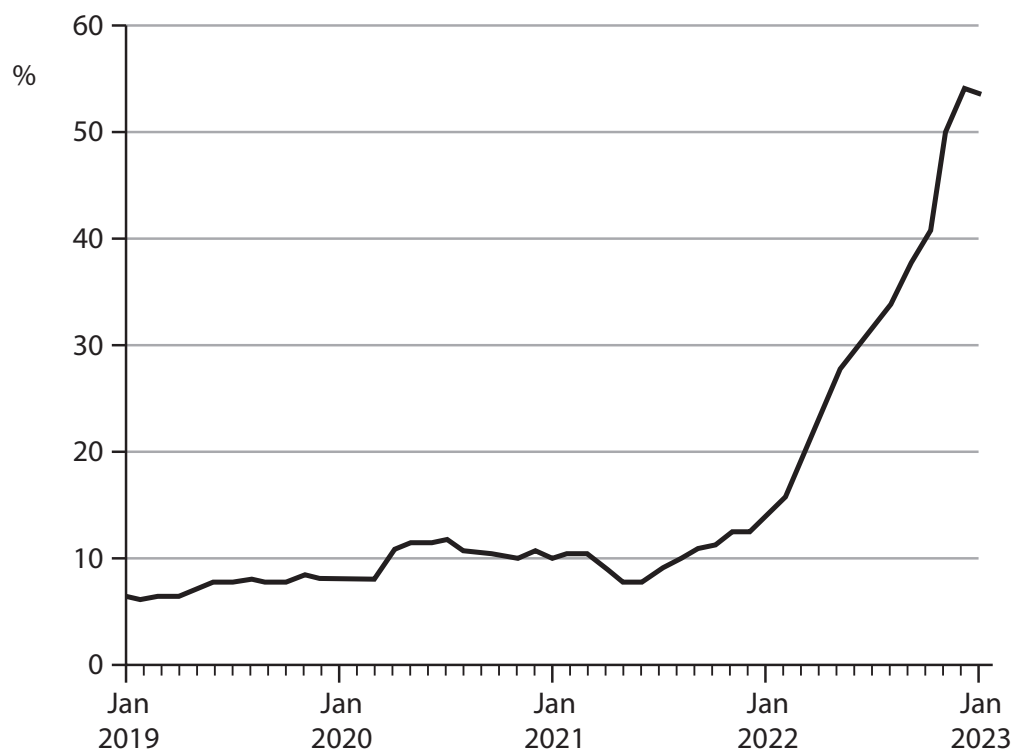


Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2019 to January 2023



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

Extract A Economic outlook

Ghana has long been considered a success story and a model for African development. It is a major producer of gold and cocoa and has one of the region's highest Gross Domestic Product (GDP) per capita. The Government provides public services, including free education for children up to 15 years of age. 5

Between 2010 and 2020, the Government borrowed significant sums of money to finance the country's transport infrastructure projects. These included spending on ports, roads, railways and airports. In 2020 the Government increased its borrowing to prevent the economy from going into a recession as a result of the global health crisis. Much of the Government's spending took place when interest rates were low. 10

In 2022 Ghana experienced a rapid increase in its rate of inflation. This was partly caused by rising global food and energy prices. Ghana is a net importer of both food and energy. The depreciation of Ghana's currency, the *cedi*, against the US dollar also contributed to this increase in the country's rate of inflation. During 2022 Ghana's central bank raised the country's base rate of interest to control the high and rising rate of inflation. 15

In December 2022 Ghana defaulted on its debts. The country had failed to generate enough income to pay back its debts. Therefore debt servicing costs increased to 70% of government revenue. In 2023 the Government agreed to a bailout of \$3 billion from the International Monetary Fund (IMF). The bailout was provided on the condition that Ghana would take measures to reduce its debt. It was hoped that this IMF deal would help to restore business confidence in Ghana and to reduce exchange rate fluctuations. 20

However, there was little confidence amongst Ghana's population that the Government would spend the funds received from the IMF effectively. It was believed that there was significant corruption in the public sector.

The Government needed to increase revenue. Initially it introduced an additional marginal rate of income tax of 35% for the highest income earners. However, the IMF expressed concerns as to why this tax only applied to a very small proportion of the population. In addition, there was an IMF requirement to broaden the tax base to include more people in the informal sector. It is estimated that the informal sector makes up at least 80% of the economy. In 2023 Ghana's tax-to-GDP ratio was 13.4%. This was below the average in Africa of 16% and below the Government of Ghana's own target of 20%. 25 30

(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the introduction of an additional marginal rate of income tax of 35% on the economy of Ghana.

(14)





(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION C

Answer TWO questions from this section.

- 8** Between 2008 and 2017, Portugal's national debt increased from 71% of Gross Domestic Product (GDP) to 126% of GDP. Italy's national debt increased from 102% of GDP to 132% of GDP over the same period.

Evaluate the extent to which an increase in the national debt is a cause for concern. Refer to a developed country of your choice in your answer.

(Total for Question 8 = 20 marks)

- 9** In January 2018 Saudi Arabia and five neighbouring countries introduced a value added tax (an indirect tax) at a rate of 5%.

Evaluate the likely macroeconomic effects of the introduction of an indirect tax on a developing country of your choice.

(Total for Question 9 = 20 marks)

- 10** In 2017 Turkey's deficit on the current account of the balance of payments was \$47.1 billion. In the same year, France's deficit on the current account of the balance of payments was \$36.8 billion.

Evaluate the possible causes of a current account deficit. Refer to a country of your choice in your answer.

(Total for Question 10 = 20 marks)



SECTION C**Answer TWO questions from this section.**

- 8** In 2020 the Government of Chile increased the top rate of income tax from 35% to 40%.

Evaluate the likely macroeconomic effects of an increase in the top rate of income tax on a country of your choice.

(Total for Question 8 = 20 marks)

- 9** In 2020 New Zealand's productivity rate was 40% lower than the average productivity of many other advanced economies.

Evaluate factors that influence a country's international competitiveness. Refer to a developed country of your choice in your answer.

(Total for Question 9 = 20 marks)

- 10** Between 2008 and 2018, income inequality, as measured by the Gini coefficient, increased from 0.43 to 0.51 in Angola and from 0.34 to 0.41 in Bulgaria.

Evaluate government policies that could be used to reduce income inequality in a developing country of your choice.

(Total for Question 10 = 20 marks)



SUB-TOPIC 4.3.5.3

PUBLIC SECTOR BORROWING AND PUBLIC SECTOR DEBT

Sub-topic 4.3.5.3 · 18 questions · 126 marks · lowest tariff first



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** Between 2009 and 2018 Argentina's national debt increased from approximately \$186 billion to nearly \$447 billion.

Which **one** of the following is the most likely effect of an increase in national debt of a country?

- ☐ **A** A decrease in its comparative advantage
- ☐ **B** A decrease in its interest rates
- ☐ **C** An increase in its debt servicing costs
- ☐ **D** An increase in the external value of its currency

(Total for Question 1 = 1 mark)

- 2** Armenia's Gini coefficient increased from 0.28 in 2009 to 0.34 in 2017.

Which **one** of the following is most likely to reduce Armenia's income inequality?

- ☐ **A** A reduction in the national minimum wage
- ☐ **B** An improvement in education and training
- ☐ **C** A decrease in progressive tax rates
- ☐ **D** An increase in regressive tax rates

(Total for Question 2 = 1 mark)

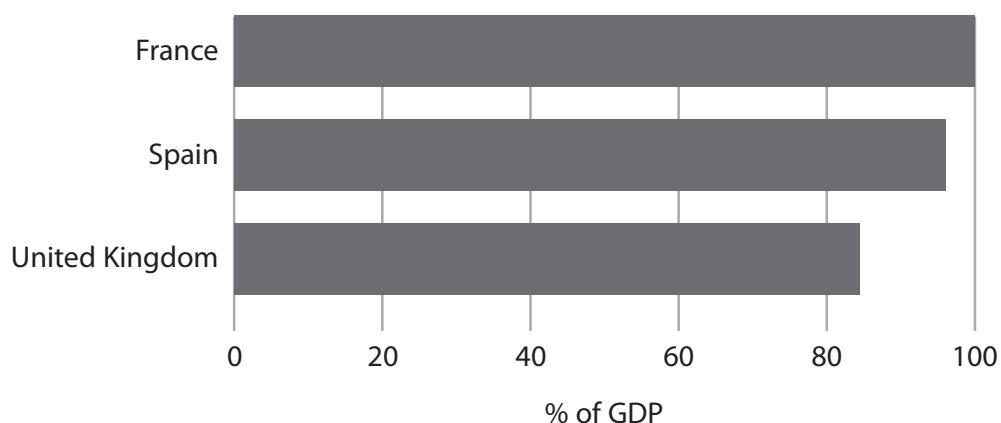


SECTION A

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 The chart shows national debt as a percentage of GDP for selected countries in 2020.



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

- ☐ A In the UK tax revenues must have been lower than public expenditure in previous years
- ☐ B In Spain public expenditure as a percentage of GDP must have been higher than in France
- ☐ C In France imports must have been greater than exports
- ☐ D In the UK crowding out is more likely than in Spain

(Total for Question 1 = 1 mark)

- 2 In South Korea manufacturing as a share of GDP was 17% in 1969 and 25% in 2019.

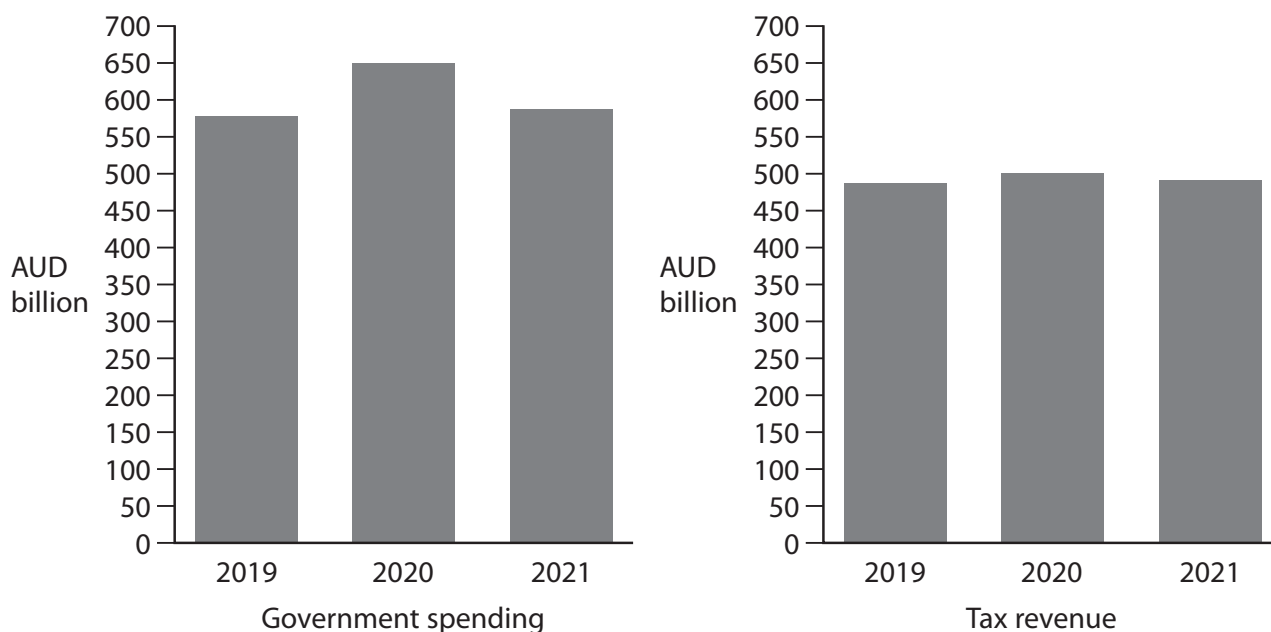
Which **one** of the following theories suggests that industrialisation is a strategy to promote economic growth and development?

- ☐ A The Prebisch–Singer hypothesis
- ☐ B The Marshall–Lerner condition
- ☐ C The Harrod–Domar model
- ☐ D The Lewis structural dual-sector model

(Total for Question 2 = 1 mark)



4 The charts show government spending and tax revenue in Australia, AUD billion, 2019–2021.



(Source: adapted from <https://www.theguardian.com/australia-news/2021/may/11/australia-federal-budget-2021-josh-frydenberg-back-in-black-how-started-going>)

Which **one** of the following can be deduced from these charts?

- ☐ A In 2021 Australia's current account surplus was approximately AUD 100 billion
- ☒ B In 2020 Australia's fiscal deficit was approximately AUD 150 billion
- ☐ C Australia experienced a fiscal surplus throughout the given period
- ☐ D Australia experienced a current account deficit throughout the given period

(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** In 2021 the US dollar appreciated by around 10% against the euro.

Which **one** of the following factors is likely to have caused this appreciation of the US dollar?

- ☐ **A** A decrease in confidence in the USA's economy by currency speculators
- ☐ **B** A decrease in the USA's rate of economic growth
- ☐ **C** An increase in capital flight out of the USA into the eurozone
- ☐ **D** An increase in the USA's base interest rate relative to the eurozone

(Total for Question 1 = 1 mark)

- 2** Between 2012 and 2021 Paraguay's national debt increased from \$3.6 billion to \$13.3 billion.

Which **one** of the following is the most likely effect of an increase in the national debt of a country?

- ☐ **A** A decrease in the rate of inflation
- ☐ **B** A decrease in debt servicing costs
- ☐ **C** An increase in crowding out
- ☐ **D** An increase in tax revenues

(Total for Question 2 = 1 mark)

- 3** In 2021 the Nigerian Government introduced a tax of N10 per litre on sugary drinks.

Which **one** of the following can be deduced from this information?

- ☐ **A** It is an ad valorem tax
- ☐ **B** It is a specific tax
- ☐ **C** It is a tax on income
- ☐ **D** It is a tax on company profits

(Total for Question 3 = 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 Between 2018 and 2022 New Zealand's national debt increased from \$53.6 billion to \$126.7 billion.

Which **one** of the following is the most likely effect of an increase in the national debt of a country?

- ☐ A An increase in crowding out
- ☐ B An increase in absolute advantage
- ☐ C A decrease in debt servicing costs
- ☐ D A decrease in the rate of inflation

(Total for Question 1 = 1 mark)

- 2 In 2023 the Government of Ghana removed fuel subsidies paid to fuel producers.

This is an example of which **one** of the following?

- ☐ A An interventionist strategy to promote economic growth and development
- ☐ B A reflationary fiscal policy to reduce inflationary pressures
- ☐ C A deflationary monetary policy to reduce inflationary pressures
- ☐ D A market-orientated strategy to promote economic growth and development

(Total for Question 2 = 1 mark)

- 3 In 2022 there was an overall deficit of \$943.8 billion on the USA's balance of trade.

Which **one** of the following can be deduced from this information?

- ☐ A The value of consumption was lower than the value of saving
- ☐ B Government spending was greater than tax revenue
- ☐ C The value of imports was greater than the value of exports
- ☐ D Gross domestic investment was lower than capital flight

(Total for Question 3 = 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** India has experienced a significant increase in its economic development since 2002.

Which **one** of the following is likely to have caused the increase in India's economic development?

- ☐ **A** An increase in the proportion of people with access to the internet per thousand of population
- ☐ **B** A decrease in the proportion of people with access to mobile phones per thousand of population
- ☐ **C** An increase in terrorism and civil wars
- ☐ **D** A decrease in life expectancy at birth

(Total for Question 1 = 1 mark)

- 2** Between 2020 and 2022 Sweden's national debt decreased from \$184.4 billion to \$180.2 billion.

Which **one** of the following is the most likely effect of a decrease in the national debt of a country?

- ☐ **A** An increase in debt servicing costs
- ☐ **B** An increase in the rate of inflation
- ☐ **C** A decrease in the rate of interest
- ☐ **D** A decrease in absolute advantage

(Total for Question 2 = 1 mark)



SECTION B

Study Figures 1, 2 and 3 and Extracts A and B in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

- 7** (a) In 2020 Iran's GDP was \$635.72 billion.

With reference to Figure 3, calculate Iran's national debt in 2020. You are advised to show your workings.

(2)

- (b) With reference to Figure 3, analyse **two** disadvantages of an increase in Iran's national debt.

(6)

- (c) With reference to the second paragraph of Extract A, explain what is meant by 'trade restrictions'.

(4)

- (d) With reference to Figure 1, Figure 2 and the last paragraph of Extract A, examine **two** likely economic effects of trade restrictions reimposed by the US Government on Iran.

(8)

- (e) With reference to Extract B, discuss the strategies introduced by the Iranian Government to promote economic development.

(14)



Sources for use with Section B

The economy of Iran

Figure 1 Annual real GDP growth rate, Q1 2010 – Q4 2020

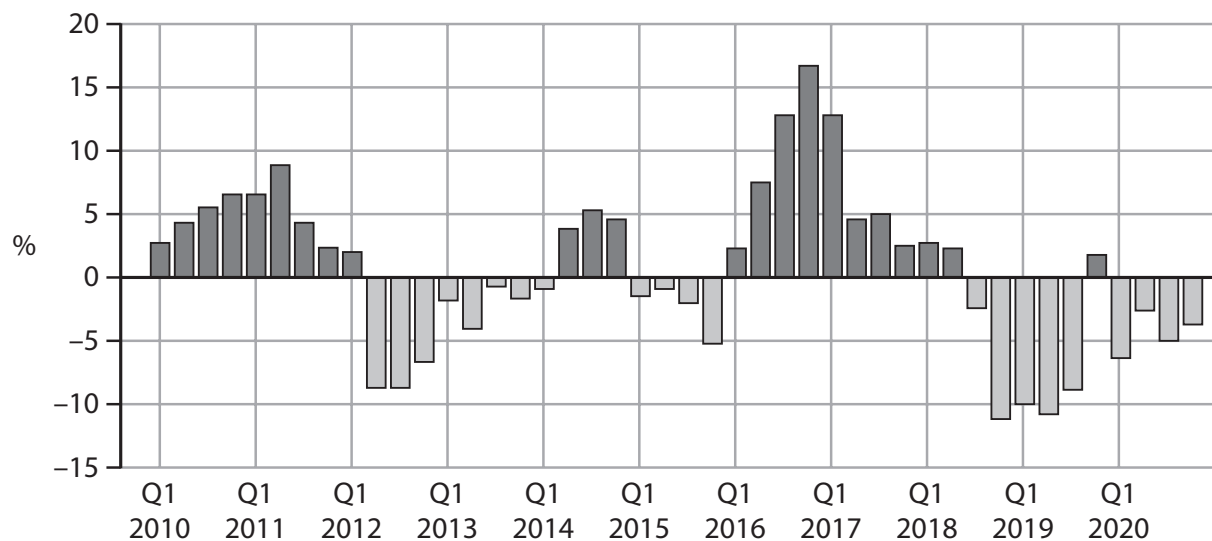


Figure 2 Monthly inflation rate, as measured by the Consumer Price Index (CPI), January 2010 – December 2020

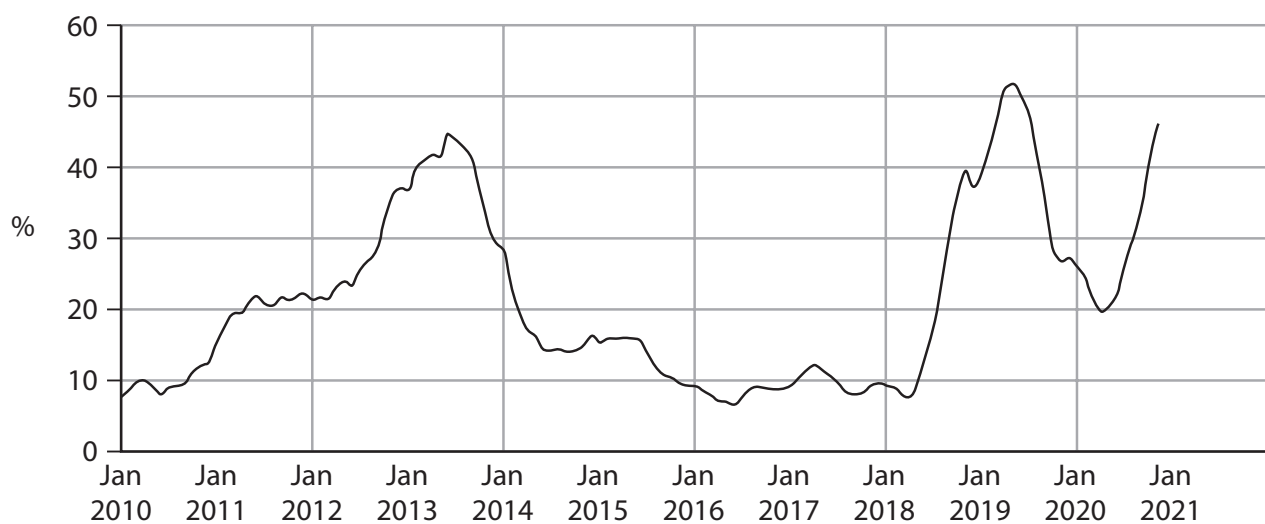
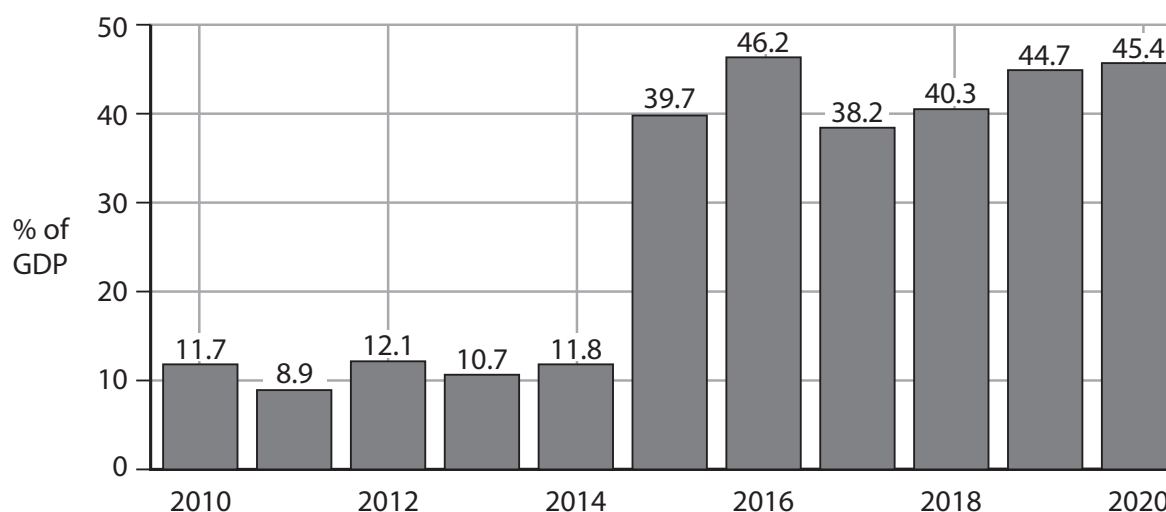


Figure 3 National debt, % of GDP, 2010 – 2020**Extract A Trade restrictions**

When Iran's President, Mr Hassan Rouhani, was elected in 2013, he promised that his Government would solve Iran's economic crisis. He said that he would save the country's economy from collapsing and create positive relationships with the rest of the world. However, when Mr Rouhani resigned as President in June 2021 many economists claimed that his Government had not kept its promises. 5

During 2013 Mr Rouhani started discussions with the USA and other advanced economies to remove the trade restrictions imposed on Iran's exports and imports. These restrictions had been imposed in response to Iran's production of nuclear energy that was above the permitted international limit. After two years of negotiations, Mr Rouhani came to an agreement with these countries and the trade restrictions were gradually reduced. This resulted in an increase in oil exports, Iran's main source of export revenue. 10

However, the US Government accused Iran of breaking the agreement and reimposed trade restrictions in 2018. As a result, Iran suffered a significant decline in oil exports and foreign direct investment. This led to a 75% fall in the external value of the country's currency, the *Rial*, against the US dollar. Subsequently, there was a fall in Iran's GDP, an increase in its unemployment rate and an increase in its inflation rate. In 2020 Iran experienced a trade deficit of \$11.68 billion, having had trade surpluses between 2005 and 2018. 15

Extract B Economic development

Since 2018 the Iranian Government has implemented a strategy of diversification into non-oil exports in order to promote economic development. It has focused on a strategy of industrialisation and infrastructure development, particularly by investing in Iran's telecommunications industries. As a result, the number of people with access to broadband increased from 590 000 in 2014 to 95 million in 2021. The number of people with access to mobile phones also increased from 59.4 million in 2013 to 131 million in 2021. However, the Iranian Government restricts the content that its citizens can access. 5

In addition, the Government has privatised many state-run companies. Consequently, many Iranians have invested a substantial amount of their savings in the country's volatile stock market. 10

Acknowledgements

Figure 1 based on data taken from tradingeconomics, <https://tradingeconomics.com/iran/gdp-growth-annual>

Figure 2 based on data taken from tradingeconomics, <https://tradingeconomics.com/iran/inflation-cpi>

Figure 3 based on data taken from tradingeconomics, <https://tradingeconomics.com/iran/government-debt-to-gdp>

Extracts A and B adapted from FT, <https://www.ft.com/content/6a2a7e0f-523b-4e79-852d-1bacba7dce70>

(a) In 2020 Iran's GDP was \$635.72 billion.

With reference to Figure 3, calculate Iran's national debt in 2020. You are advised to show your workings.

(2)

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SECTION B

**Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.**

- 7** (a) In 2021, the Government of Pakistan made a debt servicing payment of \$32.27 billion.

With reference to Figure 1, calculate debt servicing payments as a proportion of national debt in 2021. You are advised to show your working.

(2)

- (b) Explain what is meant by a 'foreign currency gap' (Extract A, line 13).

(4)

- (c) With reference to Figure 2 and the first paragraph of Extract A, examine **two** likely effects of the depreciation of the rupee against the US dollar.

(8)

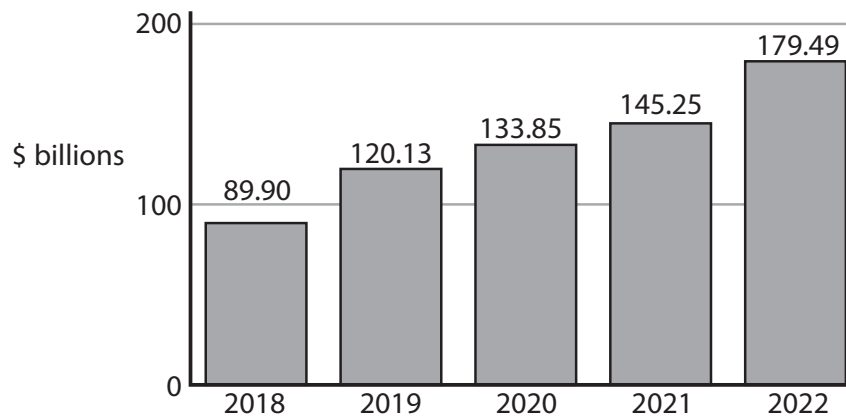
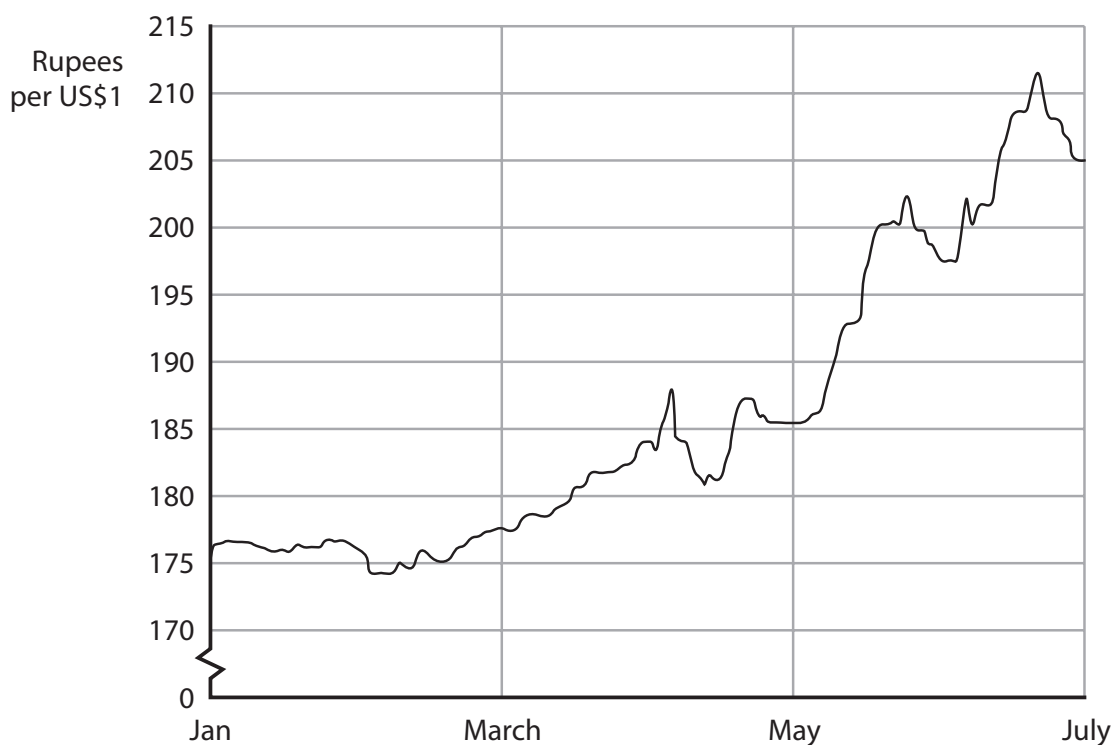
- (d) With reference to Extract A, analyse **two** roles of the IMF.

(6)

- (e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of an increase in income tax rates, aimed at high-income households, on the economy of Pakistan.

(14)



Sources for use with Section B**The economy of Pakistan****Figure 1 National debt, \$ billions, 2018-2022****Figure 2 Rupee-US dollar exchange rate, January 2022 to June 2022**

Extract A Economic outlook

Between January and June 2022 Pakistan's currency, the rupee, depreciated against the US dollar. This was mainly as a result of rising global inflation rates and the strong appreciation of the US dollar. However, economists expected the external value of the rupee to increase against the US dollar in the third quarter of 2022. They anticipated that the dollars earned by Pakistan from its exports would be greater than the dollars paid for its imports and debt servicing. 5

Pakistan experienced a significant decline in foreign currency reserves from \$16 billion in June 2021 to \$10 billion in June 2022. Many economists believed that the economy could be on the verge of an economic collapse in the third quarter of 2022. 10

In June 2022, Pakistan's central bank, the State Bank of Pakistan (SBP), informed Pakistan's Government that the country's rising foreign currency gap would have a negative impact on its ability to import. The SBP claimed that the rising foreign currency gap was likely to increase further because of higher debt servicing payments. To prevent these reserves from running out, the SBP suggested a temporary ban on the import of non-essential goods. 15

Pakistan's Government borrowed \$1.2 billion from the IMF to prevent a further fall in foreign currency reserves. This financial support enabled the Government to reduce its current account deficit of the balance of payments and to help finance the country's national debt. 20

The loan from the IMF required the Government of Pakistan to meet certain conditions. These included a reduction in the fiscal deficit, partly by the removal of fuel and energy subsidies. The IMF also required Pakistan's central bank to raise its base rate of interest to stabilise the rupee. 25

Previous governments of Pakistan have not always met the terms of their loan agreements with the IMF. For example, the fiscal deficit has not been reduced significantly because the government collects very little revenue from direct taxes, especially from the booming property market. Large houses cost anywhere between \$500 000 and \$2 million to purchase but the owners only pay a small proportion as tax. The IMF proposed that high-income households should pay significantly more income tax than low-income and middle-income households. 30

(a) In 2021, the Government of Pakistan made a debt servicing payment of \$32.27 billion.

With reference to Figure 1, calculate debt servicing payments as a proportion of national debt in 2021. You are advised to show your working.

(2)

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(b) Explain what is meant by a ‘foreign currency gap’ (Extract A, line 13).

(4)

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SECTION B

**Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.**

- 7** (a) With reference to Figure 1 and Figure 2, calculate the value of Greece's national debt in 2022. You are advised to show your workings. (2)
- (b) Explain what is meant by 'deflationary fiscal policies' (Extract A, line 10). (4)
- (c) With reference to the third paragraph of Extract A, examine **two** measures that the Government of Greece could take to increase the country's international competitiveness. (8)
- (d) With reference to Extract A, analyse **two** roles of the European Central Bank (ECB). (6)
- (e) With reference to the information provided and your own knowledge, discuss the likely economic benefits of a decrease in national debt, as a proportion of GDP, on the economy of Greece. (14)



Sources for use with Section B

The economy of Greece

Figure 1 Real GDP, \$ billion, 2008–2022

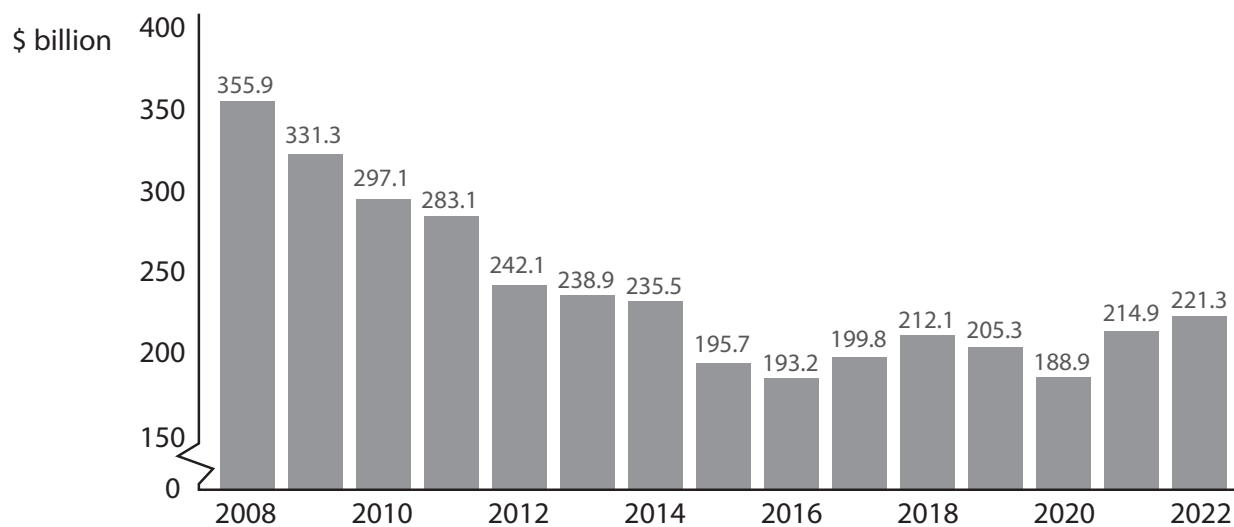
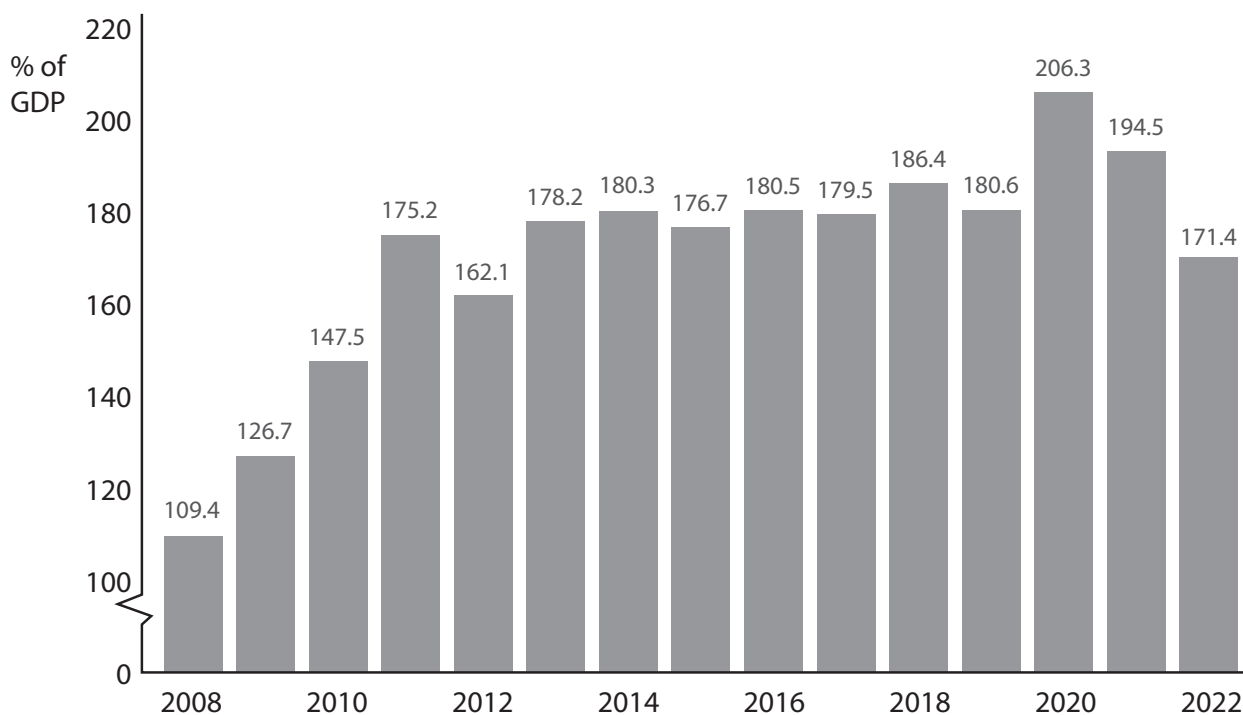


Figure 2 National debt, % of GDP, 2008–2022



Extract A Economic outlook

Following the global financial crisis of 2008, Greece experienced a debt crisis. In 2010 the country's credit rating (an estimate of the ability of a country to repay its debts) was reduced. Greece's credit rating fell from 'A' to 'CCC'. This indicated that Greece went from having a strong ability to make repayments of its national debt to a situation in which it was unable to service its debt. 5

Between 2008 and 2010 Greece's national debt increased from 109.4% of GDP to 147.5% of GDP. Consequently, the Government had to borrow \$146 billion from the International Monetary Fund (IMF) and the European Union. As a condition of these loans, the Government of Greece was required to implement deflationary fiscal policies to reduce its national debt. It was also forced by the IMF to reduce pensions to the elderly in return for financial support. As a result of these measures, between 2010 and 2020, the country's rate of economic growth fell by 25% and the disposable incomes of Greek citizens decreased by almost 30%. The resulting increase in unemployment led to many young citizens leaving the country in search of work. 10
15

After the global health crisis of 2020 Greece was able to reduce its national debt as a proportion of GDP. In 2022 real GDP increased by nearly 3% and its debt-to-GDP ratio fell. This helped to improve the country's credit rating to 'B+'. This improvement in the economy led the European Central Bank (ECB) to advise the Government of Greece to make capital investments in infrastructure, human capital and healthcare. This was because Greece's international competitiveness was significantly lower compared to the other members of the eurozone. Its competitiveness rank was 47th when compared with 63 other countries with similar economic prospects. 20

Greece continues to face significant challenges. These include:

- its debt-to-GDP ratio is falling but it still remains the highest in the eurozone area 25
- its forecast rate of economic growth for 2023 was reduced
- its rate of inflation, excluding changes in food and energy costs, was 5.6%. This was the highest rate of inflation in the eurozone
- the ECB raised the base rate of interest from 2.5% to 3% in March 2023 because of the high rate of inflation in the eurozone area. 30

(a) With reference to Figure 1 and Figure 2, calculate the value of Greece's national debt in 2022. You are advised to show your workings.

(2)

(b) Explain what is meant by 'deflationary fiscal policies' (Extract A, line 10).

(4)

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 B

**Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.**

- 7** (a) In 2022, the Gross Domestic Product (GDP) of Ghana was \$72.84 billion.
With reference to Figure 1, calculate the value of Ghana's national debt. You are advised to show your working. (2)
- (b) With reference to Figure 2 and the third paragraph of Extract A, explain what is meant by the 'rate of inflation'. (4)
- (c) With reference to the fourth paragraph of Extract A and your own knowledge, analyse **two** roles of the IMF. (6)
- (d) With reference to Figure 1 and Extract A, examine **two** disadvantages of an increase in Ghana's national debt. (8)
- (e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the introduction of an additional marginal rate of income tax of 35% on the economy of Ghana. (14)



Sources for use with Section B

The economy of Ghana

Figure 1 National debt, % of Gross Domestic Product (GDP), 2010–2022

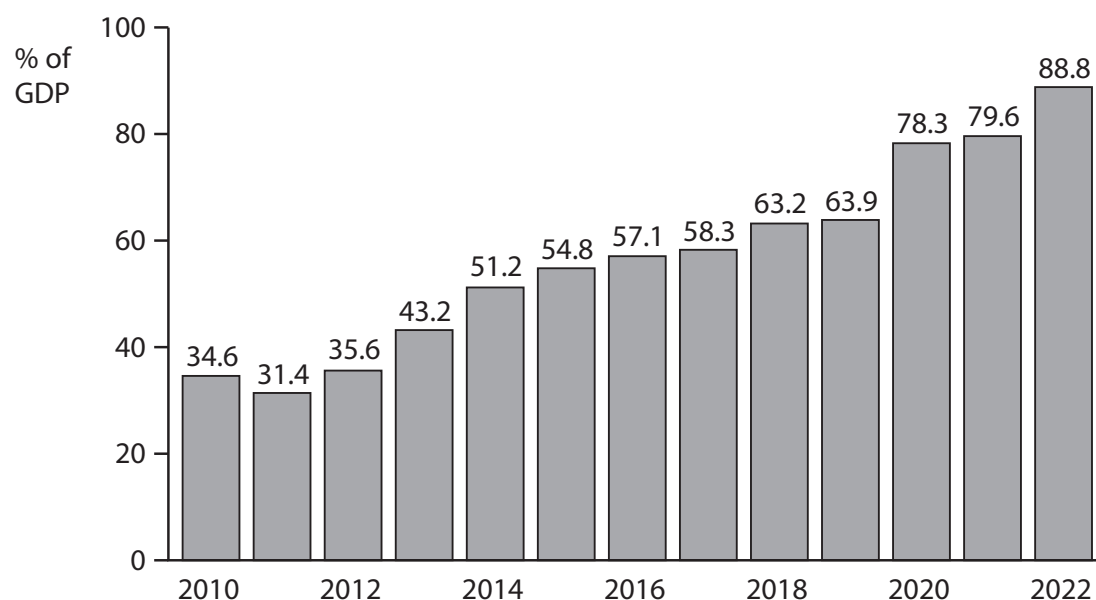
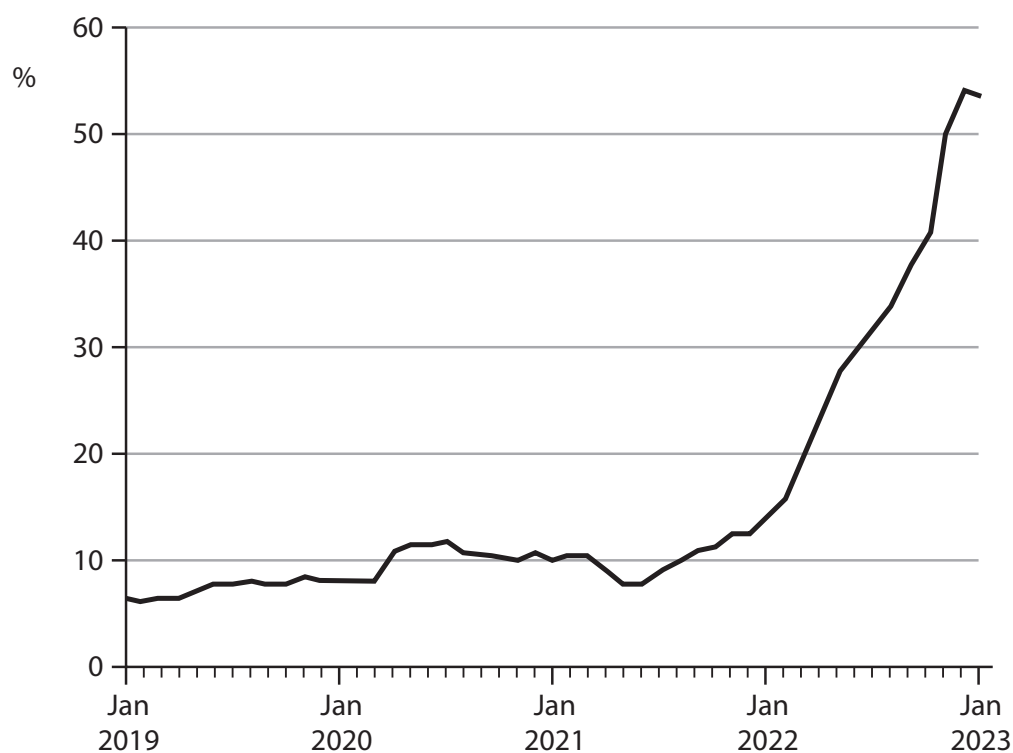


Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2019 to January 2023



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

Extract A Economic outlook

Ghana has long been considered a success story and a model for African development. It is a major producer of gold and cocoa and has one of the region's highest Gross Domestic Product (GDP) per capita. The Government provides public services, including free education for children up to 15 years of age. 5

Between 2010 and 2020, the Government borrowed significant sums of money to finance the country's transport infrastructure projects. These included spending on ports, roads, railways and airports. In 2020 the Government increased its borrowing to prevent the economy from going into a recession as a result of the global health crisis. Much of the Government's spending took place when interest rates were low. 10

In 2022 Ghana experienced a rapid increase in its rate of inflation. This was partly caused by rising global food and energy prices. Ghana is a net importer of both food and energy. The depreciation of Ghana's currency, the *cedi*, against the US dollar also contributed to this increase in the country's rate of inflation. During 2022 Ghana's central bank raised the country's base rate of interest to control the high and rising rate of inflation. 15

In December 2022 Ghana defaulted on its debts. The country had failed to generate enough income to pay back its debts. Therefore debt servicing costs increased to 70% of government revenue. In 2023 the Government agreed to a bailout of \$3 billion from the International Monetary Fund (IMF). The bailout was provided on the condition that Ghana would take measures to reduce its debt. It was hoped that this IMF deal would help to restore business confidence in Ghana and to reduce exchange rate fluctuations. 20

However, there was little confidence amongst Ghana's population that the Government would spend the funds received from the IMF effectively. It was believed that there was significant corruption in the public sector.

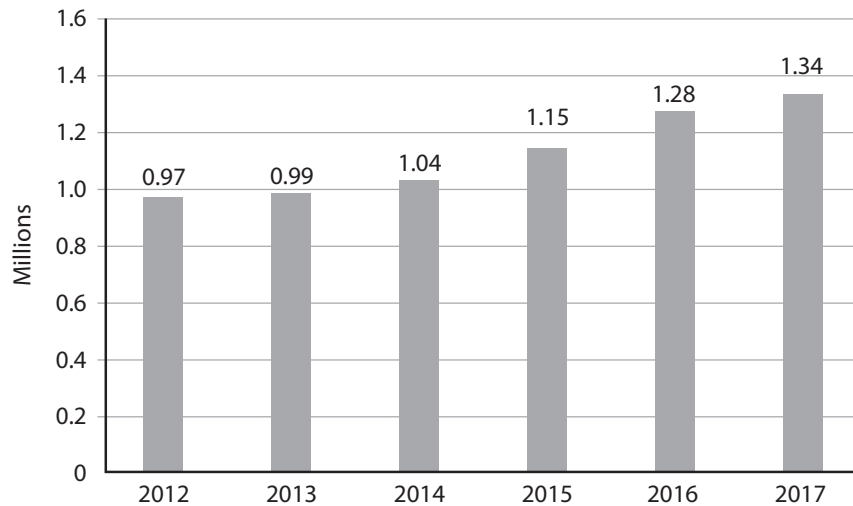
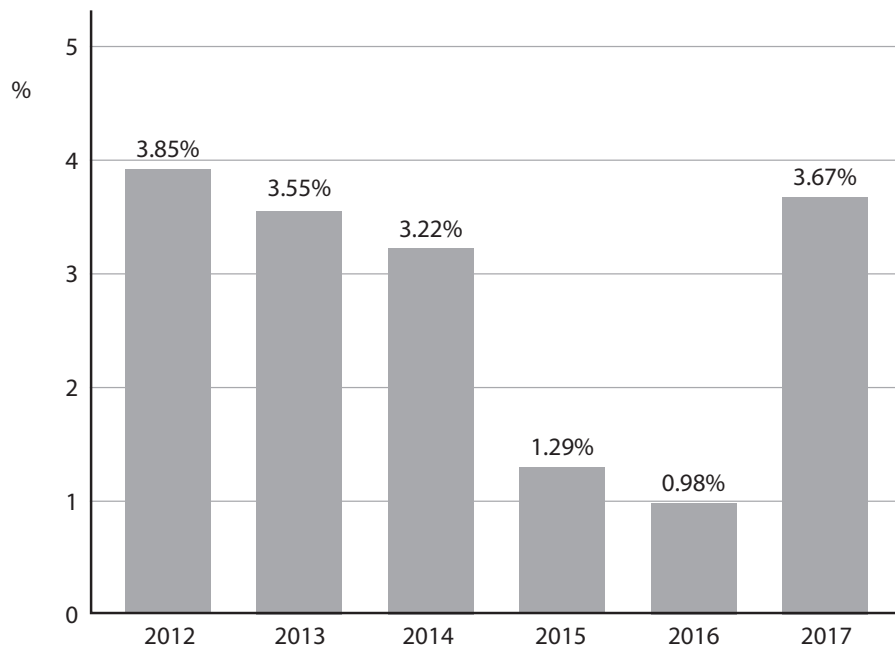
The Government needed to increase revenue. Initially it introduced an additional marginal rate of income tax of 35% for the highest income earners. However, the IMF expressed concerns as to why this tax only applied to a very small proportion of the population. In addition, there was an IMF requirement to broaden the tax base to include more people in the informal sector. It is estimated that the informal sector makes up at least 80% of the economy. In 2023 Ghana's tax-to-GDP ratio was 13.4%. This was below the average in Africa of 16% and below the Government of Ghana's own target of 20%. 25 30

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7. Write your answers in the spaces provided on the following pages.

- 7** (a) With reference to Figure 1, calculate the percentage change in the number of tourists between 2012 and 2017. You are advised to show your working. (2)
- (b) With reference to Figure 1 and Extract A, analyse **two** economic benefits of the growth in the number of tourists to Mauritius. (6)
- (c) Explain what is meant by a 'reduction in the fiscal deficit' (Extract A, line 16). (4)
- (d) With reference to the information provided, examine **two** likely effects on Mauritius' economy of the reduction in the 'base interest rate from 4% to 3.5%' (Extract A, line 10). (8)
- (e) With reference to Extract B, discuss measures that the Government can implement to ensure that the private sector continues to grow. (14)



Sources for use with Section B.**The economy of Mauritius****Figure 1 Number of tourist arrivals, 2012–2017 (millions)****Figure 2 Annual inflation rate as measured by the Consumer Price Index, 2012–2017**

Extract A Economic growth

Mauritius' economy has continued to grow steadily. Real GDP growth rose from 3.3% in 2013 to 3.9% in 2017. This was mainly a result of significant growth in the tourism sector. Earnings from tourism exceeded \$1 billion. The Government aims to further develop this sector and expects it to grow by an average of 6% every year between 2018 and 2023. Tourism contributes nearly 7% of Mauritius' GDP. 5

The country's economic growth was also supported by the Bank of Mauritius' reflationary monetary policy. Mauritius experienced low inflationary pressures in 2015 and 2016. This was as a result of falling global commodity and food prices. In 2017 the Bank reduced the base interest rate from 4% to 3.5%. 10

Public expenditure increased from 25.1% of GDP in 2016 to 25.4% of GDP in 2017. This was caused by a rise in government expenditure on public sector wages and major infrastructure projects. Over the same time period, total tax revenues increased from 21.7% of GDP to 22.5% of GDP. Higher tax revenue was received from income tax, corporation tax and indirect taxes. Consequently, there was a reduction in the fiscal deficit. 15

Extract B The private sector

Mauritius' private sector consists of large companies as well as many small and medium-sized enterprises (SMEs). In 2017 SMEs contributed 40% of the country's GDP and employed 55% of the country's workforce.

The private sector has the potential to grow further but a number of problems need to be addressed. The Government needs to reduce the economy's skills mismatch, increase innovation and reduce bureaucracy. It also needs to make significant improvements in the country's infrastructure. 5

The private sector in Mauritius suffers from a shortage of highly qualified labour. This is mainly as a result of insufficient skills and training. Innovation remains inadequate because there is a shortage of scientists and engineers. There is also a lack of finance to fund research and development. 10

The Government has identified several infrastructure projects for improving the country's power sources, water supply, transport and telecommunications. Financing of these infrastructure developments remains a key issue because the country has relatively high levels of public sector debt. 15

However, Mauritius continues to be amongst the most business-friendly countries in the region. There was a significant improvement in Mauritius' position on the World Bank's *Doing Business* index in 2018. This was as a result of substantial reforms under three indicators: starting a business, dealing with construction permits and registering property. 20

1

(c) Explain what is meant by a 'reduction in the fiscal deficit' (Extract A, line 16).

(4)

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SECTION B

Study Figures 1, 2 and 3 and Extracts A and B in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

- 7** (a) In 2020 Iran's GDP was \$635.72 billion.

With reference to Figure 3, calculate Iran's national debt in 2020. You are advised to show your workings.

(2)

- (b) With reference to Figure 3, analyse **two** disadvantages of an increase in Iran's national debt.

(6)

- (c) With reference to the second paragraph of Extract A, explain what is meant by 'trade restrictions'.

(4)

- (d) With reference to Figure 1, Figure 2 and the last paragraph of Extract A, examine **two** likely economic effects of trade restrictions reimposed by the US Government on Iran.

(8)

- (e) With reference to Extract B, discuss the strategies introduced by the Iranian Government to promote economic development.

(14)



Sources for use with Section B

The economy of Iran

Figure 1 Annual real GDP growth rate, Q1 2010 – Q4 2020

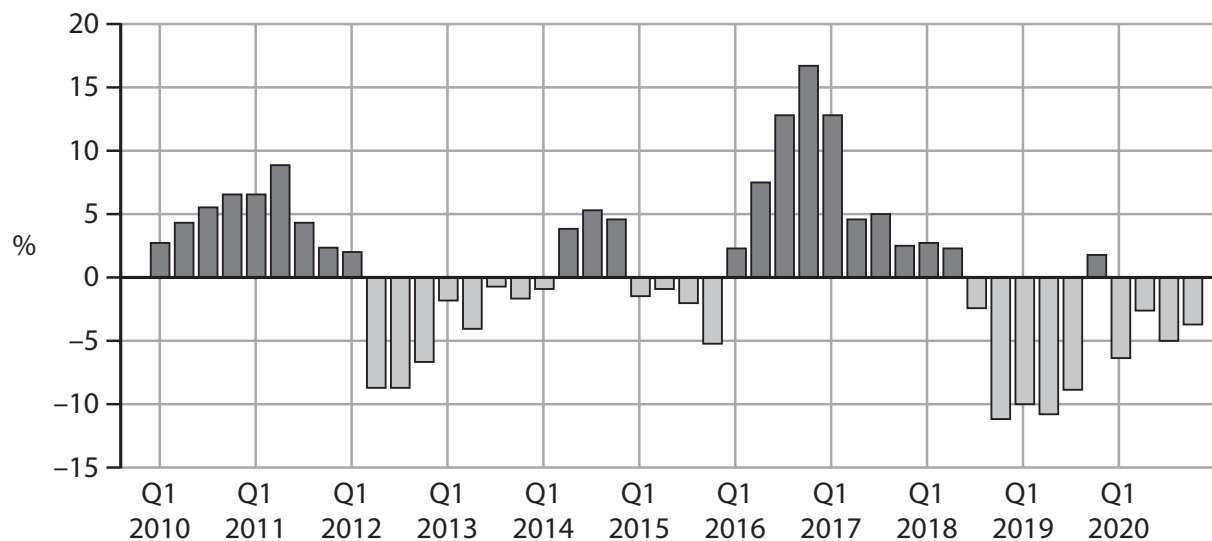


Figure 2 Monthly inflation rate, as measured by the Consumer Price Index (CPI), January 2010 – December 2020

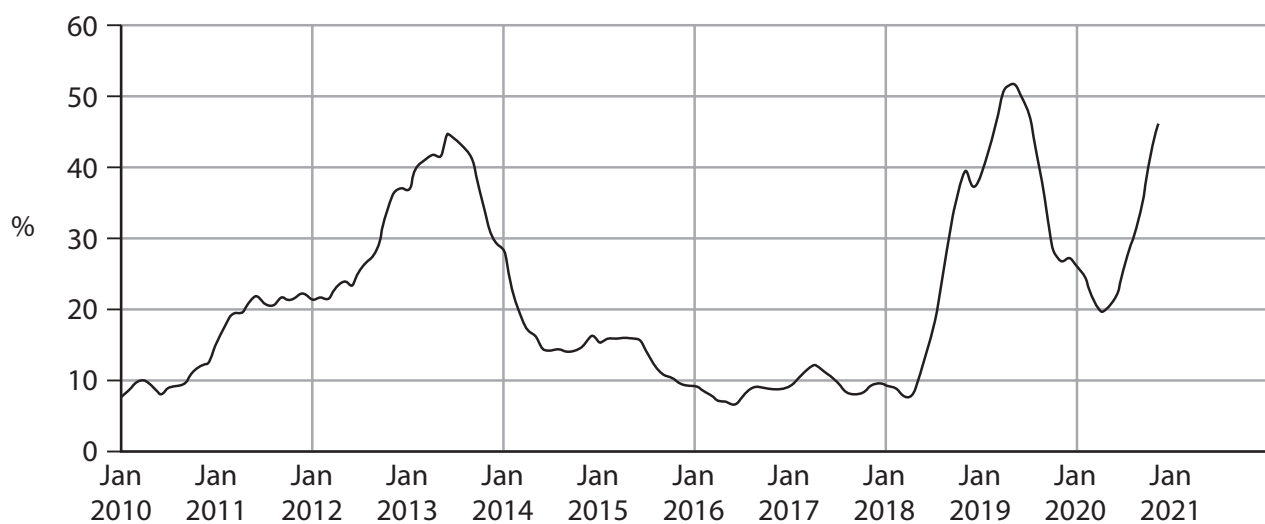
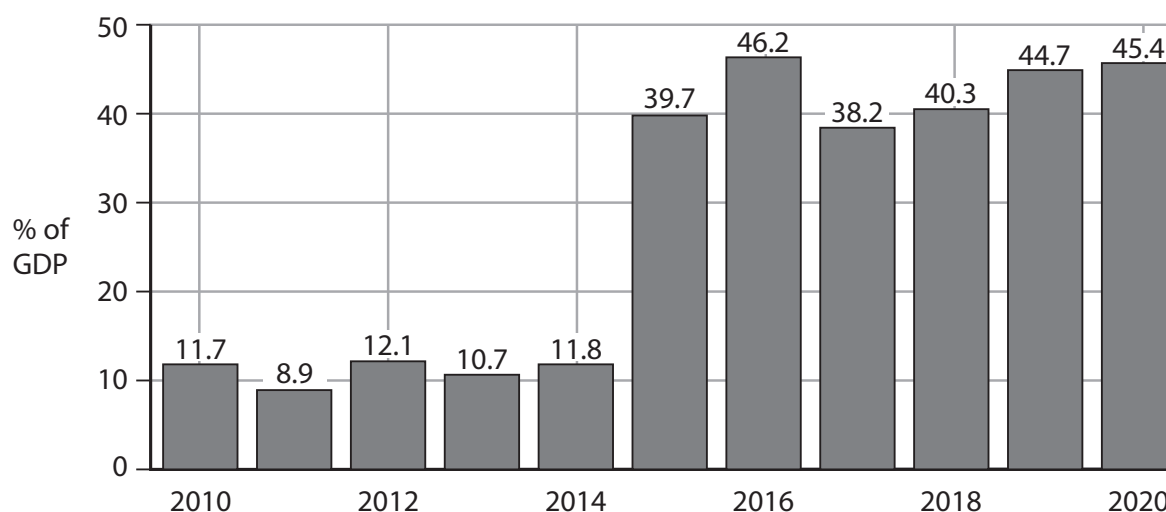


Figure 3 National debt, % of GDP, 2010 – 2020**Extract A Trade restrictions**

When Iran's President, Mr Hassan Rouhani, was elected in 2013, he promised that his Government would solve Iran's economic crisis. He said that he would save the country's economy from collapsing and create positive relationships with the rest of the world. However, when Mr Rouhani resigned as President in June 2021 many economists claimed that his Government had not kept its promises. 5

During 2013 Mr Rouhani started discussions with the USA and other advanced economies to remove the trade restrictions imposed on Iran's exports and imports. These restrictions had been imposed in response to Iran's production of nuclear energy that was above the permitted international limit. After two years of negotiations, Mr Rouhani came to an agreement with these countries and the trade restrictions were gradually reduced. This resulted in an increase in oil exports, Iran's main source of export revenue. 10

However, the US Government accused Iran of breaking the agreement and reimposed trade restrictions in 2018. As a result, Iran suffered a significant decline in oil exports and foreign direct investment. This led to a 75% fall in the external value of the country's currency, the *Rial*, against the US dollar. Subsequently, there was a fall in Iran's GDP, an increase in its unemployment rate and an increase in its inflation rate. In 2020 Iran experienced a trade deficit of \$11.68 billion, having had trade surpluses between 2005 and 2018. 15

Extract B Economic development

Since 2018 the Iranian Government has implemented a strategy of diversification into non-oil exports in order to promote economic development. It has focused on a strategy of industrialisation and infrastructure development, particularly by investing in Iran's telecommunications industries. As a result, the number of people with access to broadband increased from 590 000 in 2014 to 95 million in 2021. The number of people with access to mobile phones also increased from 59.4 million in 2013 to 131 million in 2021. However, the Iranian Government restricts the content that its citizens can access. 5

In addition, the Government has privatised many state-run companies. Consequently, many Iranians have invested a substantial amount of their savings in the country's volatile stock market. 10

Acknowledgements

Figure 1 based on data taken from tradingeconomics, <https://tradingeconomics.com/iran/gdp-growth-annual>

Figure 2 based on data taken from tradingeconomics, <https://tradingeconomics.com/iran/inflation-cpi>

Figure 3 based on data taken from tradingeconomics, <https://tradingeconomics.com/iran/government-debt-to-gdp>

Extracts A and B adapted from FT, <https://www.ft.com/content/6a2a7e0f-523b-4e79-852d-1bacba7dce70>

(b) With reference to Figure 3, analyse **two** disadvantages of an increase in Iran's national debt.

(6)



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SECTION B

**Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.**

- 7** (a) In 2022, the Gross Domestic Product (GDP) of Ghana was \$72.84 billion.
With reference to Figure 1, calculate the value of Ghana's national debt. You are advised to show your working. (2)
- (b) With reference to Figure 2 and the third paragraph of Extract A, explain what is meant by the 'rate of inflation'. (4)
- (c) With reference to the fourth paragraph of Extract A and your own knowledge, analyse **two** roles of the IMF. (6)
- (d) With reference to Figure 1 and Extract A, examine **two** disadvantages of an increase in Ghana's national debt. (8)
- (e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the introduction of an additional marginal rate of income tax of 35% on the economy of Ghana. (14)

Sources for use with Section B

The economy of Ghana

Figure 1 National debt, % of Gross Domestic Product (GDP), 2010–2022

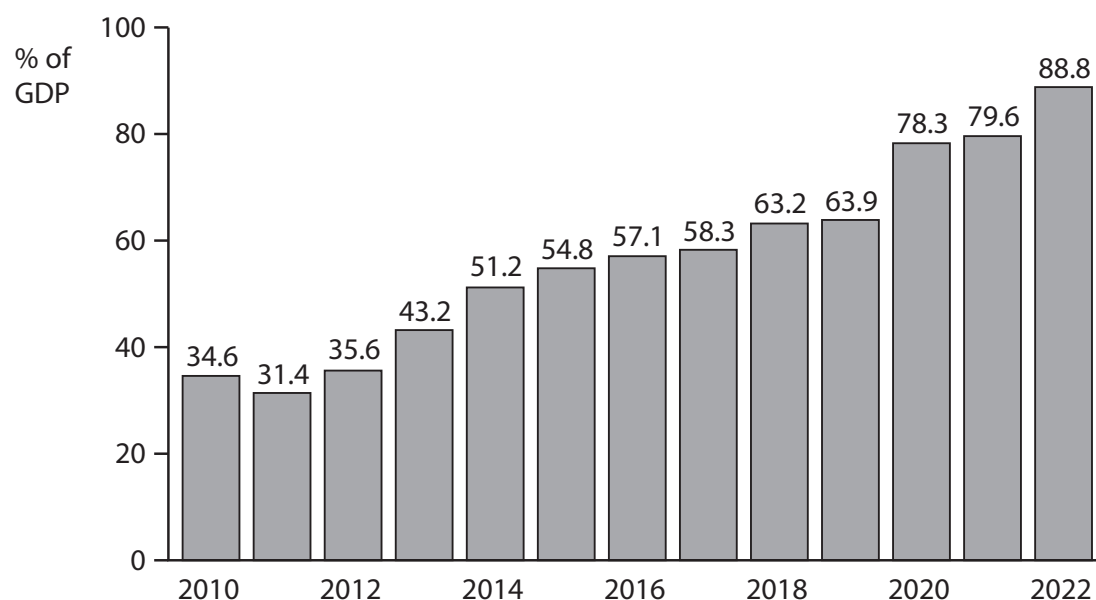
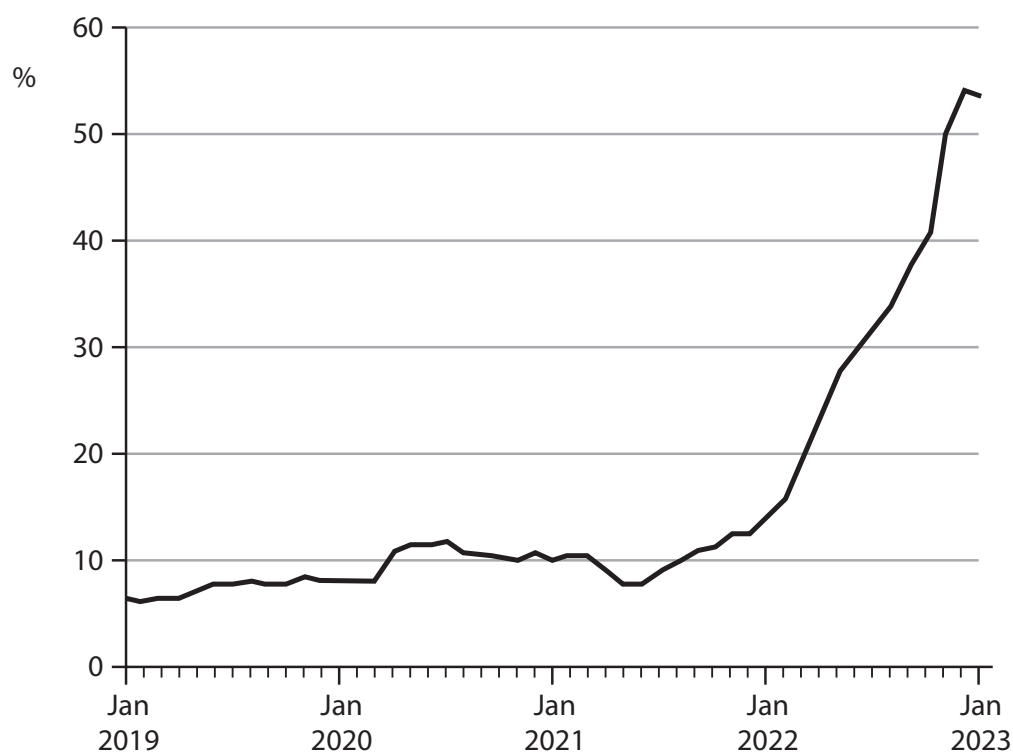


Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2019 to January 2023



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

Extract A Economic outlook

Ghana has long been considered a success story and a model for African development. It is a major producer of gold and cocoa and has one of the region's highest Gross Domestic Product (GDP) per capita. The Government provides public services, including free education for children up to 15 years of age. 5

Between 2010 and 2020, the Government borrowed significant sums of money to finance the country's transport infrastructure projects. These included spending on ports, roads, railways and airports. In 2020 the Government increased its borrowing to prevent the economy from going into a recession as a result of the global health crisis. Much of the Government's spending took place when interest rates were low. 10

In 2022 Ghana experienced a rapid increase in its rate of inflation. This was partly caused by rising global food and energy prices. Ghana is a net importer of both food and energy. The depreciation of Ghana's currency, the *cedi*, against the US dollar also contributed to this increase in the country's rate of inflation. During 2022 Ghana's central bank raised the country's base rate of interest to control the high and rising rate of inflation. 15

In December 2022 Ghana defaulted on its debts. The country had failed to generate enough income to pay back its debts. Therefore debt servicing costs increased to 70% of government revenue. In 2023 the Government agreed to a bailout of \$3 billion from the International Monetary Fund (IMF). The bailout was provided on the condition that Ghana would take measures to reduce its debt. It was hoped that this IMF deal would help to restore business confidence in Ghana and to reduce exchange rate fluctuations. 20

However, there was little confidence amongst Ghana's population that the Government would spend the funds received from the IMF effectively. It was believed that there was significant corruption in the public sector.

The Government needed to increase revenue. Initially it introduced an additional marginal rate of income tax of 35% for the highest income earners. However, the IMF expressed concerns as to why this tax only applied to a very small proportion of the population. In addition, there was an IMF requirement to broaden the tax base to include more people in the informal sector. It is estimated that the informal sector makes up at least 80% of the economy. In 2023 Ghana's tax-to-GDP ratio was 13.4%. This was below the average in Africa of 16% and below the Government of Ghana's own target of 20%. 25 30

(d) With reference to Figure 1 and Extract A, examine **two** disadvantages of an increase in Ghana's national debt.

(8)

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SECTION B

**Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.**

- 7** (a) With reference to Figure 1 and Figure 2, calculate the value of Greece's national debt in 2022. You are advised to show your workings. (2)
- (b) Explain what is meant by 'deflationary fiscal policies' (Extract A, line 10). (4)
- (c) With reference to the third paragraph of Extract A, examine **two** measures that the Government of Greece could take to increase the country's international competitiveness. (8)
- (d) With reference to Extract A, analyse **two** roles of the European Central Bank (ECB). (6)
- (e) With reference to the information provided and your own knowledge, discuss the likely economic benefits of a decrease in national debt, as a proportion of GDP, on the economy of Greece. (14)



Sources for use with Section B

The economy of Greece

Figure 1 Real GDP, \$ billion, 2008–2022

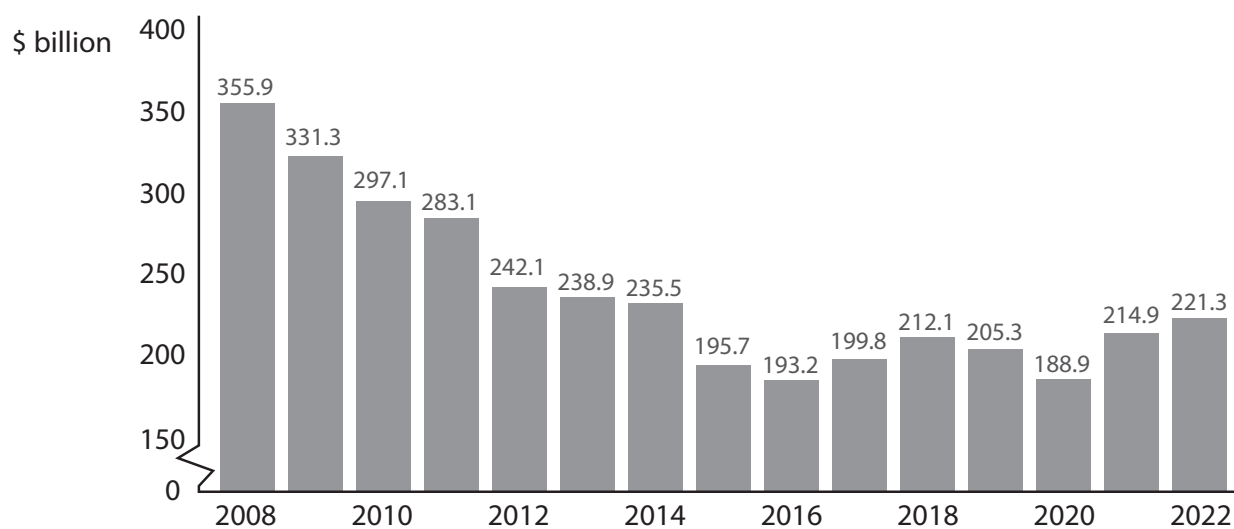
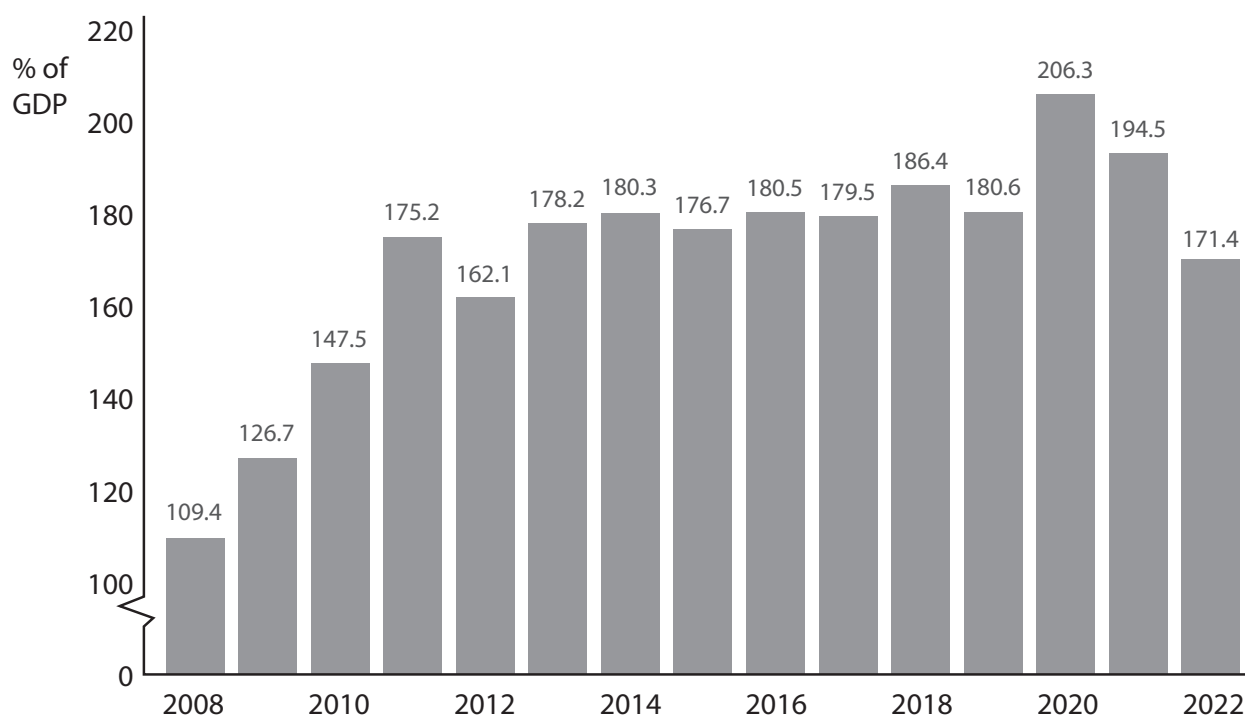


Figure 2 National debt, % of GDP, 2008–2022



Extract A Economic outlook

Following the global financial crisis of 2008, Greece experienced a debt crisis. In 2010 the country's credit rating (an estimate of the ability of a country to repay its debts) was reduced. Greece's credit rating fell from 'A' to 'CCC'. This indicated that Greece went from having a strong ability to make repayments of its national debt to a situation in which it was unable to service its debt. 5

Between 2008 and 2010 Greece's national debt increased from 109.4% of GDP to 147.5% of GDP. Consequently, the Government had to borrow \$146 billion from the International Monetary Fund (IMF) and the European Union. As a condition of these loans, the Government of Greece was required to implement deflationary fiscal policies to reduce its national debt. It was also forced by the IMF to reduce pensions to the elderly in return for financial support. As a result of these measures, between 2010 and 2020, the country's rate of economic growth fell by 25% and the disposable incomes of Greek citizens decreased by almost 30%. The resulting increase in unemployment led to many young citizens leaving the country in search of work. 10 15

After the global health crisis of 2020 Greece was able to reduce its national debt as a proportion of GDP. In 2022 real GDP increased by nearly 3% and its debt-to-GDP ratio fell. This helped to improve the country's credit rating to 'B+'. This improvement in the economy led the European Central Bank (ECB) to advise the Government of Greece to make capital investments in infrastructure, human capital and healthcare. This was because Greece's international competitiveness was significantly lower compared to the other members of the eurozone. Its competitiveness rank was 47th when compared with 63 other countries with similar economic prospects. 20

Greece continues to face significant challenges. These include:

- its debt-to-GDP ratio is falling but it still remains the highest in the eurozone area 25
- its forecast rate of economic growth for 2023 was reduced
- its rate of inflation, excluding changes in food and energy costs, was 5.6%. This was the highest rate of inflation in the eurozone
- the ECB raised the base rate of interest from 2.5% to 3% in March 2023 because of the high rate of inflation in the eurozone area. 30

(14)



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SECTION C**Answer TWO questions from this section.**

- 8** Between 2008 and 2017, Portugal's national debt increased from 71% of Gross Domestic Product (GDP) to 126% of GDP. Italy's national debt increased from 102% of GDP to 132% of GDP over the same period.

Evaluate the extent to which an increase in the national debt is a cause for concern. Refer to a developed country of your choice in your answer.

(Total for Question 8 = 20 marks)

- 9** In January 2018 Saudi Arabia and five neighbouring countries introduced a value added tax (an indirect tax) at a rate of 5%.

Evaluate the likely macroeconomic effects of the introduction of an indirect tax on a developing country of your choice.

(Total for Question 9 = 20 marks)

- 10** In 2017 Turkey's deficit on the current account of the balance of payments was \$47.1 billion. In the same year, France's deficit on the current account of the balance of payments was \$36.8 billion.

Evaluate the possible causes of a current account deficit. Refer to a country of your choice in your answer.

(Total for Question 10 = 20 marks)



SECTION C**Answer TWO questions from this section.**

- 8** In 2019 it was estimated that a large proportion of the fiscal deficit in Japan and the UK was structural.

Evaluate whether a structural fiscal deficit is a more serious issue than a cyclical fiscal deficit. Refer to a country of your choice in your answer.

(Total for Question 8 = 20 marks)

- 9** Between 2007 and 2017 income inequality increased in Denmark and in Italy.

Evaluate possible causes of an increase in income inequality within a developed country of your choice.

(Total for Question 9 = 20 marks)

- 10** In 2020 Argentina's currency, the peso, fell by 75% against the US dollar.

Evaluate factors that influence the exchange rate of a currency. Refer to a developing country of your choice in your answer.

(Total for Question 10 = 20 marks)



SECTION C**Answer TWO questions from this section.**

- 8** Between 2000 and 2020, Gibraltar's terms of trade worsened by 44.6% and Greece's terms of trade worsened by 14.3%.

Evaluate factors that might cause a country's terms of trade to worsen.

(Total for Question 8 = 20 marks)

- 9** In 2021 it was estimated that a large proportion of the fiscal deficits in both Brazil and Suriname was structural.

To what extent is a structural fiscal deficit more serious than a cyclical fiscal deficit?
Refer to a developing country of your choice in your answer.

(Total for Question 9 = 20 marks)

- 10** In the first quarter of 2022 the USA and Australia both experienced inflows of foreign direct investment (FDI) of \$67 billion and \$59 billion respectively.

Evaluate the potential economic benefits to a developed country of FDI inflows.

(Total for Question 10 = 20 marks)



SECTION C**Answer TWO questions from this section.**

- 8** In 2024, the value of China's exports was \$3.6 trillion and the value of its imports was \$2.6 trillion. In 2024, China's rate of economic growth was 5%. This was the lowest rate since 2022.

Evaluate the likely effects of a reduction in China's rate of economic growth on the global economy.

(Total for Question 8 = 20 marks)

- 9** In 2021, 2.4 million migrants moved into the European Union (EU) from non-EU countries. In 2022, this number rose to 5.1 million.

Evaluate the likely benefits of a significant increase in migration into the EU.

(Total for Question 9 = 20 marks)

- 10** Between 2013 and 2023, Iraq's national debt increased from 32% of GDP to 49.2% of GDP.

Evaluate the disadvantages of an increase in a country's national debt. Refer to a country of your choice in your answer.

(Total for Question 10 = 20 marks)



SUB-TOPIC 4.3.5.4

MACROECONOMIC POLICIES

Sub-topic 4.3.5.4 · 19 questions · 100 marks · lowest tariff first



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 In September 2019 the European Central Bank (ECB) decided to restart its quantitative easing programme in the eurozone area.

Ceteris paribus, which **one** of the following is the most likely effect of this decision by the ECB for an economy in the eurozone?

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

(Total for Question 1 = 1 mark)

- 2 Which **one** of the following theories suggests that a *savings gap* is a constraint on growth and development?

- ☐ A The Harrod–Domar model
- ☐ B The Lewis structural dual-sector model
- ☐ C The Marshall–Lerner condition
- ☐ D The Prebisch–Singer hypothesis

(Total for Question 2 = 1 mark)

- 3 Between June 2018 and October 2019 the Australian dollar fell by 7.4% against the US dollar.

Ceteris paribus, which **one** of the following is the most likely impact of this depreciation on Australia's economy?

- ☐ A A fall in the price of imports and a rise in the price of exports
- ☐ B An increase in public sector borrowing and an increase in national debt
- ☐ C An improvement in the capital and financial account of the balance of payments
- ☐ D A decrease in the cost of borrowing and a decrease in the reward for saving

(Total for Question 3 = 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 factors has contributed to increased globalisation in the last 50 years?

- ☐ A An increase in the cost of transport
- ☐ B An increase in the cost of communications
- ☐ C A reduction in tariffs and quotas
- ☐ D A reduction in the number of trading blocs

(Total for Question 1 = 1 mark)

- 2 In 2021 the Reserve Bank of India decided to extend its quantitative easing programme.

Ceteris paribus, which **one** of the following is the most likely effect of this decision?

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

(Total for Question 2 = 1 mark)

- 3 In 2021 the governments of 136 countries agreed to set a global minimum corporation tax rate of 15%. The aim of this agreement was to make it more difficult for transnational companies (TNCs) to avoid paying corporation tax.

Which **one** of the following is also a measure that governments may use to control TNCs?

- ☐ A Cutting costs of bureaucracy
- ☐ B Improving access to banking
- ☐ C Increasing indirect taxes
- ☐ D Regulation of transfer pricing

(Total for Question 3 = 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 factors has contributed to increased globalisation in the last 50 years?

- ☐ A An increase in the cost of transport
- ☐ B An increase in the cost of communications
- ☐ C A reduction in tariffs and quotas
- ☐ D A reduction in the number of trading blocs

(Total for Question 1 = 1 mark)

2 In 2021 the Reserve Bank of India decided to extend its quantitative easing programme.

Ceteris paribus, which **one** of the following is the most likely effect of this decision?

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

(Total for Question 2 = 1 mark)

3 In 2021 the governments of 136 countries agreed to set a global minimum corporation tax rate of 15%. The aim of this agreement was to make it more difficult for transnational companies (TNCs) to avoid paying corporation tax.

Which **one** of the following is also a measure that governments may use to control TNCs?

- ☐ A Cutting costs of bureaucracy
- ☐ B Improving access to banking
- ☐ C Increasing indirect taxes
- ☐ D Regulation of transfer pricing

(Total for Question 3 = 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 *non-economic* factor that might constrain the rate of economic growth and economic development of a country?

- ☐ A A poorly educated workforce
- ☐ B Volatile commodity prices
- ☐ C Capital flight
- ☐ D High levels of corruption

(Total for Question 1 = 1 mark)

- 2 In 2021 the UK experienced a fall in labour productivity. It remained below the average labour productivity of its main trading partners.

Ceteris paribus, which **one** of the following can be deduced from this statement?

- ☐ A UK goods and services were less internationally competitive than those of its trading partners
- ☐ B Average export prices of UK goods and services were lower than the average export prices of its trading partners
- ☐ C Unit labour costs in the UK were the same as the average unit labour costs of its trading partners
- ☐ D The UK experienced a significant deterioration in its terms of trade

(Total for Question 2 = 1 mark)

- 3 In 2020 Japan's central bank, the Bank of Japan, increased its reserve asset (liquidity) requirements for commercial banks.

Ceteris paribus, which **one** of the following is the most likely effect of this decision?

- ☐ A An increase in the money supply
- ☐ B An increase in the level of real output
- ☐ C A decrease in the rate of inflation
- ☐ D A decrease in the rate of unemployment

(Total for Question 3 = 1 mark)

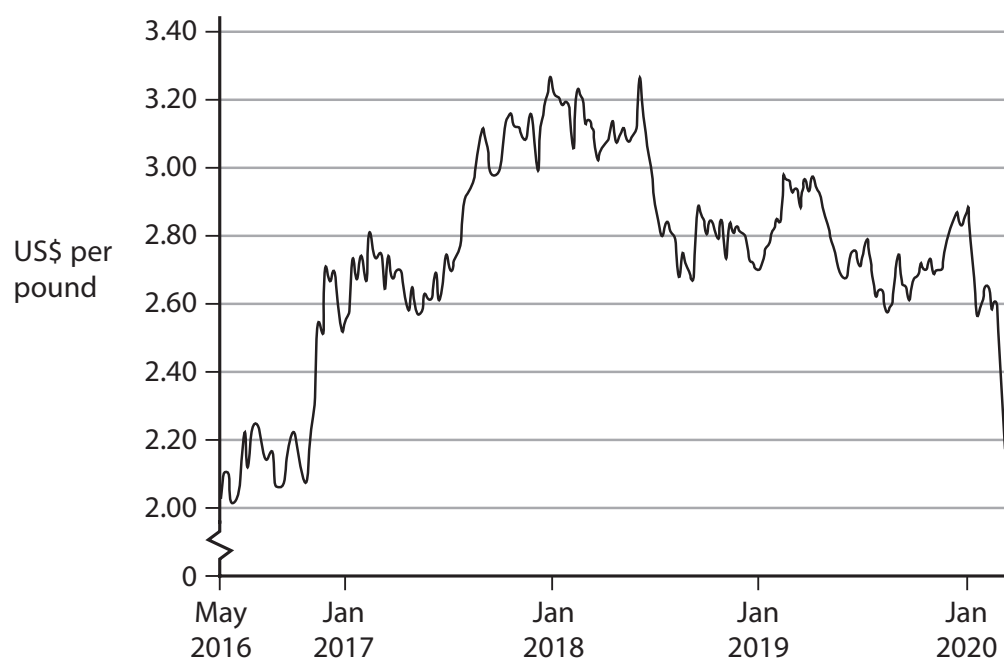


SECTION B

Study Figure 1 and Extract A in the Source Booklet before answering Question 7.

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

- 7** (a) The Bank of Zambia raised 'the base interest rate by 1.75 percentage points to 11.5% between April and November 2019' (Extract A, lines 12–13).
Calculate Zambia's base interest rate in April 2019. You are advised to show your working. (2)
- (b) Analyse the likely impact of an increase in the base interest rate on 'Zambia's balance of trade with South Africa' (Extract A, line 15). (6)
- (c) With reference to the fourth paragraph of Extract A, explain what is meant by 'The Gini coefficient'. (4)
- (d) With reference to the information provided, examine **two** problems arising from the dependence on copper for the Zambian economy. (8)
- (e) Discuss economic factors, apart from primary product dependency, that may constrain Zambia's economic growth. (14)

Sources for use with Section B.**Zambia's economy****Figure 1 World copper prices, US\$ per pound, 2016–2020**

Extract A Economic outlook

Zambia is a landlocked country of 17 million people. It achieved middle-income country status in 2011. Zambia had been one of the fastest growing economies in Africa. Between 2004 and 2014, real GDP grew by an average of 7.5% per year. Between 2014 and 2018, Zambia's economy continued to grow but at a slower rate.

5

In 2019 uncertainty in global markets, and a slower pace of economic recovery in many advanced countries, were major constraints on Zambia's economic growth prospects. This was mainly because of the country's heavy reliance on copper exports. Zambia is the world's seventh-largest copper producer. Copper contributes to 30% of Zambia's GDP, 70% of its export earnings and more than 25% of its tax revenues.

10

Zambia's rate of inflation rose from 7.5% in 2018 to 9.2% in 2019. The inflation rate was forecast to remain high. This prompted the Bank of Zambia to raise the base interest rate by 1.75 percentage points to 11.5% between April and November 2019. This change in the interest rate affected Zambia's exchange rate. Consequently, this had a considerable impact on Zambia's balance of trade with South Africa, a major trading partner of Zambia. Over 55% of Zambia's imports are from South Africa.

15

Zambia has low human development indicators. Poverty and income inequality are very high by international standards. The Gini coefficient in 2018 was 0.50. The quality of education, healthcare and infrastructure was also weak. Wages in Zambia were lower than in most middle-income countries.

20

Increased trade tensions between the USA and China led to a decline in the global demand for copper. The subsequent fall in the price of copper decreased Zambia's real GDP growth rate from 4% in 2018 to 2% in 2019.

Between January and May 2020 Zambia's currency, the *kwacha*, depreciated by 30% against the US dollar. This was as a result of falling foreign currency reserves caused by debt servicing and low production in the copper mining sector.

25

To reduce the impact of such external shocks it would be beneficial for Zambia to move away from its dependence on copper mining. The Government identified developments in tourism, infrastructure, and information and communication technology as the areas for economic diversification. These developments would help to increase Zambia's real GDP in the long-term.

30



- (a) The Bank of Zambia raised 'the base interest rate by 1.75 percentage points to 11.5% between April and November 2019' (Extract A, lines 12–13).

Calculate Zambia's base interest rate in April 2019. You are advised to show your working.

(2)

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SECTION B

Study Figures 1, 2 and 3 and Extract A in the Source Booklet before answering Question 7.

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

- 7** (a) With reference to Figure 1 and Figure 2, calculate Turkey's real interest rate in July 2020. You are advised to show your working. (2)
- (b) With reference to Figure 3 and Extract A, analyse **two** factors, other than changes in interest rates, that may have led to a depreciation of the Turkish lira. (6)
- (c) Explain what is meant by a 'customs union' (Extract A, lines 22–23). (4)
- (d) With reference to the last paragraph of Extract A, examine **two** likely economic benefits to Turkey of joining the European Union. (8)
- (e) With reference to the information provided, discuss the likely economic effects of a further increase in the base interest rate. (14)

Sources for use with Section B

The economy of Turkey

Figure 1 Central bank base interest rate, January 2018 to December 2020

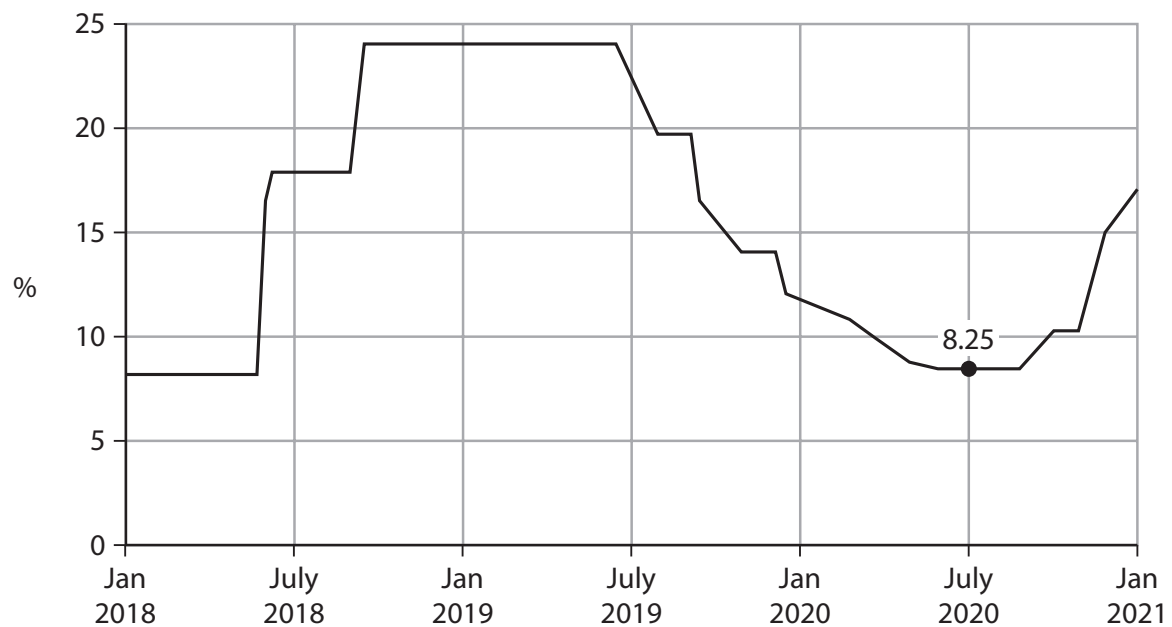


Figure 2 Rate of inflation, as measured by the Consumer Price Index (CPI), January 2018 to December 2020

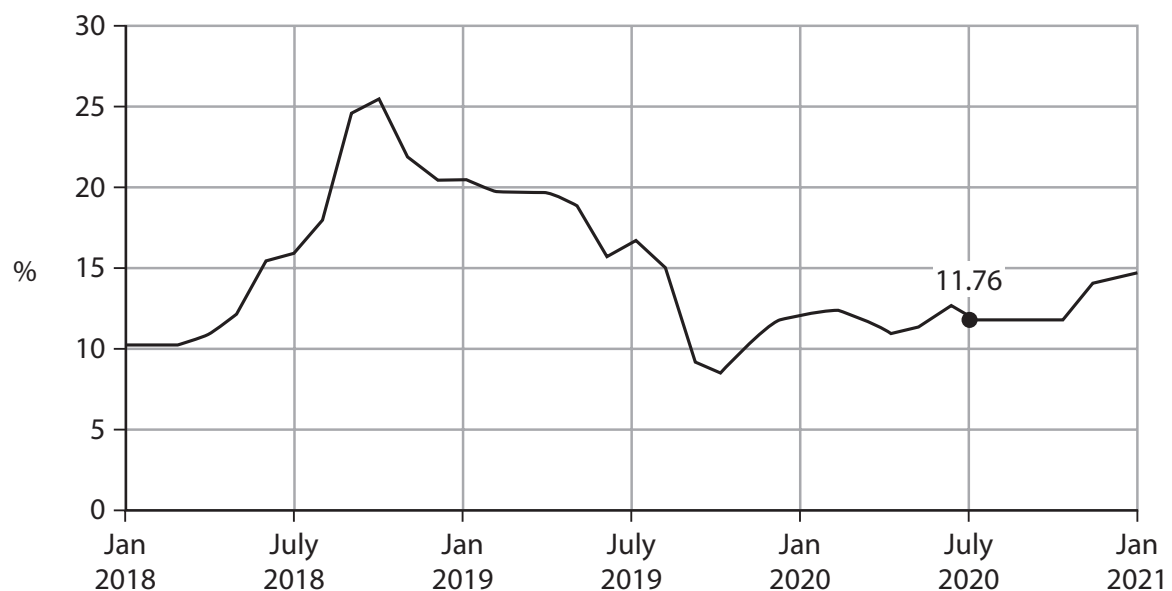
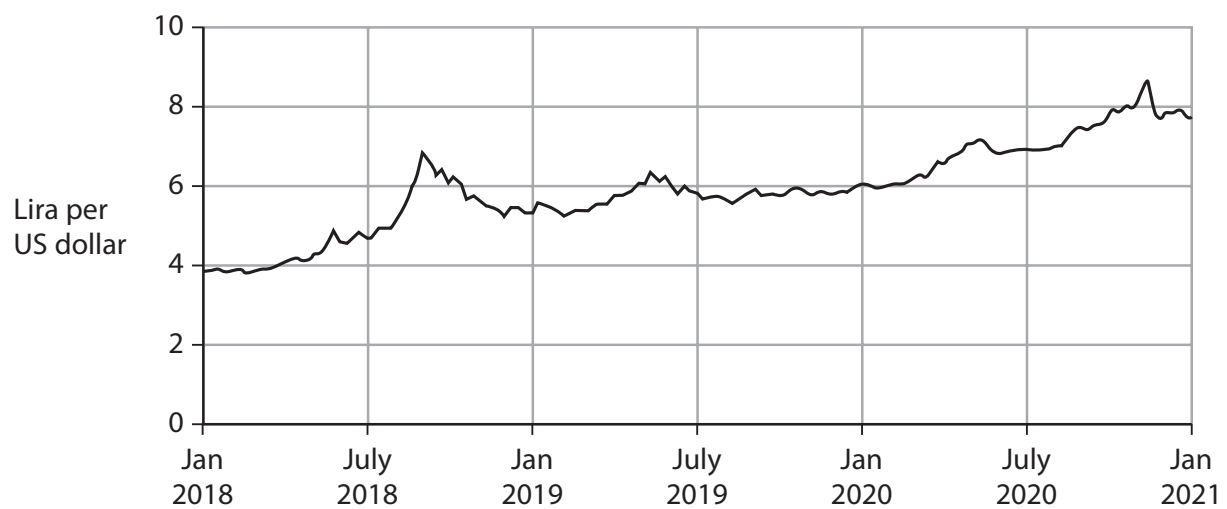


Figure 3 Turkish lira–US dollar exchange rate*, January 2018 to December 2020

* Turkey's currency is known as the Turkish lira

Extract A Currency depreciation

Turkey's President, who controls the Central Bank of Turkey, is an opponent of high interest rates. He dismissed the Central Bank's previous Governor in 2019, complaining that "he would not follow instructions on interest rates". The Central Bank made a series of interest rate cuts after a new Governor was appointed. The President wanted a reduction in interest rates to encourage borrowing by businesses and consumers in order to stimulate Turkey's rate of economic growth. 5

By contrast, some economists urged the Central Bank to raise interest rates to slow the pace of credit growth and to avoid a currency crisis. They argued that following the reduction in base interest rates, there was a further fall in the exchange rate of the Turkish lira against the US dollar. Turkey's large current account deficit and capital flight have also contributed to the depreciation of the Turkish lira. Attempts to increase the external value of the lira while keeping interest rates low have reduced most of the Central Bank's foreign currency reserves. Economists warned that the risk of a financial crisis in Turkey was growing. 10 15

In response, the new Governor of the Central Bank of Turkey raised the base interest rate. This increase indicated that the Central Bank was concerned about the weakness of the lira and a high rate of inflation. By December 2020 the base interest rate had increased to 17%. However, some economists argued that the Central Bank would need to raise the base interest rate further to support the weak currency. 20

Turkey's long-term economic growth will depend on attracting foreign direct investment and establishing a stronger partnership with the European Union (EU) which is a customs union and common market. Turkey is an important partner for the EU on matters related to trade, investment and migration. Governments of many EU countries believe that they have an economic interest in developing a mutually beneficial relationship with Turkey. 25

- 7 (a) With reference to Figure 1 and Figure 2, calculate Turkey's real interest rate in July 2020. You are advised to show your working.

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SECTION B

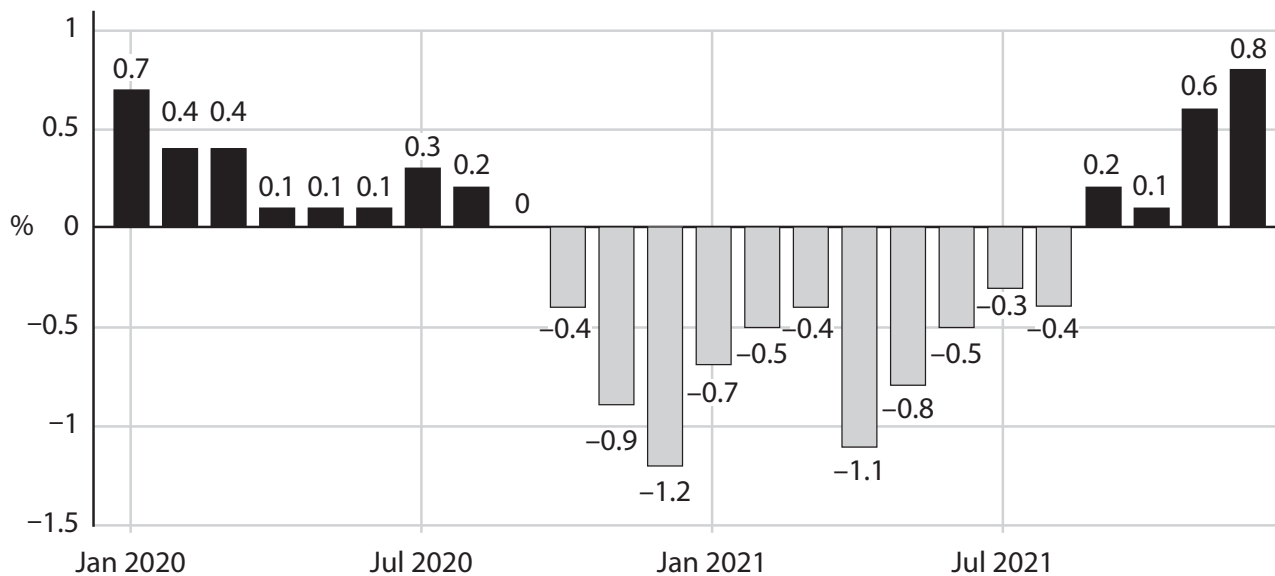
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Write your answers in the space provided on the following pages.

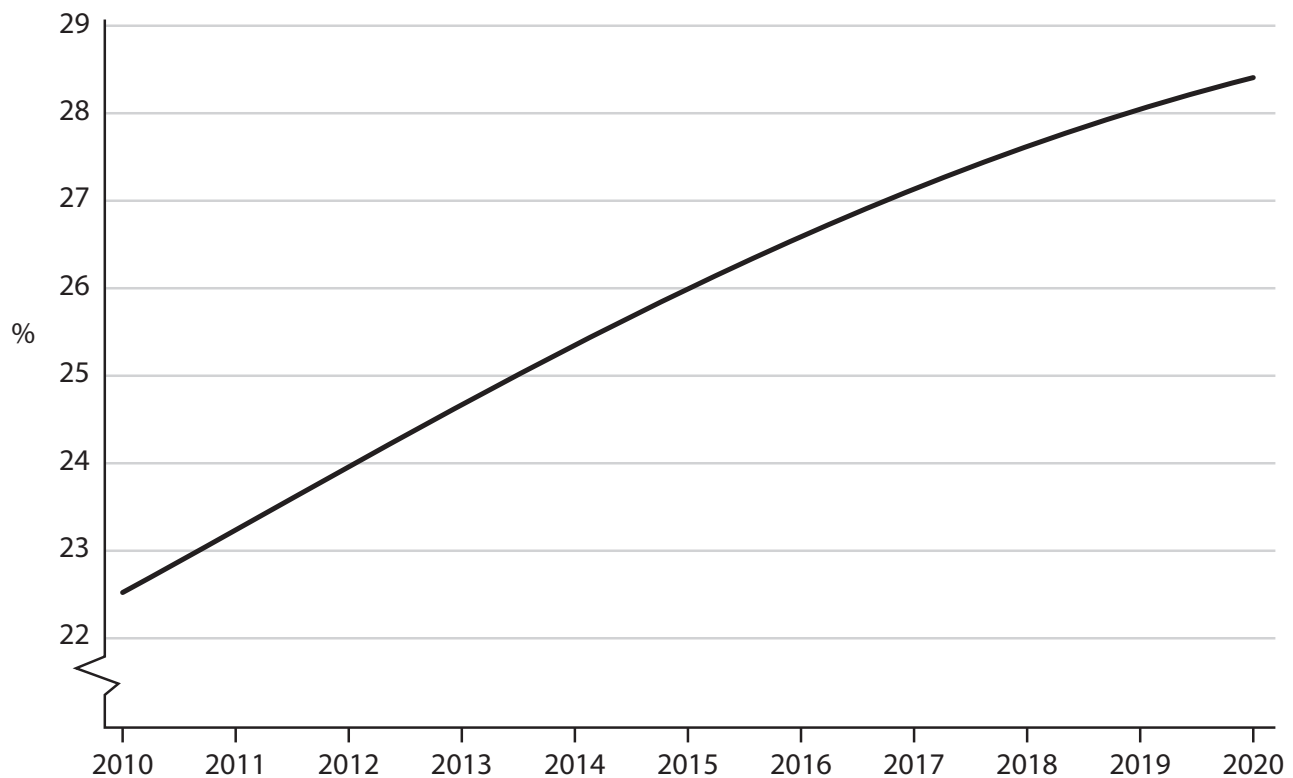
- 7** (a) With reference to the second and third paragraphs of Extract C, calculate the amount saved by Japanese citizens from the total cash payments made by the Japanese Government. You are advised to show your working. (2)
- (b) With reference to Figure 1 and Extract A, explain what is meant by an 'inflation target' (Extract A, line 5). (4)
- (c) With reference to Figure 1 and Extract A, analyse **two** ways a deflationary monetary policy can 'control the rising rate of inflation'. (6)
- (d) With reference to Figure 2 and Extract B, examine **two** reasons why the demographic changes in Japan may constrain its rate of economic growth. (8)
- (e) With reference to Extract C, discuss policies that the Japanese Government could implement to increase the country's long-term rate of economic growth. (14)

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The economy of Japan

Figure 1 Inflation rate*, as measured by the Consumer Price Index (CPI), January 2020 – December 2021

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

Figure 2 Percentage of the population aged 65 and over, 2010–2020

Extract A Monetary policy

Japan's rate of inflation started to increase in October 2021. Traders speculated that the Bank of Japan (BoJ) would control the rising rate of inflation by ending quantitative easing or by increasing the base interest rate from -0.1% to 0% . However, Japan's inflation rate was below the BoJ's inflation target of 2% . It was also lower than the rates of inflation experienced in several other advanced economies. Consequently, in February 2022, the BoJ decided not to pursue a deflationary monetary policy, unlike the central banks of some other advanced economies. 5

Extract B Demographic changes

In 2020 Japan had a population of 125.8 million. In 2021 its population decreased by 630 000 people. Between 2022 and 2040 it is estimated that its population will decrease by a further 16 million. In 2021 the number of people under the age of 20 was at its lowest level since 1968. At the same time, the number of people over the age of 65 had increased to a record level. 5

There are significant concerns regarding how Japan's economy can continue to function with a smaller workforce.

Extract C Government expenditure

Between March 2020 and November 2021 Japan's Government spent \$770 billion in supporting the country's economic recovery.

In early 2022 many governments of advanced economies were recovering from the global health crisis and were planning to reduce their spending. By contrast, the Japanese Government made a direct cash distribution of \$872 to each household with children under the age of 18. In addition, the Government announced that cash payments would also be given to low-income households, temporary workers and students. The total cash payments made by the Japanese Government was \$350 billion. 5

However, similar payments distributed in the past have had little effect on the level of consumption and the rate of inflation in Japan. It is unlikely that the outcome will be any different this time. It is estimated that 70% of the total cash payments received by Japanese citizens will be saved. 10

Some economists suggest that Japan's Government should instead focus its spending on increasing the country's long-term rate of economic growth. They believe that there should be greater investment in the labour force, healthcare and infrastructure. However, there were concerns over additional government spending because Japan's national debt was over 250% of GDP in 2021. 15

- (a) With reference to the second and third paragraphs of Extract C, calculate the amount saved by Japanese citizens from the total cash payments made by the Japanese Government. You are advised to show your working.

(2)



SECTION B

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- 7** In 2018, the EU's rate of inflation was 1.6%.
- (a) With reference to Figure 1, calculate the nominal GDP growth rate of the EU in 2018. You are advised to show your workings. (2)
- (b) Explain what is meant by 'quantitative easing' (Extract A, lines 8–9). (4)
- (c) With reference to Figure 1, Figure 2 and Extract A, analyse **two** reasons why 'Many EU countries experienced strong economic growth after 2012' (Extract A, lines 2–3). (6)
- (d) With reference to Figure 1, Figure 2 and Extract A, examine **two** reasons why 'there is concern that the future rate of economic growth in the EU might be much lower' (Extract A, lines 12–13). (8)
- (e) With reference to Extract B, discuss the likely economic benefits to the EU of forming a trade agreement with Mercosur. (14)

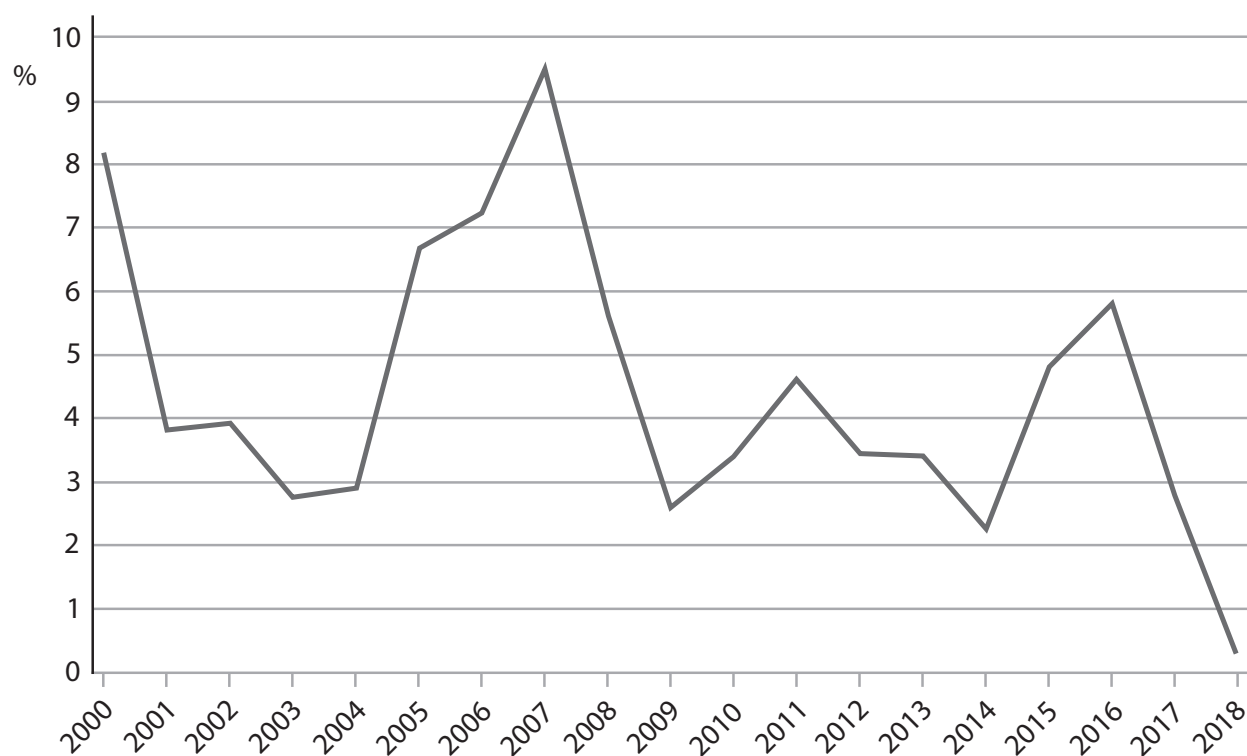
Sources for use with Section B.

The European Union (EU)

Figure 1 Annual real GDP growth rate (%), 2000–2018



Figure 2 Annual inward foreign direct investment to the EU (% of GDP), 2000–2018



Extract A Economic growth

The European Union (EU) is a customs union. Many EU countries experienced strong economic growth after 2012, four years after the global financial crisis of 2008. After some years of low domestic demand since the crisis, firms in the EU were able to take advantage of increasing consumer spending. In 2018 household expenditure rose by 2% and the EU benefited from an expansion in global trade. 5

The EU's economic recovery was also as a result of increased domestic investment. Between 2015 and 2018 the European Central Bank's (ECB) €2.5 trillion quantitative easing programme gave firms greater access to credit. The ECB has also indicated that it could extend this programme. This would reduce fears of economic uncertainty and the impact of a global economic slowdown. 10

Despite the evidence of economic recovery, there is concern that the future rate of economic growth in the EU might be much lower. Rising oil prices are expected to reduce foreign direct investment. Moreover, spending on research and development is significantly lower than in most Asian countries. There is also a shortage of skilled labour in the technology sector. Finally, there is a worry that the EU's rate of economic growth could also decline as a result of the slowdown in China, following its trade war with the USA. 15

Extract B Trade agreement

In July 2019 the South American customs union, Mercosur, and the EU announced they were close to agreeing a free trade deal. If concluded it would be the largest ever trade agreement negotiated by the EU in terms of tariff reductions.

The deal would provide a rare moment of agreement in global trade. It would come at a time when US President Donald Trump is threatening to increase trade barriers with China and the EU. A trade agreement with Mercosur has more significance as the EU seeks to position itself as a leading promoter of global free trade. 5

However, the EU remains concerned about the agreement. The negotiations have discussed sensitive economic matters for both trading blocs. These include the prospect of greater competition for Mercosur's car manufacturers and for the EU's beef farmers. 10

There has also been disappointment amongst EU countries about the lack of co-ordination between Mercosur's largest agricultural exporters. These countries include Argentina, Brazil, Paraguay and Uruguay. This problem was partly blamed for the failure to secure a trade agreement in 2018. 15

In 2018, the EU's rate of inflation was 1.6%.

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(4)



SECTION B

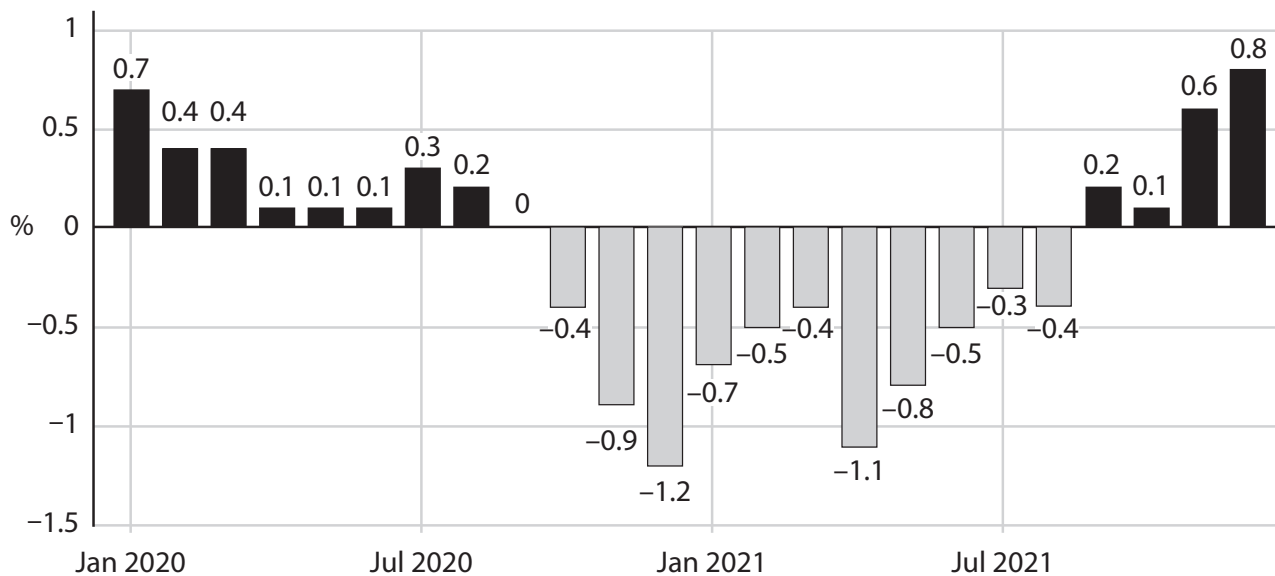
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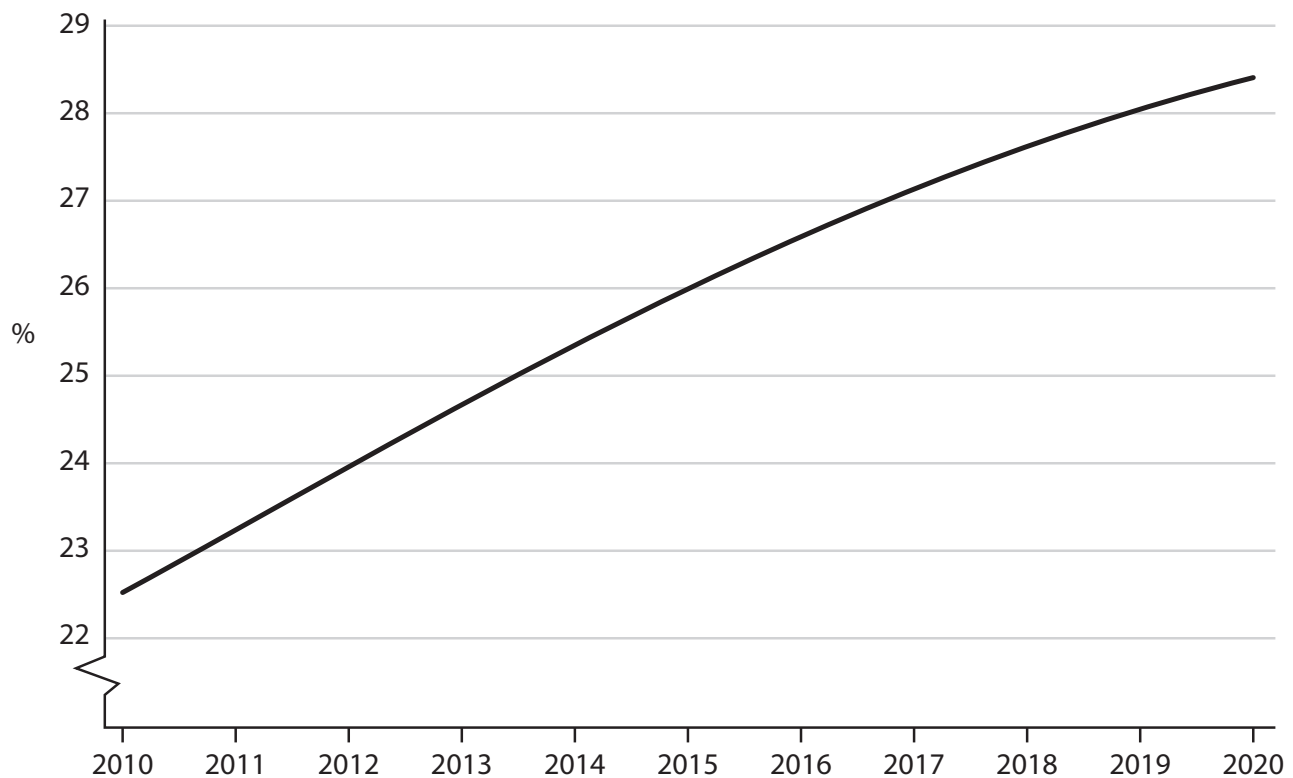
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(b) With reference to Figure 1 and Extract A, explain what is meant by an ‘inflation target’ (Extract A, line 5).

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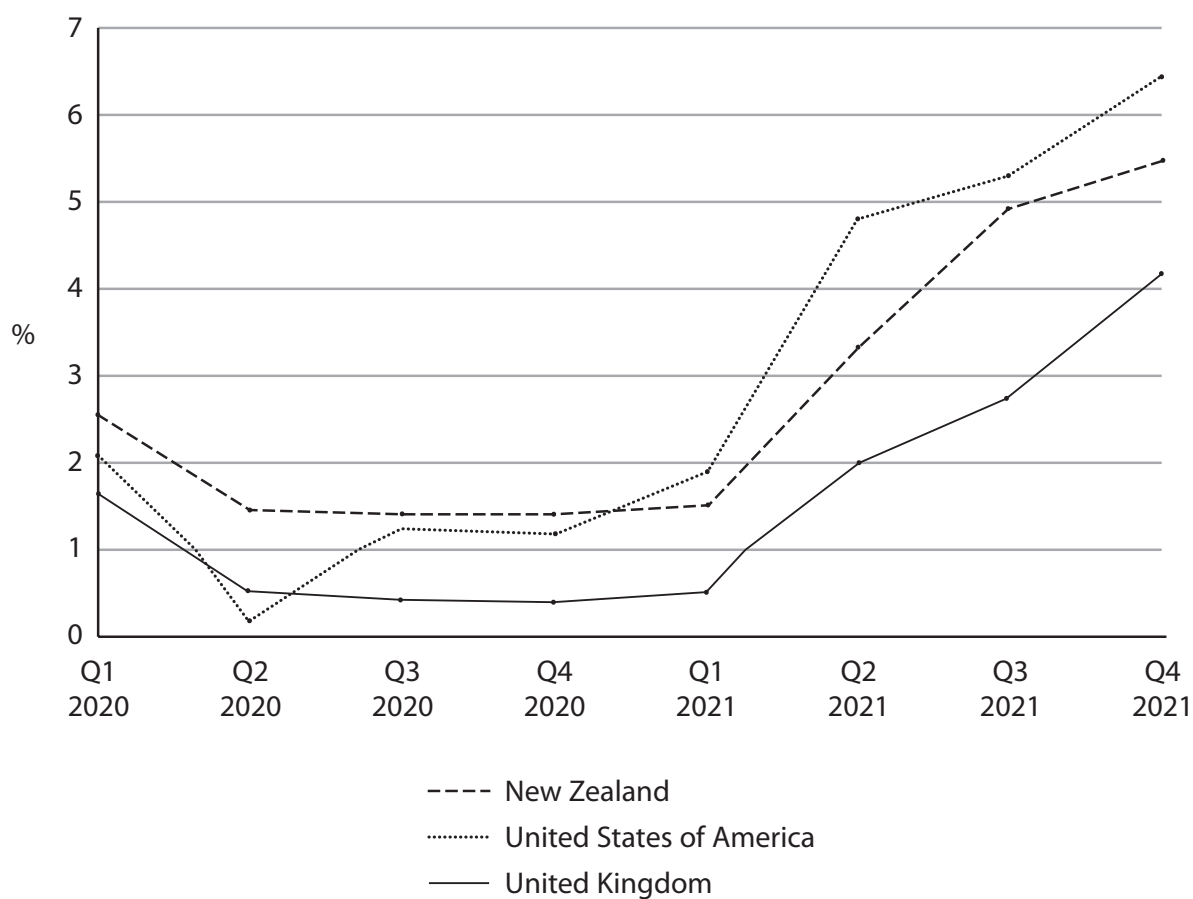
Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 7.

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

- 7** (a) Between Q1 2020 and Q4 2021 the average annual rate of inflation in New Zealand increased from 2.5% to 5.4%.
- Calculate the change in the rate of inflation between Q1 2020 and Q4 2021. You are advised to show your working.
- (2)
- (b) With reference to Figure 1 and the first paragraph of Extract A, analyse **two** causes of the increase in the rate of inflation.
- (6)
- (c) Explain what is meant by 'monetary policy instruments' (Extract A, line 9).
- (4)
- (d) Examine **two** 'problems facing central banks when applying monetary policies to reduce the rate of inflation' (Extract A, lines 11–12).
- (8)
- (e) With reference to Extract B, discuss how demographic factors may constrain economic growth of developed economies.
- (14)

Sources for use with Section B

Inflation and labour markets in developed economies

Figure 1 Annual inflation rate for selected countries (%), as measured by the consumer price index (CPI), Q1 2020–Q4 2021

Extract A Rising rates of inflation

In 2021 many developed countries experienced an increase in the rate of inflation. Average price levels increased as a result of disruptions to global supply chains. These were caused by restrictions that had been in place during the global health crisis. As developed countries eased these restrictions, demand for goods, services and energy increased. There was also a significant rise in average house prices. 5

Rising rates of inflation are a challenge for central banks, especially for developed countries that have an inflation target of 2%. The central banks of these countries can adjust their monetary policy instruments to meet this target. Nevertheless, these instruments are less effective in tackling inflation created by a lack of supply. 10

There are problems facing central banks when applying monetary policies to reduce the rate of inflation. One problem is the inability of policymakers to control the rising rate of inflation caused by external factors. Another problem is estimating whether the increase in the rate of inflation is temporary or permanent.

Policymakers who believe that this is a temporary issue suggest that the rise in the rate of inflation is as a result of short-term external shocks. They attribute it to a one-off increase in supply chain disruptions and a one-off increase in consumer demand. By contrast, policymakers who believe that this is a permanent issue indicate that the increase in the average price level is a result of rising wages. 15

Extract B Labour markets

Many developed countries have ageing populations and a falling proportion of people of working age. Since the global health crisis there has been instability in global labour markets. Many workers have retired early whilst others have left the workforce to focus on other personal objectives. There has also been a decline in international migration. As a result of this fall in the labour supply, many companies have been forced to decrease production. This represents a considerable threat to global economic recovery. 5

The critical question is whether workers will rejoin the labour force or whether employers and policymakers will need to adapt to a world in which labour becomes an even scarcer resource. In the USA more than four million workers have left the labour force since the crisis. However, employment in the eurozone has almost returned to its pre-crisis level and the labour force participation rate has risen rapidly. For example, in France and Spain this rate is already higher than it was before the crisis. 10

Employers are preparing for a future in which they will need to offer greater incentives to attract more workers back into the labour market. 15

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(c) Explain what is meant by 'monetary policy instruments' (Extract A, line 9).

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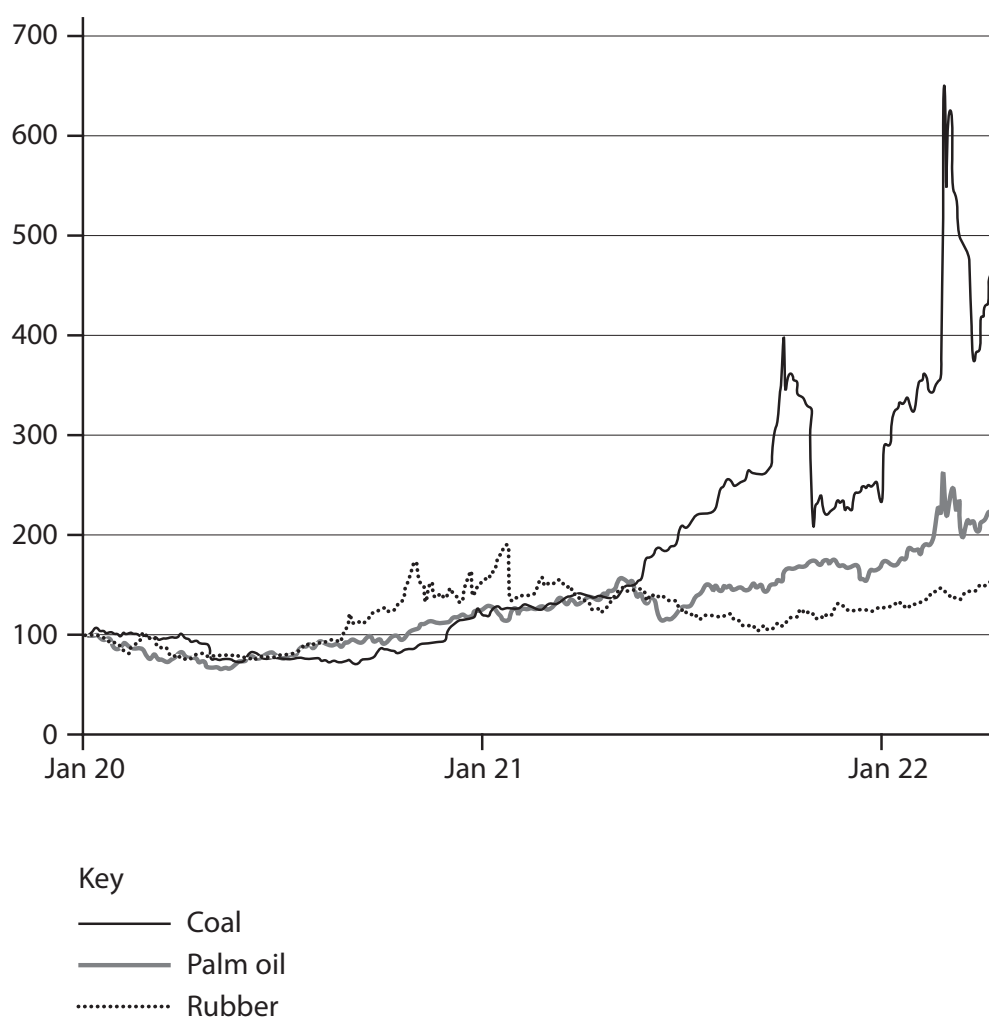
Study Figure 1 and Extract A in the Source Booklet before answering Question 7.

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

- 7** (a) With reference to Figure 1, calculate the increase in the price of coal between January 2020 and April 2022. You are advised to show your working. (2)
- (b) Explain what is meant by 'interest rates' (Extract A, line 4). (4)
- (c) With reference to the third paragraph of Extract A, examine **two** economic benefits of the increase in the number of tourists visiting Southeast Asian countries. (8)
- (d) Analyse why Thailand **and** Singapore 'are experiencing low rates of economic growth' (Extract A, line 22). (6)
- (e) With reference to the information provided and your own knowledge, discuss factors that might cause an improvement in the *terms of trade* of Southeast Asian countries. (14)

Sources for use with Section B

Southeast Asian economies

Figure 1 Index of global prices for selected commodities, January 2020 to April 2022 (January 2020=100)

Extract A Economic outlook 2022

Economies around the world are facing the threat of stagflation: a period of high inflation and low economic growth. This is a result of increasing global prices for fuel, food and other commodities. Many central banks have raised base interest rates in response to this inflationary pressure. For example, the European Central Bank increased its base interest rate from 0% to 1.25% between January and September 2022. 5

However, Southeast Asia is one region that is likely to avoid stagflation. Southeast Asia is a region situated south of mainland China. It comprises 11 countries that include Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

In countries such as Indonesia, Vietnam and Malaysia, the rate of increase in Gross Domestic Product (GDP) is higher than the rate of inflation. This increase in economic growth rates is partly as a result of an increase in the number of tourists visiting these countries. Each of these Governments have relaxed border controls that were introduced during the global health crisis. For example, between February 2022 and May 2022 the number of tourists increased by 1 050% in Indonesia and by 8 629% in Vietnam. 10 15

The majority of Southeast Asian countries are experiencing a steady growth in their exports. The rising prices of fuel, food and other commodities have benefited countries that export them in large quantities, for example, coal (Indonesia), rubber (Malaysia), and palm oil (Indonesia and Malaysia). These countries have experienced an improvement in their terms of trade. 20

By contrast, in Thailand and Singapore, the rate of inflation is rising faster than the GDP growth rate. Both countries are experiencing low rates of economic growth. In Thailand, inflation is reducing real incomes. In Singapore, the economic growth rate is low because of the slowdown in China's economy. China is Singapore's main trading partner.

Some countries in the region are highly exposed to external shocks in the global economy. For example, the Philippines relies on imports of rice and overall it is a net importer of food and fuel. 25

In Malaysia and Indonesia maximum prices have been imposed on certain commodities. This has helped to control the rising rate of inflation. Governments in other parts of the region are also considering the implementation of price controls. The President of the Philippines promised to decrease the price of rice by imposing a maximum price. 30

(b) Explain what is meant by ‘interest rates’ (Extract A, line 4).

(4)



SECTION B

**Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.**

- 7** (a) With reference to Figure 1 and Figure 2, calculate the value of Greece's national debt in 2022. You are advised to show your workings. (2)
- (b) Explain what is meant by 'deflationary fiscal policies' (Extract A, line 10). (4)
- (c) With reference to the third paragraph of Extract A, examine **two** measures that the Government of Greece could take to increase the country's international competitiveness. (8)
- (d) With reference to Extract A, analyse **two** roles of the European Central Bank (ECB). (6)
- (e) With reference to the information provided and your own knowledge, discuss the likely economic benefits of a decrease in national debt, as a proportion of GDP, on the economy of Greece. (14)

Sources for use with Section B

The economy of Greece

Figure 1 Real GDP, \$ billion, 2008–2022

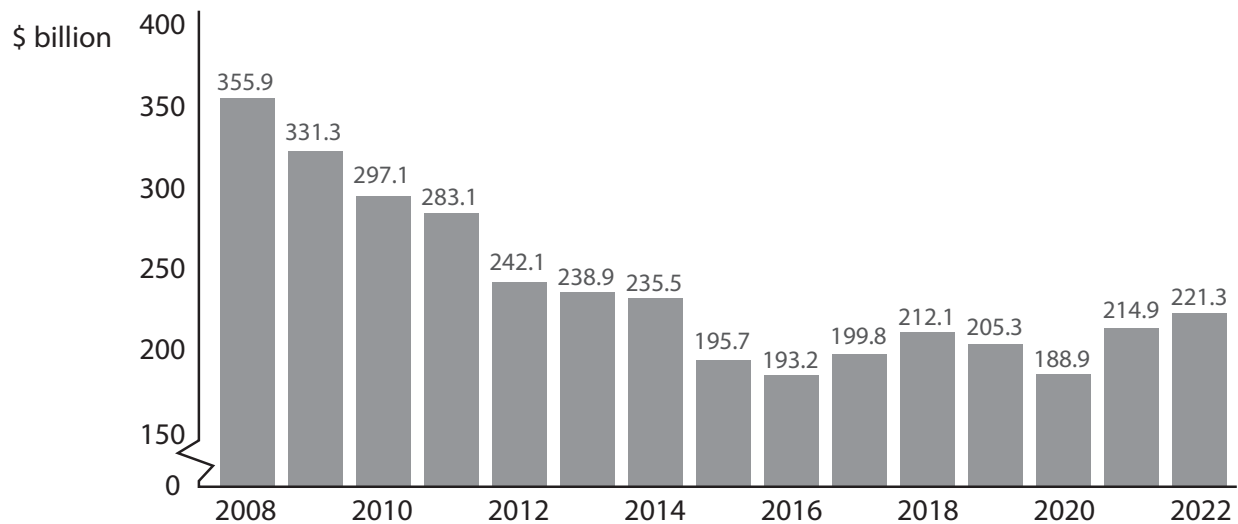
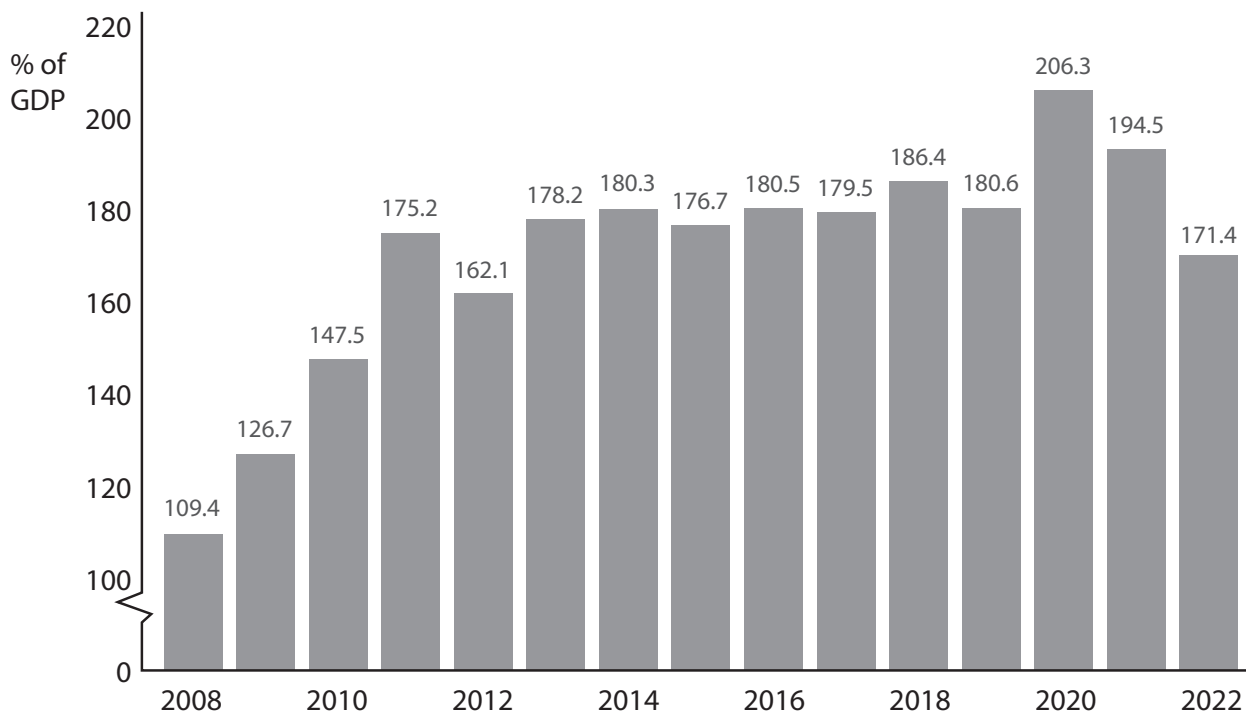


Figure 2 National debt, % of GDP, 2008–2022



Extract A Economic outlook

Following the global financial crisis of 2008, Greece experienced a debt crisis. In 2010 the country's credit rating (an estimate of the ability of a country to repay its debts) was reduced. Greece's credit rating fell from 'A' to 'CCC'. This indicated that Greece went from having a strong ability to make repayments of its national debt to a situation in which it was unable to service its debt. 5

Between 2008 and 2010 Greece's national debt increased from 109.4% of GDP to 147.5% of GDP. Consequently, the Government had to borrow \$146 billion from the International Monetary Fund (IMF) and the European Union. As a condition of these loans, the Government of Greece was required to implement deflationary fiscal policies to reduce its national debt. It was also forced by the IMF to reduce pensions to the elderly in return for financial support. As a result of these measures, between 2010 and 2020, the country's rate of economic growth fell by 25% and the disposable incomes of Greek citizens decreased by almost 30%. The resulting increase in unemployment led to many young citizens leaving the country in search of work. 10 15

After the global health crisis of 2020 Greece was able to reduce its national debt as a proportion of GDP. In 2022 real GDP increased by nearly 3% and its debt-to-GDP ratio fell. This helped to improve the country's credit rating to 'B+'. This improvement in the economy led the European Central Bank (ECB) to advise the Government of Greece to make capital investments in infrastructure, human capital and healthcare. This was because Greece's international competitiveness was significantly lower compared to the other members of the eurozone. Its competitiveness rank was 47th when compared with 63 other countries with similar economic prospects. 20

Greece continues to face significant challenges. These include:

- its debt-to-GDP ratio is falling but it still remains the highest in the eurozone area 25
- its forecast rate of economic growth for 2023 was reduced
- its rate of inflation, excluding changes in food and energy costs, was 5.6%. This was the highest rate of inflation in the eurozone
- the ECB raised the base rate of interest from 2.5% to 3% in March 2023 because of the high rate of inflation in the eurozone area. 30

(a) With reference to Figure 1 and Figure 2, calculate the value of Greece's national debt in 2022. You are advised to show your workings.

(2)

(b) Explain what is meant by 'deflationary fiscal policies' (Extract A, line 10).

(4)

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SECTION B

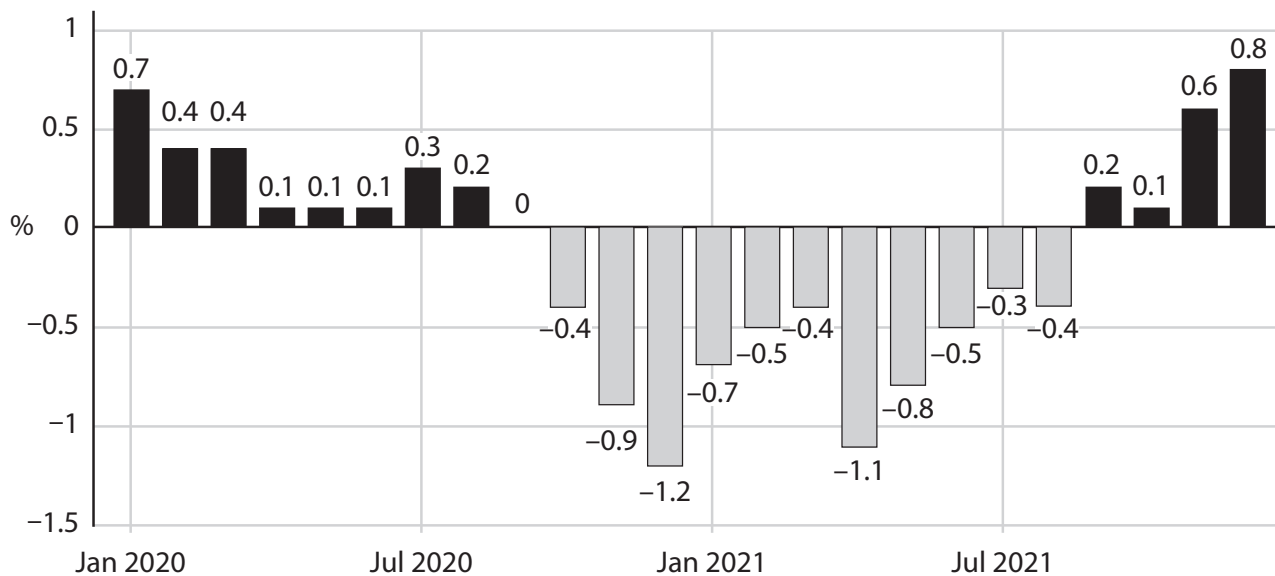
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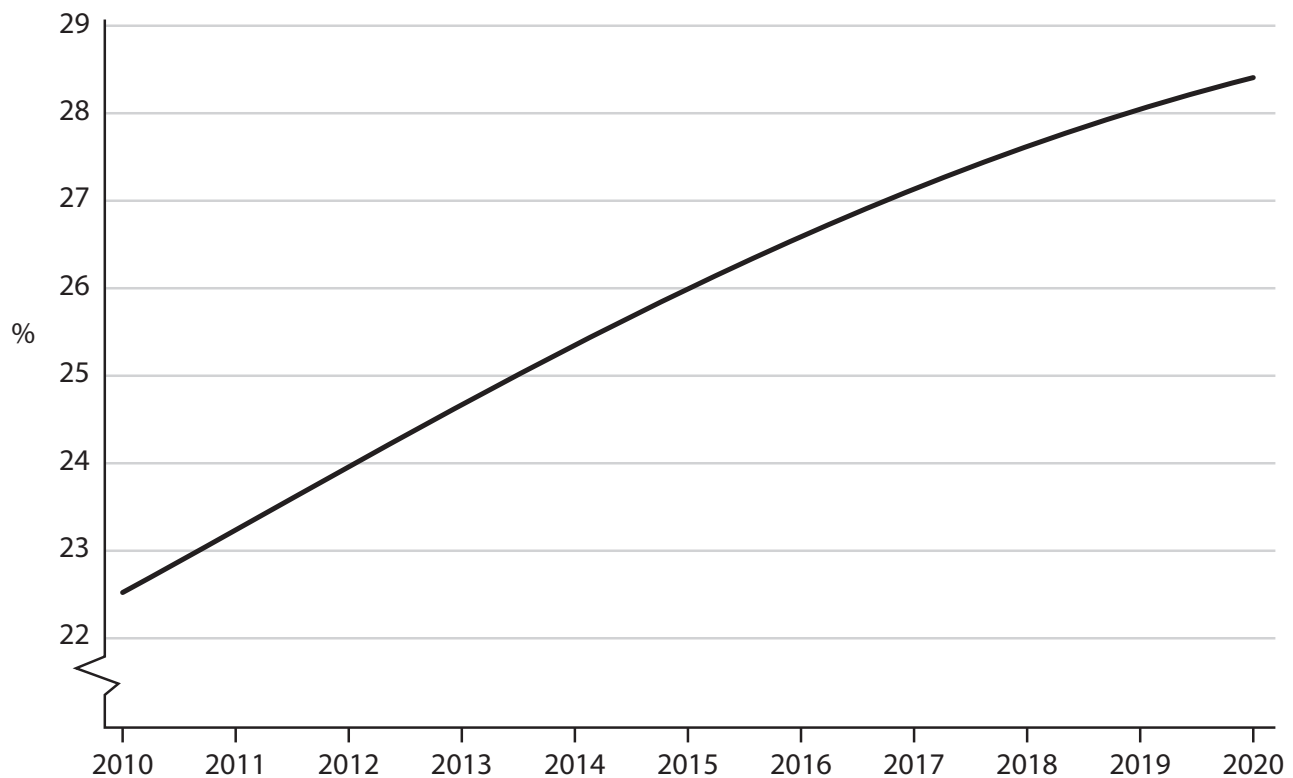
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(c) With reference to Figure 1 and Extract A, analyse **two** ways a deflationary monetary policy can 'control the rising rate of inflation'.

(6)





SECTION B

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- (c) With reference to the third paragraph of Extract A, examine **two** measures that the Government of Greece could take to increase the country's international competitiveness. (8)
- (d) With reference to Extract A, analyse **two** roles of the European Central Bank (ECB). (6)
- (e) With reference to the information provided and your own knowledge, discuss the likely economic benefits of a decrease in national debt, as a proportion of GDP, on the economy of Greece. (14)



Sources for use with Section B

The economy of Greece

Figure 1 Real GDP, \$ billion, 2008–2022

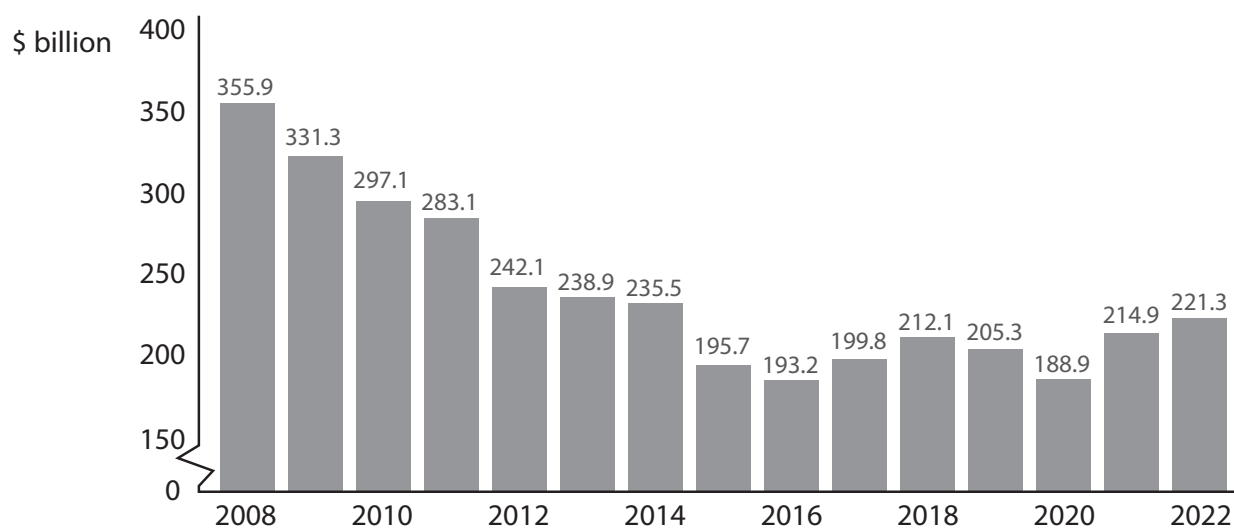
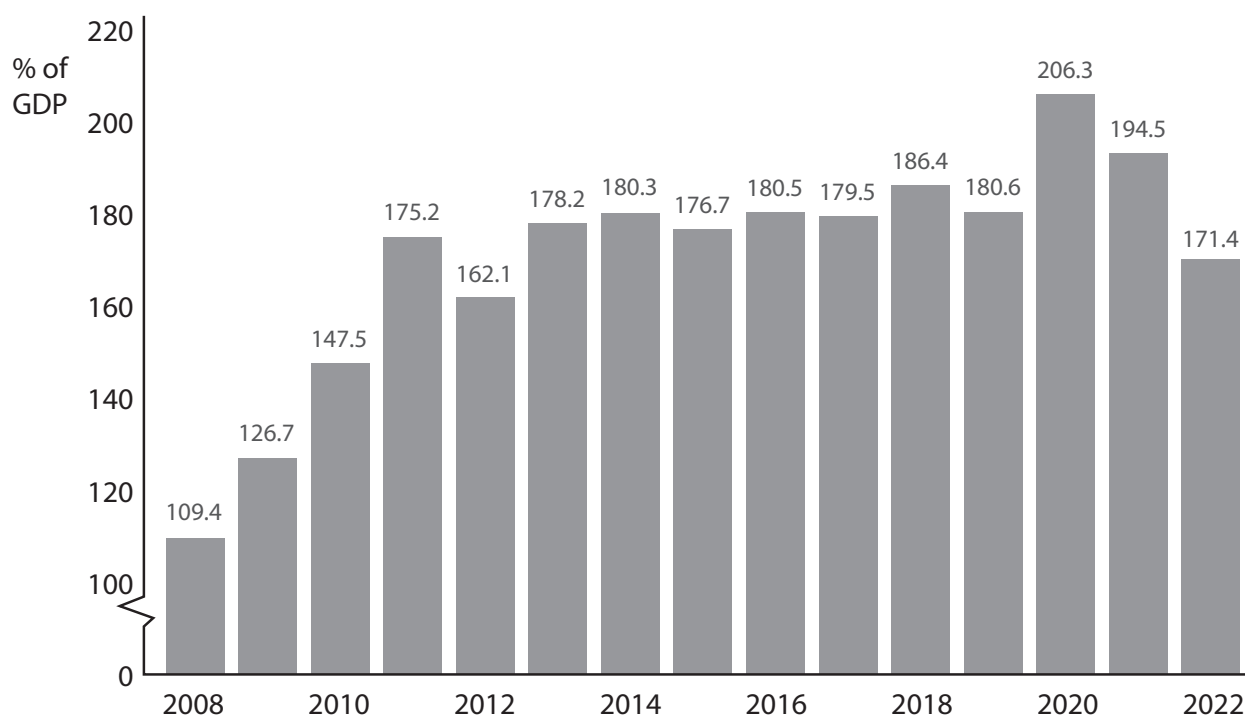


Figure 2 National debt, % of GDP, 2008–2022



Extract A Economic outlook

Following the global financial crisis of 2008, Greece experienced a debt crisis. In 2010 the country's credit rating (an estimate of the ability of a country to repay its debts) was reduced. Greece's credit rating fell from 'A' to 'CCC'. This indicated that Greece went from having a strong ability to make repayments of its national debt to a situation in which it was unable to service its debt. 5

Between 2008 and 2010 Greece's national debt increased from 109.4% of GDP to 147.5% of GDP. Consequently, the Government had to borrow \$146 billion from the International Monetary Fund (IMF) and the European Union. As a condition of these loans, the Government of Greece was required to implement deflationary fiscal policies to reduce its national debt. It was also forced by the IMF to reduce pensions to the elderly in return for financial support. As a result of these measures, between 2010 and 2020, the country's rate of economic growth fell by 25% and the disposable incomes of Greek citizens decreased by almost 30%. The resulting increase in unemployment led to many young citizens leaving the country in search of work. 10 15

After the global health crisis of 2020 Greece was able to reduce its national debt as a proportion of GDP. In 2022 real GDP increased by nearly 3% and its debt-to-GDP ratio fell. This helped to improve the country's credit rating to 'B+'. This improvement in the economy led the European Central Bank (ECB) to advise the Government of Greece to make capital investments in infrastructure, human capital and healthcare. This was because Greece's international competitiveness was significantly lower compared to the other members of the eurozone. Its competitiveness rank was 47th when compared with 63 other countries with similar economic prospects. 20

Greece continues to face significant challenges. These include:

- its debt-to-GDP ratio is falling but it still remains the highest in the eurozone area 25
- its forecast rate of economic growth for 2023 was reduced
- its rate of inflation, excluding changes in food and energy costs, was 5.6%. This was the highest rate of inflation in the eurozone
- the ECB raised the base rate of interest from 2.5% to 3% in March 2023 because of the high rate of inflation in the eurozone area. 30

(6)



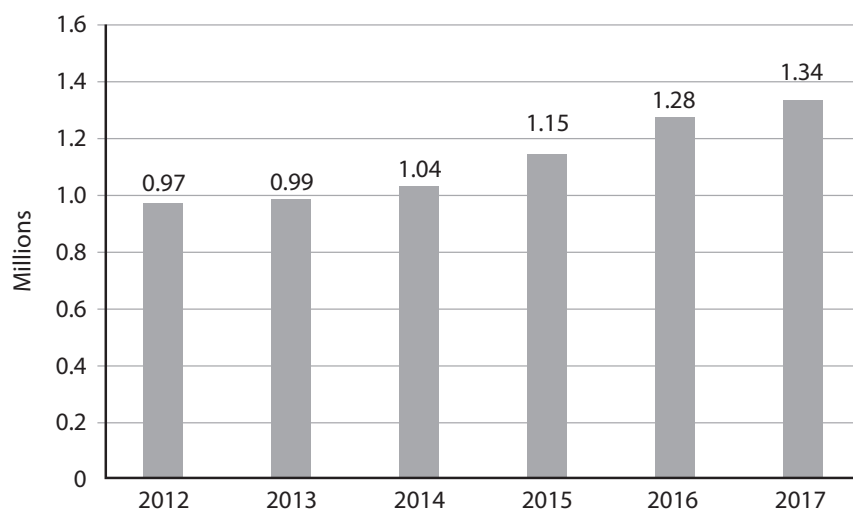
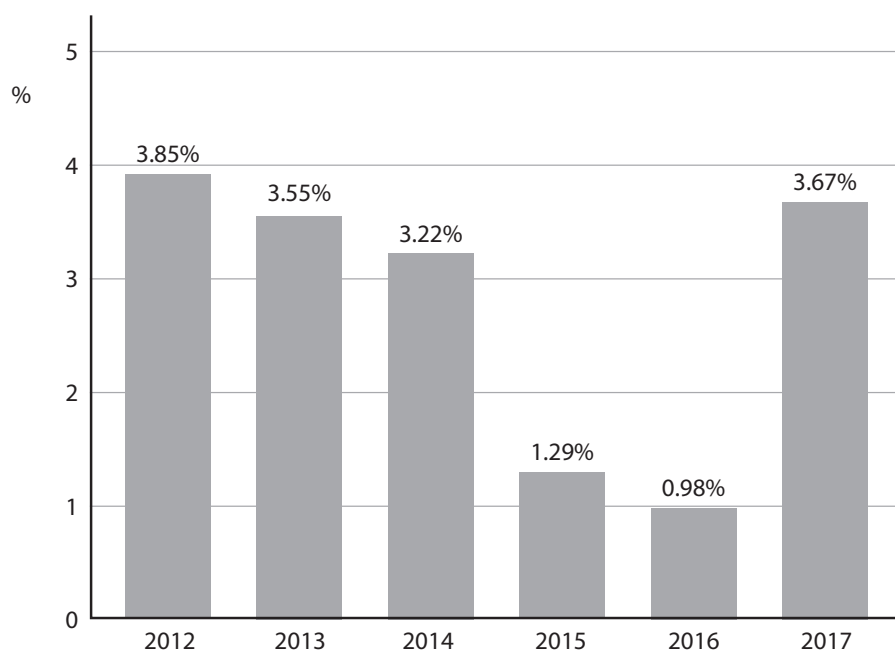


SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7. Write your answers in the spaces provided on the following pages.

- 7** (a) With reference to Figure 1, calculate the percentage change in the number of tourists between 2012 and 2017. You are advised to show your working. (2)
- (b) With reference to Figure 1 and Extract A, analyse **two** economic benefits of the growth in the number of tourists to Mauritius. (6)
- (c) Explain what is meant by a 'reduction in the fiscal deficit' (Extract A, line 16). (4)
- (d) With reference to the information provided, examine **two** likely effects on Mauritius' economy of the reduction in the 'base interest rate from 4% to 3.5%' (Extract A, line 10). (8)
- (e) With reference to Extract B, discuss measures that the Government can implement to ensure that the private sector continues to grow. (14)



Sources for use with Section B.**The economy of Mauritius****Figure 1 Number of tourist arrivals, 2012–2017 (millions)****Figure 2 Annual inflation rate as measured by the Consumer Price Index, 2012–2017**

Extract A Economic growth

Mauritius' economy has continued to grow steadily. Real GDP growth rose from 3.3% in 2013 to 3.9% in 2017. This was mainly a result of significant growth in the tourism sector. Earnings from tourism exceeded \$1 billion. The Government aims to further develop this sector and expects it to grow by an average of 6% every year between 2018 and 2023. Tourism contributes nearly 7% of Mauritius' GDP. 5

The country's economic growth was also supported by the Bank of Mauritius' reflationary monetary policy. Mauritius experienced low inflationary pressures in 2015 and 2016. This was as a result of falling global commodity and food prices. In 2017 the Bank reduced the base interest rate from 4% to 3.5%. 10

Public expenditure increased from 25.1% of GDP in 2016 to 25.4% of GDP in 2017. This was caused by a rise in government expenditure on public sector wages and major infrastructure projects. Over the same time period, total tax revenues increased from 21.7% of GDP to 22.5% of GDP. Higher tax revenue was received from income tax, corporation tax and indirect taxes. Consequently, there was a reduction in the fiscal deficit. 15

Extract B The private sector

Mauritius' private sector consists of large companies as well as many small and medium-sized enterprises (SMEs). In 2017 SMEs contributed 40% of the country's GDP and employed 55% of the country's workforce.

The private sector has the potential to grow further but a number of problems need to be addressed. The Government needs to reduce the economy's skills mismatch, increase innovation and reduce bureaucracy. It also needs to make significant improvements in the country's infrastructure. 5

The private sector in Mauritius suffers from a shortage of highly qualified labour. This is mainly as a result of insufficient skills and training. Innovation remains inadequate because there is a shortage of scientists and engineers. There is also a lack of finance to fund research and development. 10

The Government has identified several infrastructure projects for improving the country's power sources, water supply, transport and telecommunications. Financing of these infrastructure developments remains a key issue because the country has relatively high levels of public sector debt. 15

However, Mauritius continues to be amongst the most business-friendly countries in the region. There was a significant improvement in Mauritius' position on the World Bank's *Doing Business* index in 2018. This was as a result of substantial reforms under three indicators: starting a business, dealing with construction permits and registering property. 20

(8)





SECTION B

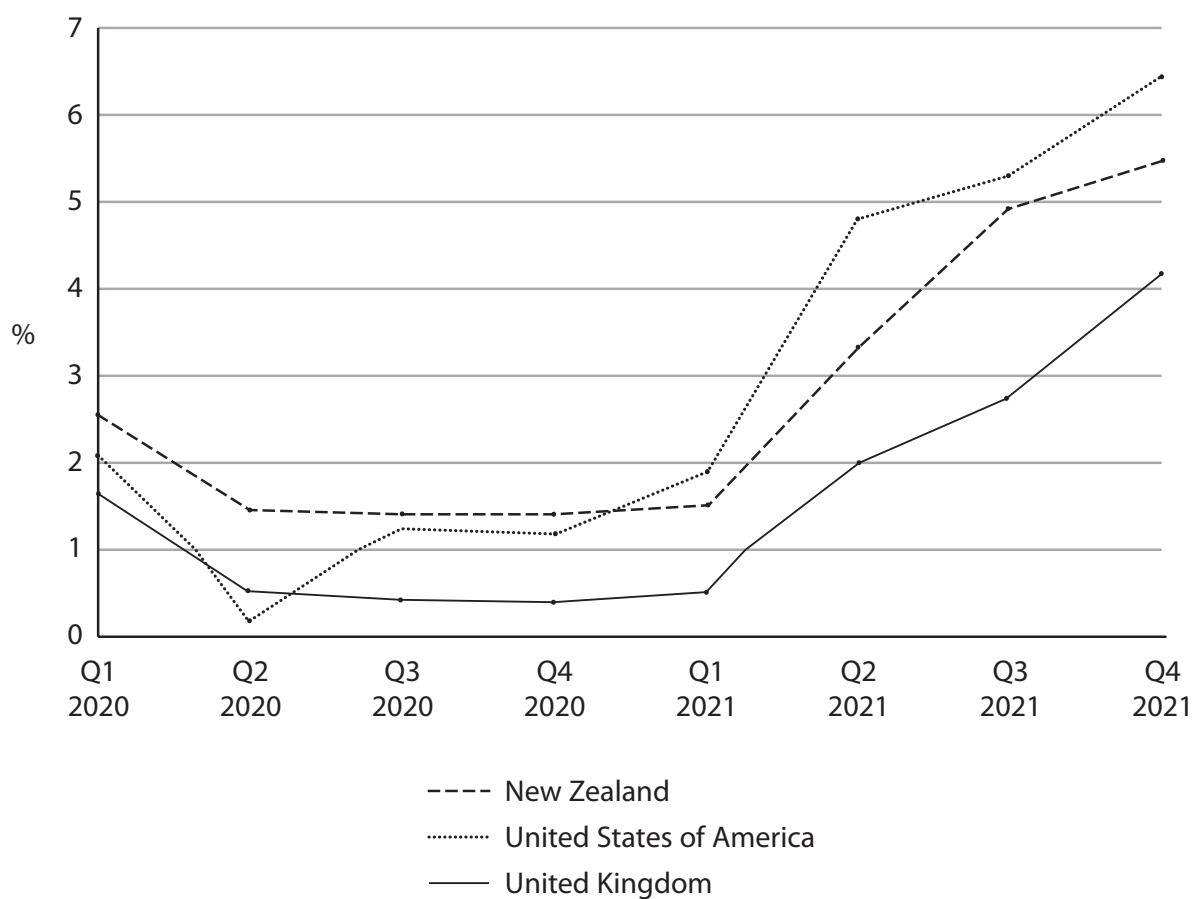
Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 7.

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

- 7** (a) Between Q1 2020 and Q4 2021 the average annual rate of inflation in New Zealand increased from 2.5% to 5.4%.
- Calculate the change in the rate of inflation between Q1 2020 and Q4 2021. You are advised to show your working.
- (2)
- (b) With reference to Figure 1 and the first paragraph of Extract A, analyse **two** causes of the increase in the rate of inflation.
- (6)
- (c) Explain what is meant by 'monetary policy instruments' (Extract A, line 9).
- (4)
- (d) Examine **two** 'problems facing central banks when applying monetary policies to reduce the rate of inflation' (Extract A, lines 11–12).
- (8)
- (e) With reference to Extract B, discuss how demographic factors may constrain economic growth of developed economies.
- (14)

Sources for use with Section B

Inflation and labour markets in developed economies

Figure 1 Annual inflation rate for selected countries (%), as measured by the consumer price index (CPI), Q1 2020–Q4 2021

Extract A Rising rates of inflation

In 2021 many developed countries experienced an increase in the rate of inflation. Average price levels increased as a result of disruptions to global supply chains. These were caused by restrictions that had been in place during the global health crisis. As developed countries eased these restrictions, demand for goods, services and energy increased. There was also a significant rise in average house prices. 5

Rising rates of inflation are a challenge for central banks, especially for developed countries that have an inflation target of 2%. The central banks of these countries can adjust their monetary policy instruments to meet this target. Nevertheless, these instruments are less effective in tackling inflation created by a lack of supply. 10

There are problems facing central banks when applying monetary policies to reduce the rate of inflation. One problem is the inability of policymakers to control the rising rate of inflation caused by external factors. Another problem is estimating whether the increase in the rate of inflation is temporary or permanent.

Policymakers who believe that this is a temporary issue suggest that the rise in the rate of inflation is as a result of short-term external shocks. They attribute it to a one-off increase in supply chain disruptions and a one-off increase in consumer demand. By contrast, policymakers who believe that this is a permanent issue indicate that the increase in the average price level is a result of rising wages. 15

Extract B Labour markets

Many developed countries have ageing populations and a falling proportion of people of working age. Since the global health crisis there has been instability in global labour markets. Many workers have retired early whilst others have left the workforce to focus on other personal objectives. There has also been a decline in international migration. As a result of this fall in the labour supply, many companies have been forced to decrease production. This represents a considerable threat to global economic recovery. 5

The critical question is whether workers will rejoin the labour force or whether employers and policymakers will need to adapt to a world in which labour becomes an even scarcer resource. In the USA more than four million workers have left the labour force since the crisis. However, employment in the eurozone has almost returned to its pre-crisis level and the labour force participation rate has risen rapidly. For example, in France and Spain this rate is already higher than it was before the crisis. 10

Employers are preparing for a future in which they will need to offer greater incentives to attract more workers back into the labour market. 15

(8)





SECTION B

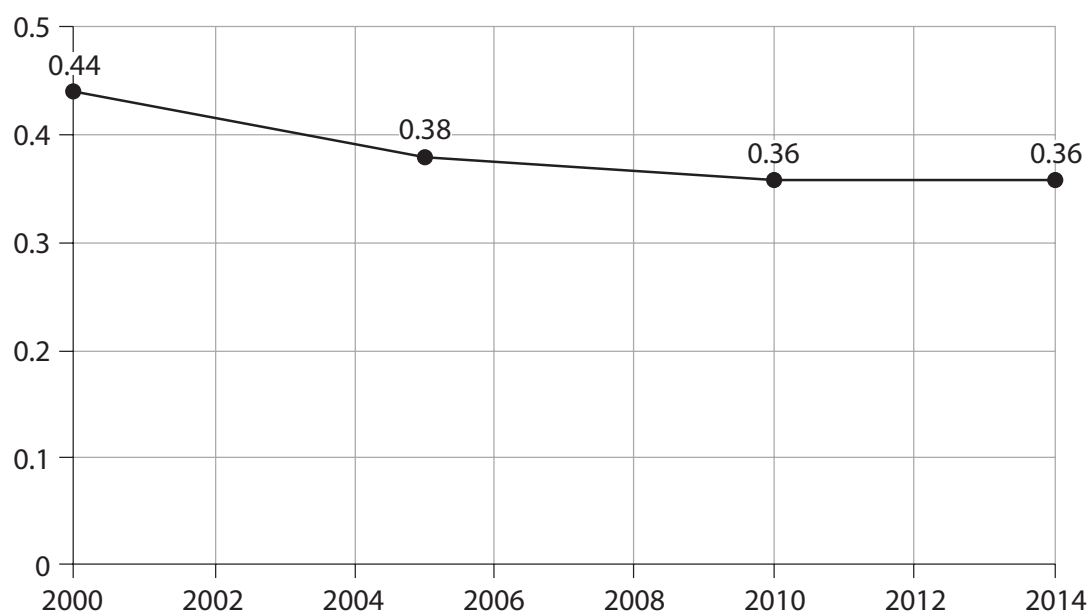
Study Figure 1 and Extract A in the Source Booklet before answering Question 7. Write your answers in the spaces provided on the following pages.

- 7** (a) With reference to the second paragraph of Extract A, calculate the share of global wealth of high-income advanced countries and middle-income developing countries in 2000. You are advised to show your working. (2)
- (b) With reference to Figure 1, analyse the likely effect on inequality of the change in the global Gini coefficient from 2000 to 2014. Illustrate your answer with a Lorenz curve diagram. (6)
- (c) Explain what is meant by 'relative poverty' (Extract A, line 12). (4)
- (d) With reference to Extract A, examine **two** causes of income inequality *within* advanced economies. (8)
- (e) With reference to Extract A, discuss policies that a government could implement to reduce income inequality within its economy. (14)

Sources for use with Section B.

Inequality

Figure 1 Global Gini coefficient (for income) 2000–2014



Extract A Inequality – causes and policies

Inequality is a social and political issue in many advanced economies. This has led to a debate about its causes and solutions. It has also resulted in public discontent with governments and other institutions.

Wealth inequality has decreased between high-income advanced countries and middle-income developing countries. Between 2000 and 2014 the share of global wealth of high-income countries fell by nine percentage points to 71%. Over the same period the share of wealth of middle-income developing countries rose by eight percentage points to 22%. 5

However, income inequality within the advanced economies has increased. The top 1% of income earners almost doubled their share of total pre-tax income from 6% in 1980 to 11% in 2014. Relative poverty rates have also increased, from 23% of the population in 1985 to 30% in 2016. On average, almost one in seven people living in advanced economies remains in relative poverty after taxes and transfer payments. 10

Personal factors such as gender, age, and place of residence continue to affect inequality in advanced economies. Even though women are now more likely to have a degree, their earnings and wealth are still lower than those of men. Women have narrowed the wage gap but earn only \$0.84 for every \$1 men earn. Similarly, a higher proportion of young people have a degree but their earnings and wealth are lower than those of older people. Residents living in urban areas are more likely to have a higher level of education than rural residents. However, unemployment in urban areas is higher and rising. 15 20

Since 2005 real disposable incomes have fallen in advanced economies. The effects of this have been most significant for middle-income earners and those in medium-skilled jobs. Over the same time period, the costs of housing, healthcare and education have risen faster than the average price level. Household debt has also increased from 87% of disposable income in 1995 to 123% in 2017. 25

Long-term global trends are affecting incomes and may increase income inequality in the future. For example, there has been a decrease in wages as a share of global GDP. This reflects the underlying trends of the slow growth of real wages and the increased use of automation in the global economy. 30

Government intervention is needed to reduce inequality. These policies could include:

- providing wider access to high quality education and training
- providing better quality healthcare
- measures to reduce discrimination
- increasing minimum wages. 35

Challenges related to inequality require a reconsideration of how economic gains are shared. In addition, welfare support needs to be reformed for current and future generations.

A significant challenge is how to reach agreement among policymakers, business leaders and citizens on measures to reduce income inequality. 40

(e) With reference to Extract A, discuss policies that a government could implement to reduce income inequality within its economy.

(14)





(TOTAL FOR SECTION B = 34 MARKS)

SECTION B

Study Figures 1, 2 and 3 and Extract A in the Source Booklet before answering Question 7.

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

- 7** (a) With reference to Figure 1 and Figure 2, calculate Turkey's real interest rate in July 2020. You are advised to show your working. (2)
- (b) With reference to Figure 3 and Extract A, analyse **two** factors, other than changes in interest rates, that may have led to a depreciation of the Turkish lira. (6)
- (c) Explain what is meant by a 'customs union' (Extract A, lines 22–23). (4)
- (d) With reference to the last paragraph of Extract A, examine **two** likely economic benefits to Turkey of joining the European Union. (8)
- (e) With reference to the information provided, discuss the likely economic effects of a further increase in the base interest rate. (14)



Sources for use with Section B

The economy of Turkey

Figure 1 Central bank base interest rate, January 2018 to December 2020

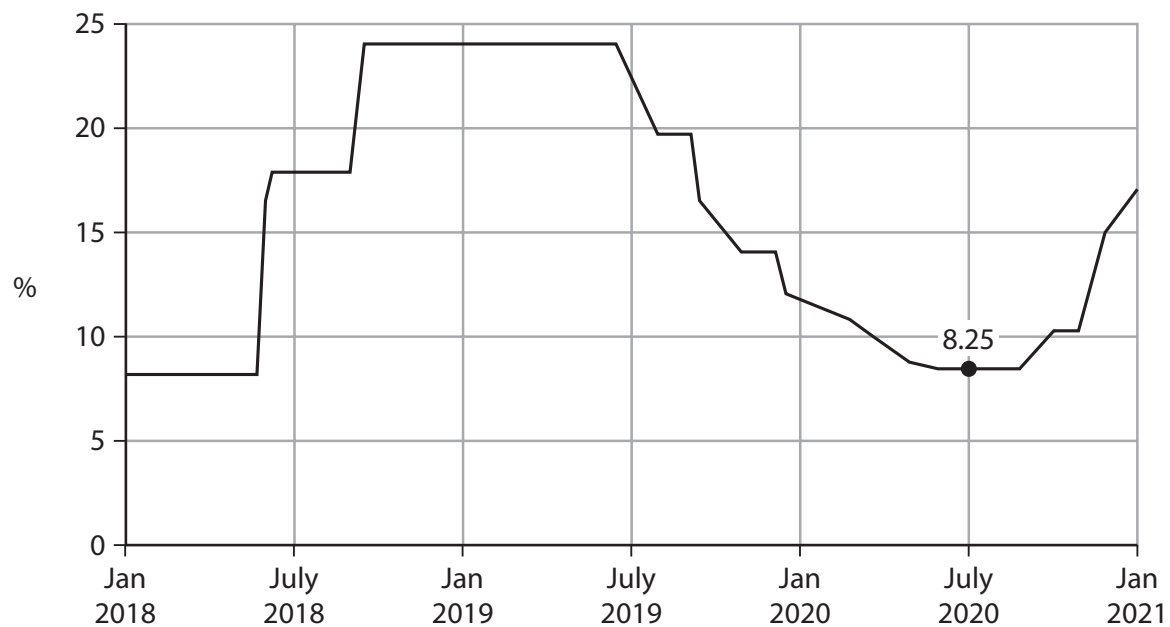


Figure 2 Rate of inflation, as measured by the Consumer Price Index (CPI), January 2018 to December 2020

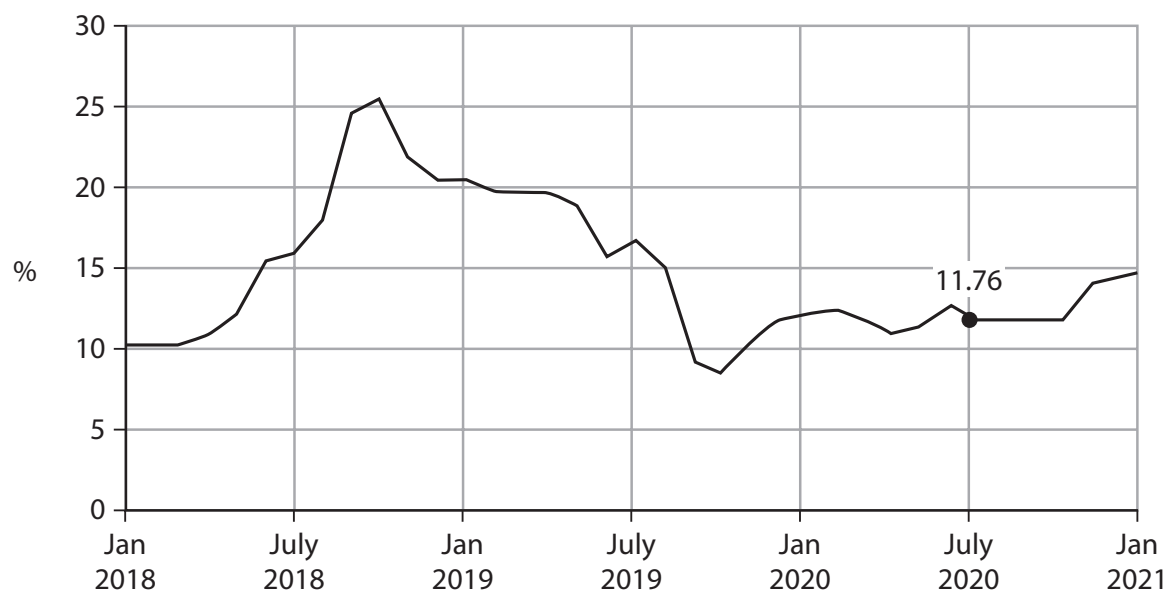
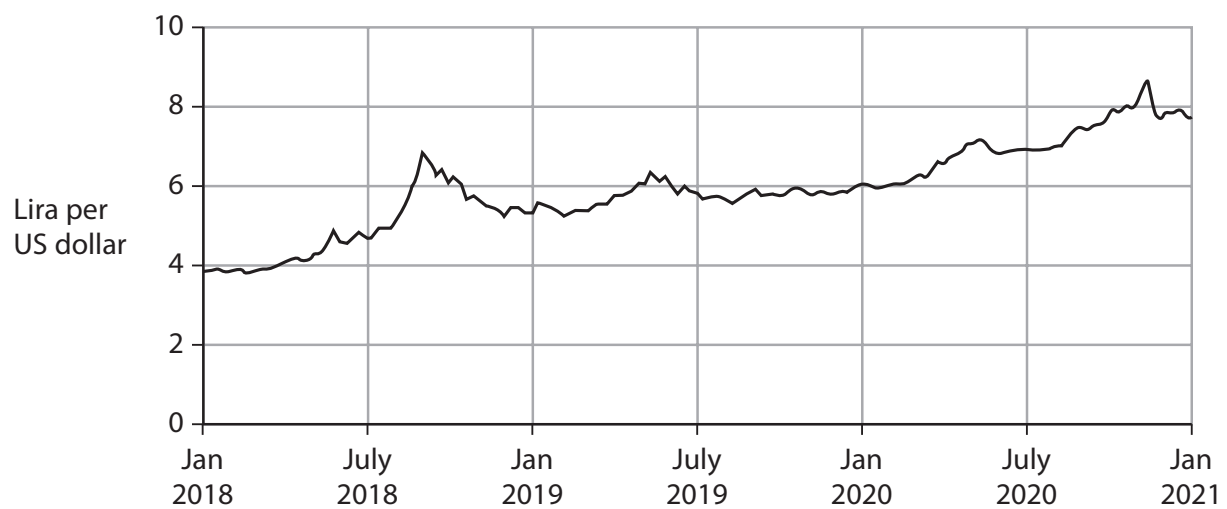


Figure 3 Turkish lira–US dollar exchange rate*, January 2018 to December 2020

* Turkey's currency is known as the Turkish lira

Extract A Currency depreciation

Turkey's President, who controls the Central Bank of Turkey, is an opponent of high interest rates. He dismissed the Central Bank's previous Governor in 2019, complaining that "he would not follow instructions on interest rates". The Central Bank made a series of interest rate cuts after a new Governor was appointed. The President wanted a reduction in interest rates to encourage borrowing by businesses and consumers in order to stimulate Turkey's rate of economic growth. 5

By contrast, some economists urged the Central Bank to raise interest rates to slow the pace of credit growth and to avoid a currency crisis. They argued that following the reduction in base interest rates, there was a further fall in the exchange rate of the Turkish lira against the US dollar. Turkey's large current account deficit and capital flight have also contributed to the depreciation of the Turkish lira. Attempts to increase the external value of the lira while keeping interest rates low have reduced most of the Central Bank's foreign currency reserves. Economists warned that the risk of a financial crisis in Turkey was growing. 10 15

In response, the new Governor of the Central Bank of Turkey raised the base interest rate. This increase indicated that the Central Bank was concerned about the weakness of the lira and a high rate of inflation. By December 2020 the base interest rate had increased to 17%. However, some economists argued that the Central Bank would need to raise the base interest rate further to support the weak currency. 20

Turkey's long-term economic growth will depend on attracting foreign direct investment and establishing a stronger partnership with the European Union (EU) which is a customs union and common market. Turkey is an important partner for the EU on matters related to trade, investment and migration. Governments of many EU countries believe that they have an economic interest in developing a mutually beneficial relationship with Turkey. 25

(14)





TOTAL FOR SECTION B = 34 MARKS

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7.

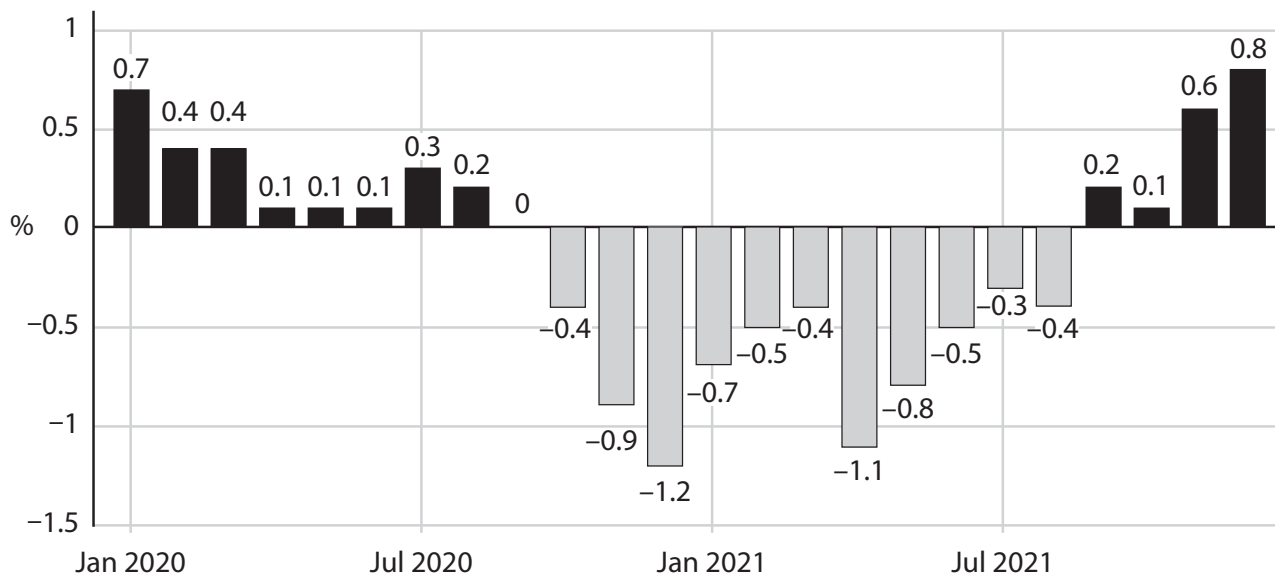
Write your answers in the space provided on the following pages.

- 7** (a) With reference to the second and third paragraphs of Extract C, calculate the amount saved by Japanese citizens from the total cash payments made by the Japanese Government. You are advised to show your working. (2)
- (b) With reference to Figure 1 and Extract A, explain what is meant by an 'inflation target' (Extract A, line 5). (4)
- (c) With reference to Figure 1 and Extract A, analyse **two** ways a deflationary monetary policy can 'control the rising rate of inflation'. (6)
- (d) With reference to Figure 2 and Extract B, examine **two** reasons why the demographic changes in Japan may constrain its rate of economic growth. (8)
- (e) With reference to Extract C, discuss policies that the Japanese Government could implement to increase the country's long-term rate of economic growth. (14)

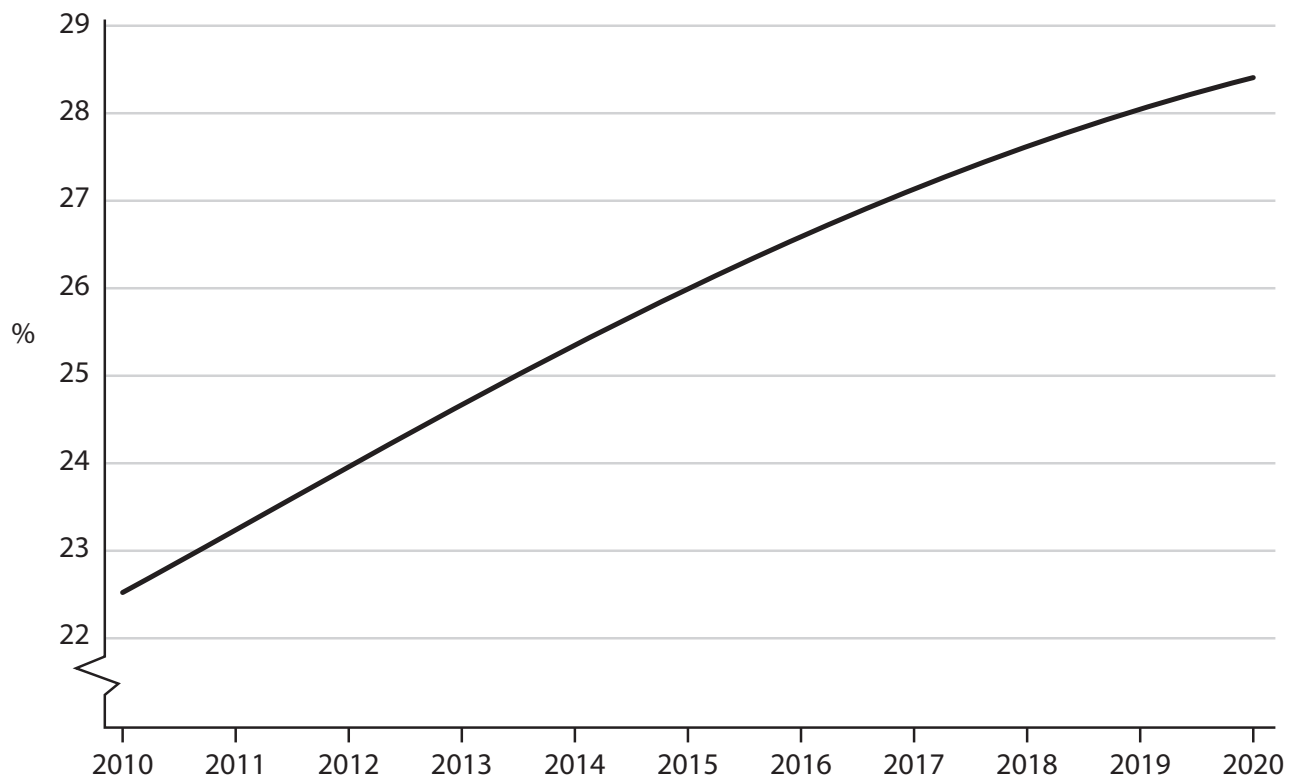


Sources for use with Section B

The economy of Japan

Figure 1 Inflation rate*, as measured by the Consumer Price Index (CPI), January 2020 – December 2021

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

Figure 2 Percentage of the population aged 65 and over, 2010–2020

Extract A Monetary policy

Japan's rate of inflation started to increase in October 2021. Traders speculated that the Bank of Japan (BoJ) would control the rising rate of inflation by ending quantitative easing or by increasing the base interest rate from -0.1% to 0% . However, Japan's inflation rate was below the BoJ's inflation target of 2% . It was also lower than the rates of inflation experienced in several other advanced economies. Consequently, in February 2022, the BoJ decided not to pursue a deflationary monetary policy, unlike the central banks of some other advanced economies. 5

Extract B Demographic changes

In 2020 Japan had a population of 125.8 million. In 2021 its population decreased by 630 000 people. Between 2022 and 2040 it is estimated that its population will decrease by a further 16 million. In 2021 the number of people under the age of 20 was at its lowest level since 1968. At the same time, the number of people over the age of 65 had increased to a record level. 5

There are significant concerns regarding how Japan's economy can continue to function with a smaller workforce.

Extract C Government expenditure

Between March 2020 and November 2021 Japan's Government spent \$770 billion in supporting the country's economic recovery.

In early 2022 many governments of advanced economies were recovering from the global health crisis and were planning to reduce their spending. By contrast, the Japanese Government made a direct cash distribution of \$872 to each household with children under the age of 18. In addition, the Government announced that cash payments would also be given to low-income households, temporary workers and students. The total cash payments made by the Japanese Government was \$350 billion. 5

However, similar payments distributed in the past have had little effect on the level of consumption and the rate of inflation in Japan. It is unlikely that the outcome will be any different this time. It is estimated that 70% of the total cash payments received by Japanese citizens will be saved. 10

Some economists suggest that Japan's Government should instead focus its spending on increasing the country's long-term rate of economic growth. They believe that there should be greater investment in the labour force, healthcare and infrastructure. However, there were concerns over additional government spending because Japan's national debt was over 250% of GDP in 2021. 15

(14)





(Total for Question 7 = 34 marks)



MARK SCHEMES

official mark schemes, in the same order as the questions



5	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 because the tax burden on the working population is likely to rise by 2070</i> <i>C is not correct because the working population is forecast to fall by 16 percentage points</i> <i>D is not correct because social welfare spending on the population aged 65 years and over is likely to increase</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 C <i>A is not correct because the price of Afghanistan's imports have fallen relative to the price of its exports</i> <i>B is not correct because the average price of Afghanistan's exports have increased relative to the average price of its imports</i> <i>D is not correct because there will be no impact on the financial account of the balance of payments</i>	(1)

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 B <i>A is not correct because there will be an increase in unemployment</i> <i>C is not correct because there will be a decrease in injections</i> <i>D is not correct because there will be a decrease in inflationary pressures</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 it is a regressive tax</i> <i>B is not correct because it is a regressive tax</i> <i>D is not correct because it is an indirect tax</i>	(1)
3	–	The only correct answer is D <i>A is not correct because this is an example of an interventionist strategy</i> <i>B is not correct because this is an example of an interventionist strategy</i> <i>C is not correct because this is an example of an interventionist strategy</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 government tax revenue area is BCDE</i> <i>C is not correct because net welfare loss areas are ABC and DEF</i> <i>D is not correct because producer surplus has increased by the area $P_1 P_2 B A$</i>	(1)

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 A <i>B is not correct because this is not an example of day-to-day expenditure</i> <i>C is not correct because this example relates to government revenues rather than expenditure</i> <i>D is not correct because transfer payments relate to payments made by a government to individuals in the form of benefits</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 because the central bank would sell the US dollar</i> <i>C is not correct because this would further depreciate the krone against the US dollar</i> <i>D is not correct because the central bank would buy the krone</i>	(1)
3	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. QS11: - Understand composite indicators	The only correct answer is C <i>A is not correct because this is an example of a market-orientated strategy</i> <i>B is not correct because this is an example of a market-orientated strategy</i> <i>D is not correct because this is an example of a market-orientated strategy</i>	(1)
4	QS9: Interpret, apply and analyse information in written,	The only correct answer is B	



Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	-	The only correct answer is A B is not correct because this condition is related to the current account position of the BOP C is not correct because this model is related to industrialisation D is not correct because this model is related to the savings gap	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is D A is not correct because transfer payments relate to payments made by government to individuals in the form of benefits B is not correct because automatic stabilisers are not a discretionary fiscal policy C is not correct because the government's current expenditure is an example of its day-to-day spending	(1)
3	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is B A is not correct because stricter regulation of the product markets will reduce South Korea's international competitiveness C is not correct because more restrictions on free trade will reduce South Korea's international competitiveness D is not correct because a reduction in spending on education and training will reduce South Korea's international competitiveness	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is D A is not correct because higher shipping costs are likely to increase production costs B is not correct because global inflationary pressures will increase due to higher costs of production for businesses C is not correct because there are likely to be changes in the patterns of world trade	(1)

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 D A is not correct because this is a non-economic factor B is not correct because this is a non-economic factor C is not correct because this would promote economic growth	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is C A is not correct because transfer payments relate to payments made by a government to individuals in the form of benefits B is not correct because this is not an example of day-to-day expenditure D is not correct because this relates to expenditure by individuals in the private sector	(1)
3	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is A B is not correct because this relates to a current account surplus C is not correct because this relates to the public finances D is not correct because primary income is a component of the current account	(1)
4	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 is a possible benefit of globalisation B is not correct because this is a possible benefit of globalisation C is not correct because globalisation may lead to an increase in economies of scale for TNCs	(1)

Question	With reference to the information provided and your own knowledge, discuss the likely economic effects of a reduction in public expenditure as a proportion of GDP on Argentina's economy. Indicative content
7(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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (8 marks) – indicative content - Definition or understanding of public expenditure as a proportion of GDP Likely economic effects include: - Government spending is a component of AD and an injection into the circular flow of income; a reduction in public expenditure would reduce AD and could lead to a negative multiplier effect leading to lower economic growth – “economy is expected to be 3% smaller in 2024, than it was in 2023” - Lower incomes as a result of lower growth, reducing living standards – “Living standards have been falling since 2004, partly as a result of a fall in real wages.” - Unemployment is likely to rise as there will be less demand for labour (derived demand), thus reducing average incomes – “Unemployment in the second quarter of 2024 was 7.6%” - There is likely to be less inflationary pressure as aggregate demand decreases and the price level falls – may make reference to Figure 1 - Income inequality increases as measures may reduce transfer payments thereby not meeting the objective of greater income equality – cuts to “state pensions, social welfare programmes” - Government budget balance may improve/less borrowing required/the economy may be able to begin to repay national debt – “fiscal surplus every month in 2024” - Reduced opportunity costs as less need to pay debt interest repayments freeing up funds for other expenditure - Less financial and resource crowding out as the government will not have to finance its spending through borrowing (lower interest rates) and there will be more factors of production available to the private sector - If public expenditure on infrastructure/education/healthcare is reduced, then the potential output of the economy will decrease and LRAS may fall – cuts to “energy and transportation subsidies” - Lower quality/quantity of public services implies less access to these goods and hence the standard of living is likely to fall

	N.B. Award positive effects as KAA and negative as evaluation (vice versa)	
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 that 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 - The magnitude of the decrease in public expenditure from 38% of GDP to 32% of GDP (six percentage points) is relatively significant - Significance depends on how large a component of aggregate demand public expenditure/government spending was to start with - The impact on real output depends on the size of the multiplier as the effects might be negligible if the multiplier is low - Total public expenditure may still be rising if GDP is increasing at a faster rate than the rate of government spending - Effects on real output, employment and inflation depend on the level of spare capacity in the economy/reference to the elasticity of the LRAS - Less crowding out could mean aggregate demand does not fall; private investment and consumption could potentially increase - It depends on where spending is cut: if spending on benefit payments are cut, individuals have more of an incentive to work	
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 C

Question	In 2024, the value of China's exports was \$3.6 trillion and the value of its imports was \$2.6 trillion. In 2024, China's rate of economic growth was 5%. This was the lowest rate since 2022. Evaluate the likely effects of a reduction in China's rate of economic growth on the global economy. Indicative content
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of rate of economic growth Possible effects could include: • Reduction in world trade as China imports less goods and services from the rest of the world; reduce global growth forecasts • Slowdown in global inflation: low inflationary pressures can trigger fears of a global deflationary spiral and debt defaults • Lower economic growth of China's main export partners that are highly dependent on Chinese demand for oil, metals, materials in its industrial centres and associated multiplier effects • Worries about China's economic strength is part of the reason for the fall in oil/commodity prices: this has pushed several exporting countries into recessions and negatively affected their public finances • Neighbours with (vertically) integrated supply chains e.g. Japan and South Korea are significantly affected • Increased levels of emigration from China if China cannot produce sufficient employment opportunities for its population • Reduction of FDI into China/from China – worsens financial account position of the balance of payments • The slowdown can affect global tourism and services industries as fewer Chinese tourists travel abroad • Global investors may withdraw significant amounts of money from China's stock markets and financial institutions: resulting in market volatility N.B. Candidates may explain negative effects as KAA and positive effects as evaluation (and vice versa)

Question Number	Indicative content
10	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. Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, application, analysis (12 marks) – indicative content Definition or understanding of public expenditure as a proportion of GDP • If public expenditure on infrastructure/education/healthcare is reduced, then the productive potential of the economy will decrease and aggregate supply may fall • Government spending is a component of aggregate demand and an injection into the circular flow of income; a reduction in public expenditure could lead to a negative multiplier effect leading to lower economic growth • Unemployment is likely to rise as there will be less demand for labour (derived demand), thus reducing average incomes • Income inequality increases as austerity measures may reduce transfer payments thereby not meeting the objective of greater income equality • Lower quality/quantity of public services implies less access to these goods and hence standard of living is likely to fall • Less financial and resource crowding out as the government will not have to finance its spending through borrowing (lower interest rates), and there will be more factors of production available to the private sector • There is likely to be less inflationary pressures as aggregate demand decreases • Government budget balance may improve/less borrowing required/the economy may be able to begin to repay national debt • Increase in economic efficiency because of greater role for the private sector N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer N.B. Award positive effects as KAA and negative as evaluation (or vice versa)

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 • Significance depends on how much public expenditure decreases by, and how great a component of aggregate demand it was to start with • The impact on real output depends on the size of the multiplier effect as the effects might be negligible if the multiplier is low • Public expenditure may still be rising, it may be that GDP is increasing at a faster rate than the rate of government spending • Effects on the real output, employment and inflation depends on the level of spare capacity in the economy • Budget position also depends on the tax revenues; if tax revenue also falls, government objective of budget balance may not improve

		• Less crowding out could mean aggregate demand does not fall; private investment and consumption could potentially increase • It depends on what areas of spending are cut: if spending on benefits/transfer payments is cut, individuals may have more of an incentive to work, leading to a decrease in unemployment • The size of the change in public expenditure – in the case of Spain (from 48.1% to 41.3%), it is significant
Level	Mark	Descriptor
	0	No evaluative comments.
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.

Question	Evaluate possible causes of an increase in public expenditure as a proportion of GDP in a developing economy of your choice.	
	Indicative content	
10	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of public expenditure Possible causes could include: • Changes in level of GDP: during periods of economic downturn, public expenditure as a proportion of GDP would increase, even if it stayed the same or declined at a slower rate than GDP • Automatic stabilisers: when GDP falls, public expenditure is likely to rise; people become eligible for means-tested/unemployment benefits • External shocks: e.g. global health crisis; natural disasters e.g. earthquakes, floods; subsidies to households and firms resulting from rise in energy prices • Increased expectations: people may expect higher standards of education or health - these public services may be normal or luxury goods (income elastic) • Ageing population: it may require greater government spending, e.g. on state pensions, social care etc • Increase in the size of the population: puts greater pressure on public goods and services e.g. healthcare, education etc • Discretionary fiscal policy: government may decide to spend more on a specific area, e.g. housing, infrastructure etc • Increased interest payments: as the national debt increases / interest rates increase, governments have to make higher interest payments on their debt • Rise in the tax base: reducing tax evasion and avoidance, allowing greater spending as a proportion of GDP • Political priorities: based on the value judgements of government N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country 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 • Prioritisation of causes analysed – discussion of the most important cause • Discussion of the magnitude of the increase in public expenditure e.g. 4.4pp for Azerbaijan and 3.4pp for India: relatively small increase • Significance of the causes vary over time and between countries • Likely to be a combination of causes that has contributed to the increase • Changes in the level of GDP would explain short-run changes only – when the economic cycle changes country could face the reverse effect • Ageing populations may imply that less spending is required for education and healthcare • Interest payments depend on the interest rate as well as the amount owing • The level of public expenditure may not be rising if GDP is falling		
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.

Question	Between 2002 and 2022 Italy's public expenditure as a proportion of GDP increased from 47.1% to 56.7%. Evaluate the likely economic effects of an increase in public expenditure as a proportion of GDP. Refer to a developed country of your choice in your answer. Indicative content	
10	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content Definition or understanding of public expenditure as a proportion of GDP • If public expenditure on infrastructure/education/healthcare is increased, then the productive potential of the economy will increase and aggregate supply may increase • Government spending is a component of aggregate demand and is also an injection into the circular flow of income. An increase in public expenditure may lead to a positive multiplier effect leading to greater economic growth • Unemployment is likely to fall as there will be greater demand for labour (derived demand), thus increasing average incomes • There is likely to be greater inflationary pressure in the economy as the level of aggregate demand increases • Income inequality may decrease if the government increases transfer payments, thereby meeting the objective of greater income equality • Greater quality/quantity of public services implies more access to these services and hence the standard of living is likely to rise • Government budget balance may worsen requiring more borrowing and hence resulting in an increase in the national debt • More financial and resource crowding out as the government will have to finance its spending through borrowing (higher interest rates), and there will be fewer factors of production available to the private sector • Reduction in economic efficiency because there would be a smaller role for the private sector N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer N.B. Award positive effects as KAA and negative as evaluation (or vice versa)	
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 • Significance depends on how much public expenditure increases, and how big a component of aggregate demand it was to start with • The impact on real output depends on the size of the multiplier effect as the effects might be negligible if the value of the multiplier is low • Public expenditure may still be falling, it may be that GDP is decreasing at a faster rate • Effects on the real output, employment and inflation depend on the level of spare capacity in the economy/elasticity of the LRAS • Budget position also depends on the tax revenues; if tax revenue also increases, government objective of budget balance may not worsen • More crowding out could mean aggregate demand may fall in the long-run; private investment and consumption may potentially decrease • It depends on which areas of spending are increased e.g. if spending on benefits/transfer payments is increased, individuals may have less incentive to work, leading to an increase in unemployment • Discussion of the magnitude of the increase in public expenditure – in the case of Italy (from 47.1% to 56.7% over 20 years)		

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 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 there is no impact on comparative advantage B is not correct because there will be an increase in interest rates D is not correct because there is likely to be a decrease in the external value of the currency	(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 because it will increase income inequality C is not correct because it will increase income inequality D is not correct because it will increase income inequality	(1)
3	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is A B is not correct because it will lead to a worsening in Nigeria's terms of trade C is not correct because it will reduce the transportation costs in Nigeria D is not correct because it will increase Nigeria's budget deficit	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is D A is not correct because it shows the relationship between exchange rates and balance of payments on current account B is not correct because it shows the relationship between the rate of inflation and unemployment rate C is not correct because this is a graphical representation of income inequality	(1)

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 A <i>B is not correct because in Spain public expenditure as a percentage of GDP must have been lower than in France</i> <i>C is not correct because this relates to the trade deficit of France</i> <i>D is not correct because there is likely to be greater crowding out in Spain than in the UK</i>	(1)
2	-	The only correct answer is D <i>A is not correct because this links to primary product dependency</i> <i>B is not correct because this links to the current account position of the balance of payments</i> <i>C is not correct because this links to the savings gap</i>	(1)
3	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 reduce Denmark's international competitiveness</i> <i>B is not correct because this will reduce Denmark's international competitiveness</i> <i>D is not correct because this will reduce Denmark's international competitiveness</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 B <i>A is not correct because there has been a two percentage point increase in taxes for the highest income earners</i> <i>C is not correct because this type of tax is progressive and burden falls on the highest income earners</i> <i>D is not correct because this would deter people from setting up their business in Spain</i>	(1)

	graphical, tabular and numerical forms.	A is not correct because this is represented by the Harrod-Domar model C is not correct because this is represented by the Phillips curve D is not correct because these are instruments of monetary policy not represented by the Laffer curve	(1)
5	QS5: Calculate and interpret index numbers. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is A B is not correct because Maldives had to export less goods to purchase a given quantity of imports C is not correct because index of export prices exceeds the index of import prices throughout the given period D is not correct because Maldives' terms of trade improved throughout the given period/Between 2000 and 2016 Maldives' terms of trade improved by 2.5%	(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 D A is not correct because the distribution of income in Brazil has become more unequal B is not correct because the Gini coefficient shows changes in income inequality C is not correct because the income inequality in Brazil increased by 0.6 percentage points (not percent)	(1)

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 D <i>A is not correct because this is likely to decrease a country's exchange rate</i> <i>B is not correct because this is likely to decrease a country's exchange rate</i> <i>C is not correct because this is likely to decrease a country's exchange rate</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 would lead to an increase in the rate of inflation</i> <i>B is not correct because this would lead to an increase in debt servicing costs</i> <i>D is not correct because tax revenues are likely to be decreasing</i>	(1)
3	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 tax on sugary drinks is a specific tax</i> <i>C is not correct because tax on income is a direct tax, whereas this tax on sugary drinks is a specific (indirect) tax</i> <i>D is not correct because tax on company profits is a direct tax, this tax on sugary drinks is a specific (indirect) tax</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 this is likely to decrease income inequality</i> <i>C is not correct because this will shift the Lorenz curve closer to the line of perfect equality</i> <i>D is not correct because this will shift the Lorenz curve closer to the line of perfect equality</i>	(1)

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 D <i>A is not correct because this is the role of the IMF, not the World Bank</i> <i>B is not correct because this is the role of the IMF, not the World Bank</i> <i>C is not correct because this is the role of the WTO, not the World Bank</i>	(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 <i>A is not correct because Hungary has a proportional tax system</i> <i>B is not correct because Hungary has a proportional tax system</i> <i>D is not correct because Hungary has a proportional tax system</i>	(1)
3	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 these tariffs are likely to protect employment in the steel industry</i> <i>C is not correct because these tariffs are likely to protect the domestic steel industry</i> <i>D is not correct because these tariffs will increase tax revenue</i>	(1)
4	QS1: Calculate, use and understand ratios and fractions. QS5: Calculate and interpret index numbers 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 incorrect formula $(142.3-121.3)$ has been used to calculate Tanzania's terms of trade</i> <i>B is not correct because incorrect formula $(121.3/142.3 \times 100)$ has been used to calculate Tanzania's terms of trade</i> <i>D is not correct because incorrect formula $(142.3+121.3)$ has been used to calculate Tanzania's terms of trade</i>	(1)

4	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, tabular and numerical forms.	The only correct answer is C <i>A is not correct because this is 6.8%/1.1% and does not calculate the terms of trade</i> <i>B is not correct because this is 1.1%/6.8% x100 and does not calculate the terms of trade</i> <i>D is not correct because this is (index of import prices/index of export prices) x100 = 98.9/93.2 x 100</i>	(1)
5	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 these are both instruments of monetary policy and are not represented by the Laffer curve</i> <i>B is not correct because this is represented by the Harrod-Domar model</i> <i>C is not correct because this is represented by the Phillips curve</i>	(1)
6	QS3: Understand and use the terms mean, median and relevant quantiles QS5: Calculate and interpret index numbers. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. QS11: Understand composite indicators.	The only correct answer is C <i>A is incorrect because Malaysia was more economically developed than Thailand</i> <i>B is incorrect because students spent longer in education in Thailand than in Malaysia</i> <i>D is incorrect because average incomes were lower in Thailand than in Malaysia</i>	(1)

Question	With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of an increase in income tax rates, aimed at high-income households, on the economy of Pakistan.	
	Indicative content	
7(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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (8 marks) – indicative content • Definition/understanding of income tax • "IMF proposed that high-income households should pay significantly more income tax than the low-income and middle-income households." • Impact on incentives to work: it could act as a disincentive for Pakistan's citizens to take higher paid jobs; less overtime hours worked and/or less promotion opportunities sought by high income earners • Tax revenues: these might be expected to increase (reference to Laffer curve analysis); improve Pakistan's public finances and "help reduce its fiscal deficit" • Could cause an increase in tax evasion (illegal) and tax avoidance (legal); could also lead to an increase in the number of tax exiles • Increased income equality: the tax system is more progressive; if taxes collected are used to redistribute incomes to the low-income households, then income distribution will become more equal • Impact on AD and economic growth, unemployment, and inflation: this can be represented by an AD/AS diagram; reference to the multiplier • Improvement of trade balance: increase in top rate of income tax would cause a fall in disposable income for top earners and this reduces their consumption and imports • Fall in FDI flows: entrepreneurs and senior managers from TNCs would see a fall in their disposable income, assuming they would be based in the country for which the FDI was destined N.B. Positive effects may be awarded as KAA and negative effects as evaluation (or vice versa)	
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 that 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 • Depends on the extent of the disincentive effects of the income tax; high income earners in Pakistan might continue to work hard to maintain their standard of living • Tax revenues may fall if the tax rate is increased beyond the optimal rate; reference to the Laffer curve analysis; also depends on the overall impact on AD and on economic growth • Depends on powers of Pakistan's tax authorities to collect taxes; extent of tax evasion and tax avoidance; income tax is not the only factor influencing a person's decision on where to live • Depends on how the tax revenues are used by Pakistan's Government and whether other fiscal changes offset the impact of this increase in income tax rates • Depends on the elasticity of the LRAS/level of spare capacity; impact could depend on the changes in other components of AD; if savings are reduced to pay for the higher income tax, then the effects will be minimal • Depends on taxpayer's marginal propensity to consume/marginal propensity to import; depends on the PED of Pakistan's imports • Other factors also affect FDI flows and are not just dependent on changes in income tax, e.g. business confidence, rate of economic growth, interest rate • Overall impact would depend on how many people in Pakistan are affected by the top rate of income tax • Impact depends on magnitude of the increase in the top rate of income tax • Pakistan's Government should focus on increasing property taxes as only a small proportion of tax is currently raised from this source; opportunity for significant increases in tax revenue if the proportion of property tax is raised		

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 C

Question	Between 2000 and 2020, Gibraltar's terms of trade worsened by 44.6% and Greece's terms of trade worsened by 14.3%. Evaluate factors that might cause a country's terms of trade to worsen. Indicative content	
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of terms of trade • Understanding of worsening in terms of trade Possible factors could include: • Low relative inflation rates: decreases relative export prices • Higher relative productivity rates: reduces cost per unit and therefore export prices • Lower relative labour costs (both wage and non-wage costs): decreases cost per unit and therefore export prices • Depreciation/devaluation of the exchange rate: reduces export prices and increases import prices • Higher relative levels of capital investment: increases productivity, thereby decreases cost per unit and export prices • Change in the price of commodities, e.g. oil (a fall in the price of commodities for net exporters, and rise in price of commodities for net importers) • Falling competition in the markets of a country's main imports/ rising competition in the markets of a country's main exports • Protectionist policies, e.g. if a country raises a tariff on imported goods then this would cause an increase in import prices	
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.

Question	With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the introduction of an additional marginal rate of income tax of 35% on the economy of Ghana.	
	Indicative content	
7(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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (8 marks) – indicative content • Definition/understanding of income tax • Tax revenues: these might be expected to increase (reference to the Laffer curve analysis); increase spending on public services e.g. human capital or infrastructure / improve Ghana's public finances – "In 2023 Ghana's tax-to-GDP ratio was 13.4%. This was below the average in Africa of 16% and below the Government of Ghana's own target of 20%." • Impact on incentives to work: it could act as a disincentive for Ghana's citizens to take higher paid jobs; less overtime hours worked and/or fewer promotion opportunities sought by high-income earners • Could cause an increase in tax evasion (illegal) and tax avoidance (legal); could also lead to an increase in the number of tax exiles • Increased income equality: the tax system is more progressive; if taxes collected are used to redistribute incomes to the low-income households, then income distribution will become more equal • Impact on AD and economic growth, unemployment, and inflation: can be represented by AD/AS diagram; reference to the multiplier or/and Figure 2 • Improvement of trade balance: increase in top rate of income tax would cause a fall in disposable income for top earners and this reduces their consumption and imports • Fall in FDI flows: entrepreneurs and senior managers from TNCs would see a fall in their disposable income, assuming they would be based in the country for which the FDI was destined N.B. Positive effects may be awarded as KAA and negative effects as evaluation (or vice versa)	
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 that 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 • Tax revenues may fall if the tax rate is increased beyond the optimal rate; reference to the Laffer curve analysis; also depends on the overall impact on AD and on economic growth • Depends on the extent of the disincentive effects of the higher marginal rate of income tax; high income earners in Ghana might continue to work hard to maintain their standard of living • Depends on powers of Ghana's tax authorities to collect taxes; extent of tax evasion and tax avoidance; income tax is not the only factor influencing a person's decision on where to live • Depends on how the tax revenues are used by Ghana's Government and if other fiscal changes offset the impact of this increase in income tax rates • Depends on the elasticity of the LRAS/level of spare capacity; impact could depend on the changes in other components of AD; if savings are reduced to pay for the higher income tax, then the effects will be minimal • Depends on taxpayer's marginal propensity to consume/marginal propensity to import; depends on the PED of Ghana's imports • Other factors also affect FDI flows and are not just dependent on changes in income tax, e.g. business confidence, rate of economic growth, interest rate • Overall impact would depend on how many people in Ghana are affected by the top rate of income tax – "a very small proportion of the population ... informal sector makes up at least 80% of the economy"		
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 C

Question	Evaluate government policies, apart from changes in income tax rates, that could be used to reduce income inequality in a developed country of your choice. Indicative content	
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content Understanding of income inequality - Increasing means-tested benefits (not universal benefits), for e.g. food stamps, unemployment benefit and housing benefit – provides income support to only those households that need it the most - Improvements in education and training for those without qualifications: increases human capital, productivity and therefore incomes - Introduction of/increasing the National Minimum Wage: higher incomes; wage differentials between the unskilled and skilled workers will decrease - Measures to reduce unemployment, e.g. a government can implement reflationary fiscal policy or supply-side policies to create more jobs - Impose restrictions on immigration of unskilled workers as this will reduce downward pressure on wages for those on low incomes - Reduction in taxes on expenditure and/or other regressive taxes: will take lower percentage of disposable income of the low-income households - Improvements in government provision of public services such as social housing, healthcare, education; provision of pension schemes - Measures that increase power of trade unions: more workers are likely to be employed permanently/full-time rather than part-time or on zero-hour contracts – stable incomes; can reduce monopsony power of employers - Cuts in incentives to have large families e.g. reduction in child benefits - Price caps/subsidies on essential goods and services e.g. energy, food - Measures to reduce discrimination e.g. age and gender N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer	
Level	Mark	Descriptor
	0	No rewardable material.



Question Number	Indicative content
9	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (12 marks) – indicative content • Understanding/explanation of indirect taxes Effects of the introduction of an indirect tax may include: • Rise in indirect taxes will lead to fall in real incomes, therefore there will be a decline in the level of consumption which would reduce growth, increase unemployment and lower tax revenues • Tax revenues would increase if demand for goods and services affected are price inelastic. It would also help the country to reduce its fiscal deficit • Incentives to work: a higher VAT rate would cause a fall in real incomes. This could increase incentives if people wish to maintain their standard of living • Income distribution: people on low incomes affected more; it might be argued that VAT is regressive especially in relation to energy and food • Price level: could cause a decrease in price level as taxes are a leakage from the circular flow of income. Inflation would only occur if the increase in VAT results in a wage-price spiral • FDI flows: may act as a deterrent as prices of finished goods would be higher • Fall in the level of externalities / consumption of demerit goods which would improve health and the environment - so government would need to spend less money on them, improving public finances. Reference needs to be made to environmental protection as a government objective • Increase in smuggling/hidden economy activity/tax avoidance reducing tax revenue and worsening finances • Accept accurately drawn AD/AS diagram if integrated with analysis points N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country 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 • If the introduction of indirect tax is during a recession/slowdown, overall tax revenues of these countries may fall – economic growth of Saudi Arabia fell significantly between 2015 and 2017 • There may be no impact on incentives if there are no changes in income tax rates – there is no income tax in Saudi Arabia, so effects might be limited. • Research suggests that the overall effect of VAT in some countries is mildly progressive if focused on very expensive goods • Impact of inflation on individual goods and services will depend on the PED • Leakage in the form of taxes might be offset by an increase in injection – there has been a significant increase in FDI since 2015 • Living standard may not fall as other things may not be equal, e.g. wages may be rising faster than prices • FDI as a result of VAT may not fall if the goods are aimed at export markets. • Significance of the 5% introduction of indirect taxes in these countries. This is relatively small compared to other developed and developing countries • Neighbouring countries introducing VAT at the same time and same rate will reduce chance of smuggling/hidden economy
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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 C

Question	In 2020 the Government of Chile increased the top rate of income tax from 35% to 40%. Evaluate the likely macroeconomic effects of an increase in the top rate of income tax on a country of your choice. Indicative content
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of income tax • Impact on incentives to work: could act as disincentive for Chile's citizens to take higher paid jobs; less overtime hours worked and/or less promotion opportunities sought by high income earners • Tax revenues: these might be expected to increase (reference to Laffer curve analysis); help reduce the country's fiscal deficit and improve Chile's public finances • Could cause an increase in tax evasion (illegal) and tax avoidance (legal); could also lead to an increase in the number of tax exiles • Increased income equality: the tax system is more progressive; if taxes collected are used to redistribute incomes to the low-income households, then income distribution will become more equal • Impact on AD and economic growth, unemployment, and inflation: can be represented by an AD/AS diagram; reference to the multiplier • Improvement of trade balance: increase in top rate of income tax would cause a fall in disposable income for top earners and this reduces their consumption and imports

- Fall in FDI flows: entrepreneurs and senior managers from TNCs would see a decrease in their disposable income, assuming they would be based in the country for which the FDI was destined

NB Award maximum of Level 3 (9 marks) if a candidate does not refer to a country of their choice in their answer

NB Allow negative effects as the KAA and positive effects as evaluation (and vice versa)



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 • Depends on the extent of the disincentive effects of the income tax; high income earners in Chile might continue to work hard to maintain their standard of living • Tax revenues may fall if the tax rate is increased beyond the optimal rate; reference to the Laffer curve analysis; also depends on the overall impact on AD and on economic growth • Depends on powers of Chile's tax authorities to collect taxes; extent of tax evasion and tax avoidance; income tax is not the only factor influencing a person's decision on where to live

	• Depends on how tax revenues are used by Chile's Government and whether other fiscal changes offset the impact of this income tax • Depends on the elasticity of the LRAS/level of spare capacity; impact could depend on the changes in other components of AD; if savings are reduced to pay for the higher income tax, then the effects will be minimal • Depends on taxpayer's marginal propensity to consume/marginal propensity to import; depends on the PED of imports • Other factors also affect FDI flows and are not just dependent on changes in income tax, e.g. business confidence, rate of economic growth, interest rate • Overall impact would depend on how many people in Chile are affected by the top rate of income tax • Magnitude of the increase in the top rate of income tax – 5 percentage points
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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.

Question	In 2020 New Zealand's productivity rate was 40% lower than the average productivity of many other advanced economies. Evaluate factors that influence a country's international competitiveness. Refer to a developed country of your choice in your answer. Indicative content
9	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (12 marks) – indicative content • Understanding of international competitiveness • The significance of productivity: ◦ Productivity is the output per worker per hour worked; link may be made to the quality of human capital ◦ Relatively low productivity increases cost per unit and raises export prices ◦ Relatively low productivity reduces exports and hence makes them less internationally competitive • Exchange rate – affects both import and export prices; e.g. an appreciation/ revaluation of the currency will make imports relatively cheaper and exports relatively more expensive; hence imports will become more internationally competitive and exports will become less internationally competitive • Relative wage and non-wage costs – higher the unit labour costs, greater will be the cost per unit and this would reduce the international competitiveness: high in advanced economies • Regulations – e.g. environmental; health and safety increase the cost of doing business hence raising prices of exports and reducing the country's international competitiveness: high in advanced economies

Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	-	The only correct answer is C <i>A is not correct because this will not lead to an increase in globalisation</i> <i>B is not correct because this will not lead to an increase in globalisation</i> <i>D is not correct because this will not lead to an increase in globalisation</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 QE would reduce unemployment</i> <i>C is not correct because QE would lead to an increase in the money supply</i> <i>D is not correct because QE would increase the rate of economic growth</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 this is not a government policy to control TNCs</i> <i>B is not correct because this is not a government policy to control TNCs</i> <i>C is not correct because this is not a government policy to control TNCs</i>	(1)
4	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 there is a fiscal deficit in 2021</i> <i>C is not correct because there is a fiscal deficit throughout the given period</i> <i>D is not correct because there is a fiscal deficit throughout the given period</i>	(1)

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 A <i>B is not correct because there is no link between a country's national debt and absolute advantage</i> <i>C is not correct because this would lead to an increase in debt servicing costs</i> <i>D is not correct because the rate of inflation is likely to increase</i>	(1)
2	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 a market-orientated strategy to promote economic growth and development</i> <i>B is not correct because this is a market-orientated strategy to promote economic growth and development</i> <i>C is not correct because this is a market-orientated strategy to promote economic growth and development</i>	(1)
3	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 does not relate to the current account of the balance of the payments</i> <i>B is not correct because this relates to a fiscal/budget deficit</i> <i>D is not correct because this does not relate to the current account of the balance of the payments</i>	(1)
4	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 because Country X has an absolute advantage over Country Y in the production of both goods</i> <i>C is not correct because Country X does not have a comparative advantage over Country Y in the production of both goods</i> <i>D is not correct because this will happen when the opportunity cost for producing both goods for both countries is the same</i>	(1)

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 A <i>B is not correct because this would reduce economic development in India</i> <i>C is not correct because this would reduce economic development in India</i> <i>D is not correct because this would reduce economic development in India</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 would most likely lead to a decrease in debt servicing costs</i> <i>B is not correct because the rate of inflation is likely to decrease</i> <i>D is not correct because there is no link between a country's national debt and absolute advantage</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 B <i>A is not correct because export prices of Romania's goods and services would have fallen relative to the average export prices of its trading partners</i> <i>C is not correct because Romania's goods and services would have become more internationally competitive relative to its trading partners</i> <i>D is not correct because Romania would experience a worsening in its terms of trade</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 D <i>A is incorrect because SRAS is likely to shift to the left as a result of the rising costs of imports</i> <i>B is incorrect because SRAS is likely to shift to the left as a result of the rising costs of imports/AD is likely to shift to the right as a result of rising net exports</i> <i>C is incorrect because AD is likely to shift to the right as a result of rising net exports</i>	(1)

Section B

Question	In 2020 Iran's GDP was \$635.72 billion. With reference to Figure 3, calculate Iran's national debt in 2020. You are advised to show your workings. Answer	Mark
7(a)	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. Up to 2 marks for calculations: • $45.4\% \times \\$635.72 \text{ billion}$ (1) • $\\$288.62 \text{ billion}$ (1) Award full marks for the correct answer (\$289bn / \$288.6bn) Award only one mark if billion not mentioned (\$289 / \$288.6)	(2)

Question	With reference to Figure 3, analyse two disadvantages of an increase in Iran's national debt. Answer	Mark
7(b)	Knowledge 2, Application 2, Analysis 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 and analysis 1 mark for definition/understanding of national debt, e.g. • Accumulation of all past fiscal deficits/borrowings (1K) <i>AND/OR</i> Up to 2 marks for identifying two disadvantages and 1 mark for each linked development, e.g.: • Economic growth/living standards could fall in the long-run (1K) as government may cut spending on healthcare/education (1AN) • Higher debt servicing (1K) represents a significant opportunity cost to the future generations (1AN) • Higher interest rates could lead to a danger of financial crowding out (1K) restricting private sector investment (1AN) • Loss of confidence in Iran's financial markets (1K) resulting in a fall in foreign direct investment (1AN) • Increase in taxation/reduction in government spending in the future (1K) to balance the government budget/reduce budget deficit/move to a budget surplus (1AN) • Loss of confidence in the currency/<i>Rial</i> (1K) leading to a fall in its value and causing cost push inflationary pressure (1AN) • Decrease in credit rating (1K) leading to higher future borrowing costs/increase in interest rates (1AN) • Increase in foreign currency gap (1K) as the country may have insufficient currency to meet interest repayments if any part of the national debt is held by foreigners (1AN)	

5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is A B is not correct because this is associated with relative poverty C is not correct because this is associated with relative poverty D is not correct because absolute poverty is when a person earns less than \$2.15 a day at 2017 PPP values	(1)
6	QS6: Calculate cost, revenue and profit (marginal, average, totals). QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is B A is not correct because government expenditure is UVML C is not correct because government expenditure is UVML D is not correct because government expenditure is UVML	(1)

Section B

Question	In 2021, the Government of Pakistan made a debt servicing payment of \$32.27 billion. With reference to Figure 1, calculate debt servicing payments as a proportion of national debt in 2021. You are advised to show your working. Answer	Mark
7(a)	Application 2 Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • $(\\$32.27 \text{ billion} / \\$145.25 \text{ billion}) \times 100$ (1) • 22.22% (1) NB Award 2 marks for correct answer (22.22% / 22.2% / 22%) NB Award only 1 mark for 22.22 billion / 22.2 billion / 22 billion / 22	(2)

Section B

Question	With reference to Figure 1 and Figure 2, calculate the value of Greece's national debt in 2022. You are advised to show your workings.	Mark
	Answer	
7(a)	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. Up to 2 marks for calculations: • $171.4\% \times \\$221.3 \text{ billion}$ (1) • $\\$379.31 \text{ billion}$ (1) NB Award 2 marks for correct answer ($\\$379.31 \text{ billion} / \\$379 \text{ billion}$) NB Award only 1 mark for $\\$379.31 / 379.31\%$	(2)

Question	Explain what is meant by 'deflationary fiscal policies' (Extract A, line 10)	Mark
	Answer	
7(b)	Knowledge 2, Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 marks for understanding deflationary fiscal policies, e.g.: • Government policies that involve an <i>increase</i> in taxation (1) and a <i>reduction</i> in government spending/public expenditure (1) • Deflationary fiscal policies aim to reduce AD/inflation (1) Application Up to 2 marks for application to deflationary fiscal policies, e.g.: • These policies were a condition of the loans (1) • Government of Greece was required to reduce its national debt (1) • Reduce pensions to the elderly in return for financial support (1) • The country's rate of economic growth fell by 25% (1) • Incomes of Greek citizens decreased by almost 30% (1) • The resulting increase in unemployment led to many young citizens leaving the country in search of work (1)	(4)

Section B

Question	With reference to Figure 1, calculate the value of Ghana's national debt. You are advised to show your working. Answer	Mark
7(a)	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. Up to 2 marks for calculations: • $88.8\% \times \\$72.84 \text{ billion}$ (1) • $\\$64.68 \text{ billion}$ (1) NB Award 2 marks for correct answer ($\\$64.68 \text{ billion}$ / $\\$64.7 \text{ billion}$ / $\\$65 \text{ billion}$) NB Award only 1 mark for $\\$64.68$ / 64.68%	(2)

Question	Answer	Mark
7 (c)	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 understanding of reduction in fiscal deficit, e.g.: • When the increase in tax revenues is greater (1) than the increase in public expenditure (1) • Public expenditure is decreasing (1) and government tax revenue is increasing (1) • Lower public sector borrowing (1) to finance public expenditure (1) OR 1 mark for definition of fiscal deficit – e.g. when government spending is greater than tax revenues Application 1 mark for application to Mauritius' public expenditure and 1 mark for application to Mauritius' tax revenue, e.g.: • Public expenditure increased from 25.1% of GDP in 2016 to 25.4% of GDP in 2017 (1) and total tax revenues increased from 21.7% of GDP to 22.5% of GDP (1) • As a proportion of GDP, public expenditure increased by 0.3 percentage points (1) and tax revenues increased by 0.8 percentage points (1) • Current and capital expenditures (1) increased at a slower rate than the rise in tax revenues from direct and indirect taxes (1) • Higher tax revenue was received from income tax, corporation tax and indirect taxes (1)	(4)

	Application Up to 2 marks for application to Figure 3: - Iran's national debt increased from 11.7% of GDP in 2010 (1) to 45.4% of GDP in 2020 (1) - Between 2010 and 2020, Iran's national debt as a percentage of GDP increased by 33.7 percentage points (1)	(6)
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Question	With reference to the second paragraph of Extract A, explain what is meant by 'trade restrictions'.	Mark
	Answer	
7(c)	Knowledge 2, Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 marks for understanding of trade restrictions, e.g.: - Trade barriers/protectionist policies (1) designed to reduce/limit free trade/protect domestic industries (1) - Could be in form of tariffs/quotas/sanctions/subsidies/non-tariff barriers (1) Application Up to 2 marks for application to trade restrictions, e.g.: - Trade restrictions imposed on Iran's exports and imports (1) - Trade restrictions had been imposed in response to Iran's production of nuclear energy that was above the permitted international limit (1) - After two years of negotiations, the trade restrictions were gradually reduced / reduction in trade restrictions increased Iran's oil exports, its main source of export revenue (1)	(4)

Question	With reference to Figure 1 and Extract A, examine two disadvantages of an increase in Ghana's national debt.	Mark
	Answer	
7(d)	Knowledge 2, Application 2, Analysis 2, Evaluation 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 and analysis Up to 2 marks for identifying two disadvantages and 1 mark for each linked development, e.g.: • Economic growth/living standards may fall in the long-run (1K) as government may cut spending on e.g. education (1AN) • Higher debt servicing costs/interest repayments on borrowing (1K) represent an opportunity cost to future generations (1AN) • Higher interest rates could lead to danger of financial crowding out (1K) restricting private sector investment (1AN) • Loss of business confidence in Ghana's financial markets (1K) resulting in a fall in foreign direct investment (FDI) (1AN) • Increase in taxation/reduction in government spending in the future (1K) resulting in a fall in disposable incomes/reduction in public services or welfare payments (1AN) • Loss of confidence in the currency/<i>cedi</i> (1K) leading to a fall in its value and causing cost-push inflationary pressures (1AN) • Decrease in Ghana's credit rating (1K) leading to higher future borrowing costs/increase in interest rates (1AN) • Increase in foreign currency gap (1K) as Ghana may have insufficient currency to meet interest repayments if any part of the national debt is held by foreigners (1AN) Application 1 mark for application to Figure 1, e.g.: • Between 2010 and 2022, national debt increased from 34.6% of GDP to 88.8% of GDP/increased by 54.2 percentage points (1) AND 1 mark for application to Extract A, e.g.: • Government borrowed significant sums of money to finance the country's transport infrastructure projects / • Government of Ghana increased its borrowing to prevent the economy from going into a recession as a result of the global health crisis / • In December 2022 Ghana defaulted on its debts / failed to generate enough income to pay back its debts / 70% of government revenue (1)	(8)

	Evaluation Up to 2 marks for evaluative comments (2+0 or 1+1): • 54.2 percentage point increase in national debt as a proportion of GDP (1) shows that it will be a major cause for concern (1) • As national debt was as a result of an increase in government spending on education/infrastructure, (1) it is likely to increase GDP/income equality/reduce national debt as a % of GDP in the long-run (1) • National debt will be less of a concern if the fiscal deficits are cyclical and short-term (1) rather than structural, long-term and unsustainable (1) • Future generations will not be affected much as high inflationary pressures might erode the real value of debt (1) with reference to Figure 2 (1) • If the interest rates start to decrease with a fall in the rate of inflation (1), financial crowding out may not be a significant issue in the long-term (1) • National debt may not be a significant issue for Ghana if it is financed internally (1) and not from external borrowing (1) • National debt not a concern in the long-run as they may receive assistance from the IMF (1) • The increase in highest rate of income tax will reduce Ghana's national debt in the long-run (1)	
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Question	With reference to the information provided and your own knowledge, discuss the likely economic benefits of a decrease in national debt, as a proportion of GDP, on the economy of Greece.	
	Indicative content	
7(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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (8 marks) – indicative content • Definition/understanding of national debt • "After the global health crisis of 2020 Greece was able to reduce its national debt as a proportion of GDP" by 19.6 percentage points (2020 to 2022) Benefits include: • An improvement in Greece's credit rating and lower future borrowing costs. This leads to confidence in markets resulting in an increase in foreign direct investment (FDI) – "Greece's credit rating fell from 'A' to 'CCC'", so it will be able to improve it in the future to "B+" • Lower national debt implies lower interest payments: there is less danger of financial crowding out. Lower interest rates may increase private sector investment due to the reduction of the crowding out effect – it eliminates the position of high risk whereby "it was unable to service its debt" • Less need to seek assistance from international organisations e.g. IMF, EU, other countries, the ECB – "In 2010 Greece's large national debt led to significant loans by the IMF." • Lower interest repayments represent a fall in costs to future generations. More money will be available for spending on social services, and they face lower opportunity cost of interest payments • Falling national debts could lead to less inflationary pressures. If the debt is low, investors may buy more government securities. Thus, the government will not experience a shortfall in its revenues, and would not have to print money and increase the money supply	
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 that 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 - Impact depends on the magnitude of decrease in national debt: decreased by 19.6 percentage points in two years, implying a significant impact "its debt-to-GDP ratio is falling, it still remains the highest in the eurozone area" implying it will still be an issue to Greece - As the current interest rate in the eurozone is high, financial crowding out may still be a significant issue – "ECB raised the base rate of interest from 2.5% to 3% in March 2023" - If Greece's Government reduced its debt-to-GDP ratio by cutting spending in productive areas/key public goods and services, it will negatively impact the future generations - Significance of national debt e.g. future generations will be highly affected as high inflationary pressures in the eurozone erode the real value of debt - Large national debt implies that Greece may not be able to finance it internally but will have to continue relying on borrowing or future bailouts from IMF, hence remaining a cause for concern - Greece's national debt will be a concern as it appears that its fiscal deficits are not cyclical/short-term but more structural/long-term and unsustainable - Possibility that the value of national debt is still rising but debt-to-GDP ratio is falling due to an increase in Greece's economic growth – "in 2022 real GDP increased by nearly 5%". Over the long term, the national debt could increase as "forecast rates of economic growth for 2023 have also been reduced."		
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 C

Question	Between 2007 and 2022 income inequality increased in both Sweden and the USA. Evaluate possible causes of an increase in income inequality within a developed country of your choice. Indicative content
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (12 marks) – indicative content • Understanding of income inequality Possible causes include: • Changes in wages of different groups including e.g. training and skills: wage differentials between the unskilled and skilled workers have been increasing; minimum wage increasing slower than average earnings/discrimination • Education: the earnings of those with certain qualifications have increased at a much faster rate than others • Disproportionate increase in earnings of top 1% as a result of e.g. incomes of the asset-rich have increased relative to those who are asset-poor; could be due to exploitation of tax loopholes • Pensions: especially amongst the elderly and ending of final salaries pension schemes; inflation for pensioners has been higher than the CPI rate as they spend a higher percentage of income on goods like council tax, fuel and food • Tax rates, e.g. such as increases in indirect taxes (regressive taxes) / cuts in taxes on incomes and wealth (progressive taxes) • Globalisation: the demand for, and wages of, unskilled workers have fallen relative to those of highly skilled workers in developed economies • Immigration, e.g. of unskilled workers, putting downward pressure on wages for those on low incomes – appears to be a growing number of the low-paid immigrant workers, who work for cash and are paid much less than the NMW • Trade union power has been eroded: an increasingly flexible labour market, with more workers being employed on part-time or zero-hour contracts, as opposed to full-time – they are not largely protected by the trade unions • Macroeconomic policies, e.g. deregulation and privatisation that contributes to the concentration of ownership of assets • Reduction in out-of-work benefits and/or the reduction of in-work benefits. Increase in inter-generational inequality in some countries where state pensions have been increased

Section C

Question Number	Indicative content
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding/explanation of national debt National debt is a cause for concern: • Rising national debts imply a fiscal deficit which has been mainly caused by deep recessions in many countries. This reflects disequilibrium between the government spending and tax revenues which may lead to structural issues in the long term. • Higher interest payments represent costs to the future generations. Less money will be available for spending on social services and they face high opportunity cost of interest payments • Higher national debt implies increased interest payments: danger of financial crowding out. Higher interest rates reduce private sector investment • Rising national debts lead to loss of confidence in the currency (euro, in case of eurozone countries) that may cause a fall in its value • Possibility of the need to seek assistance from international organisations and other countries; e.g. the IMF or the ECB in case of eurozone countries • Reduction in the country's credit rating and higher future borrowing costs. This leads to a significant loss of confidence in markets resulting in a fall in foreign direct investment (FDI) • Rising national debts could lead to inflationary pressures. If debt becomes too high, there may be insufficient investors to buy government securities. Thus, the government may have to fill the shortfall in revenue by printing money and increasing the money supply N.B. Candidates may take either perspective as analysis and use their reverse arguments for evaluation i.e. they can argue that national debt is or is not a cause of concern N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country 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 • National debt will be less of a concern if the fiscal deficits are cyclical and short-term rather than structural and unsustainable • Some countries like Greece and Italy faced deflation even when its debts were high/inflation will be unlikely as debts were caused by a recession following the financial crisis • Future generations will not be affected much as high inflationary pressures might erode the real value of debt. This depends on the size of national debt. • As current interest rates in most countries are low, financial crowding out may not be a significant issue • In some countries, their national debts may not be a significant issue if it is financed internally and not from borrowing • Depends on the size of national debt as a proportion of GDP; 55 percentage points increase for Portugal and 30 percentage point increase for Italy show that this will be a significant cause for concern
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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 C

Question	In 2019 it was estimated that a large proportion of the fiscal deficit in Japan and the UK was structural. Evaluate whether a structural fiscal deficit is a more serious issue than a cyclical fiscal deficit. Refer to a country of your choice in your answer. Indicative content
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of fiscal deficit • Meaning of structural fiscal deficit: estimate of how large the deficit would be if the economy were to operate at a normal, sustainable level of employment and activity • Meaning of cyclical fiscal deficit: usually caused by a deficiency in aggregate demand, e.g. when the economy is in a period of recession • Structural deficit could be permanent if no measures are taken to reduce or eliminate it and this would imply continuous fiscal deficits and an increasing national debt • Structural deficits may require tax rises and/or cuts in public expenditure • Analysis of problems of a rising national debt include: ○ reduction in the credit rating ○ cost for the future generations ○ crowding out (resource and financial) ○ cost implications of servicing the debt ○ danger of increased inflationary pressures • Cyclical deficit is likely to be temporary

		Cyclical deficit may be necessary to generate economic growth during a period of economic decline N.B. Accept why structural fiscal deficit is a more serious issue as KAA and why it is not as EV, or vice versa N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country of their choice 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

- Significance: in most developed countries, e.g. UK, structural deficit is a little smaller than the overall deficit - the remaining 'cyclical' part of the deficit would disappear automatically as the economy returns to its trend rate of growth
- Asymmetric information – it is hard to know precisely what the sustainable level would be, so these estimates are always uncertain/unreliable
- Depends how large either type of deficit is (both in money terms and as a percentage of GDP) and how long they last for
- Cyclical deficit might also have a long-term effect on the national debt
- Might not be easy to determine whether deficit/debt is structural or cyclical
- Prioritisation of the arguments/factors discussed
- Depends on the size of the fiscal deficit as a percentage of GDP

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.

Question	Between 2007 and 2017 income inequality increased in Denmark and in Italy. Evaluate possible causes of an increase in income inequality within a developed country of your choice. Indicative content
9	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (12 marks) – indicative content • Understanding of income inequality Possible causes include: • Changes in wages of different groups including e.g. training and skills: wage differentials between the unskilled and skilled workers have been increasing; minimum wage increasing slower than average earnings • Education: the earnings of those with certain qualifications have increased at a much faster rate than others • Disproportionate increase in earnings of top 1% as a result of e.g. incomes of the asset-rich have increased relative to the asset-poor; exploitation of tax loopholes • Pensions: especially amongst the elderly and ending of final salaries pension schemes; inflation for pensioners has been higher than the CPI rate as they spend a higher percentage of income on goods like council tax, fuel and food • Tax rates, e.g. such as VAT cut in taxes on incomes and wealth and/or rise in expenditure taxes that take higher percentage of people's disposable income • Globalisation: the demand for, and wages of, the unskilled workers have fallen relative to those of highly skilled workers in developed economies

Question	In 2021 it was estimated that a large proportion of the fiscal deficits in both Brazil and Suriname was structural. To what extent is a structural fiscal deficit more serious than a cyclical fiscal deficit? Refer to a developing country of your choice in your answer. Indicative content	
9	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (12 marks) – indicative content • Understanding of fiscal deficit • Meaning of structural fiscal deficit: estimate of how large the deficit would be if the economy were to operate at a normal, sustainable level of employment and activity/long-run trend rate of output • Meaning of cyclical fiscal deficit: usually caused by a deficiency in aggregate demand, e.g. when the economy is in a period of recession • Structural deficit could be permanent if no measures are taken to reduce or eliminate it, and this would imply continuous fiscal deficits and an increasing national debt • Structural deficits may require tax rises and/or cuts in public expenditure • Analysis of problems of a rising national debt include: ◦ reduction in the credit rating ◦ cost for the future generations ◦ crowding out (resource and financial) ◦ cost implications of servicing the debt ◦ danger of increased inflationary pressures • Cyclical deficit is likely to be temporary • Cyclical deficit may be necessary to generate economic growth during a period of economic decline N.B. Accept why structural fiscal deficit is more serious as KAA and why it is not as EV, or vice versa	
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 • Significance: in some developing countries, structural deficit is a little smaller than the overall deficit - the remaining 'cyclical' part of the deficit would disappear automatically as the economy returns to its trend rate of growth • Asymmetric information – it is hard to know precisely what the sustainable level would be, so these estimates are always uncertain/unreliable • Depends how large either type of deficit is (both in money terms and as a percentage of GDP) and how long they last for • Depends on what the fiscal deficit funds e.g. infrastructure spending will result in higher future economic growth and reducing the future fiscal deficit • Cyclical deficit might also have a long-term effect on the national debt • Might not be easy to determine whether deficit/debt is structural or cyclical • Depends on the size of the fiscal deficit as a percentage/proportion of GDP		
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.

Question	In the first quarter of 2022 the USA and Australia both experienced inflows of foreign direct investment (FDI) \$67 billion and \$59 billion respectively Evaluate the potential economic benefits to a developed country of FDI inflows. Indicative content	
10	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of FDI Economic benefits could include: • Inflows into the financial account of the balance of payments • Long term improvement on the current account of balance of payments if exports rise (a rise in foreign currency earnings) • Economic growth - greater injection into the circular flow; AD/AS analysis and multiplier effects on real GDP • Increase in skills of the workforce if TNCs invest in training programmes • Increased employment in the host country • Development of new infrastructure by TNCs • New methods of production and working practices • Use of cleaner technology resulting in less negative externalities/ environmental degradation • Productivity and technology transfer • Increased tax revenue to government • Could help close the country's savings gap	
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.

Question	Between 2013 and 2023, Iraq's national debt increased from 32% of Gross Domestic Product (GDP) to 49.2% of GDP. Evaluate the disadvantages of an increase in a country's national debt. Refer to a country of your choice in your answer. Indicative content
10	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of national debt Costs may include: • Rising national debt implies a fiscal deficit that has been mainly caused by recession in the country (Iraq); reflects disequilibrium between government spending and tax revenues which leads to structural issues in the long run • Higher interest payments represent costs to future generations. Less money will be available for spending on social services and they face high opportunity cost of interest payments • Higher national debt implies increased interest payments: danger of financial crowding out. Higher interest rates reduce private sector investment • Rising national debt leads to a loss of confidence in the currency that may cause a fall in its value and result in cost-push inflationary pressures • Possibility of the need to seek assistance from international organisations e.g. the IMF and other countries • Reduction in the country's credit rating and higher future borrowing costs; leads to a significant loss of confidence in markets resulting in a fall in FDI • Increase in taxation/reduction in public expenditure in the future resulting in a fall in disposable incomes or reduction in public services and welfare payments (could increase income inequality) • Rising national debt could lead to inflationary pressures. If debt becomes too high, there may be insufficient investors to buy government securities. Thus, the government may have to fill the shortfall in revenue by printing money and increasing the money supply • Increase in foreign currency gap as the country may have insufficient currency to meet interest repayments if any part of the national debt is held by foreigners N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country of their choice 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 • 17.2 percentage point increase in national debt as a proportion of GDP over 10 years shows that it may not be a major cause for concern • If national debt was as a result of an increase in government spending on education/infrastructure, it is likely to increase GDP in the long-run and reduce national debt as a % of GDP • National debt will be less of a concern if the fiscal deficits are cyclical and short-term rather than structural, long-term and unsustainable • Future generations will not be affected as much as high inflationary pressures might erode the real value of debt • If the interest rates start to decrease with a fall in the rate of inflation, financial crowding out may not be a significant issue in the long-term • National debt may not be a significant issue for the country if it is financed internally and not from external borrowing		

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 Number	Quantitative skills assessed	Answer	Mark
1	-	The only correct answer is D <i>A is not correct because there will be an increase in money supply</i> <i>B is not correct because there will be an increase in economic growth</i> <i>C is not correct because there will be a decrease in unemployment</i>	(1)
2	-	The only correct answer is A <i>B is not correct because this is related to industrialisation</i> <i>C is not correct because this is related to the current account position of the BOP</i> <i>D is not correct because this is related to primary product dependency</i>	(1)
3	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 import prices rise and export prices fall</i> <i>B is not correct because this relates to the fiscal position and not balance of payments</i> <i>D is not correct because this is due to a fall in interest rates</i>	(1)
4	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes. QS7: Make calculations to convert money to real terms 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 pay growth not adjusted for inflation was not the lowest in 2009</i> <i>C is not correct because there was an increasing rate of inflation between 2016 and 2017</i> <i>D is not correct because there was disinflation between 2012 and 2014</i>	(1)



Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	-	The only correct answer is D <i>A is not correct because this is an economic factor</i> <i>B is not correct because this is an economic factor</i> <i>C is not correct because this is an economic factor</i>	(1)
2	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 because export prices of UK goods and services would be higher than the average export prices of its trading partners</i> <i>C is not correct because unit labour costs in the UK would be higher than the average of its trading partners</i> <i>D is not correct because the UK would experience an improvement in its terms of trade</i>	(1)
3	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 it is likely to decrease money supply</i> <i>B is not correct because it is likely to decrease real output</i> <i>D is not correct because it is likely to increase the rate of unemployment</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 D <i>A is not correct because the distribution of income became more equal</i> <i>B is not correct because there was a fall in income inequality</i> <i>C is not correct because income inequality fell by 3.4 percentage points</i>	(1)

Section B

Question	The Bank of Zambia raised 'the base interest rate by 1.75 percentage points to 11.5% between April and November 2019' (Extract A, lines 12-13). Calculate Zambia's base interest rate in April 2019. You are advised to show your working. Answer	Mark
7(a)	Application 2 Quantitative skills assessed: QS2 Calculate, use and understand percentages, percentage changes and percentage point changes. Up to 2 marks for calculations: • (11.5% - 1.75%) (1) • 9.75% (1) Award full marks for the correct answer (9.75%).	(2)

Section B

Question	With reference to Figure 1 and Figure 2, calculate Turkey's real interest rate in July 2020. You are advised to show your working. Answer	Mark
7(a)	Application 2 Quantitative skills assessed: QS7: Make calculations to convert from money to real terms. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • 8.25 – 11.76 (1) • -3.51 (1) Award full marks for the correct answer (-3.51) Award one mark for 3.51 without the minus sign	(2)

Question	With reference to Figure 3 and Extract A, analyse two factors, other than changes in interest rates, that may have led to a depreciation of the Turkish lira. Answer	Mark
7(b)	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge and analysis Up to 2 marks for identifying two factors and up to two marks for linked explanations showing the factors that may have led to a depreciation of the Turkish lira, e.g.: • If Turkey's inflation rate is higher (1K) than its trading partners, the demand for the lira will decrease, hence reducing the value of the lira (1AN) • Large current account deficit (1K) implies that the supply of the lira will be high relative to the demand/less demand for lira due to lower value of exports, hence value of lira would fall (1AN) • Increase in capital flight (1K) may result in the lira being sold to buy dollar assets; increasing the supply of the lira in the foreign exchange markets, causing value of the lira to fall (1AN)	

Section B

Question	With reference to the second and third paragraphs of Extract C, calculate the amount saved from the total cash payments made by the Japanese Government. You are advised to show your working.	Mark
7(a)	Answer 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. Up to 2 marks for calculations: • \$350 billion $\times$ 0.7 (1) • \$245 billion (1) NB Award full marks for the correct answer (\$245 billion) NB Award only 1 mark if billion not included	(2)

Section B

Question Number	In 2018, the EU's rate of inflation was 1.6%. With reference to Figure 1, calculate the nominal GDP growth rate of the EU in 2018. You are advised to show your workings. Answer	Mark
7(a)	Application 2 Quantitative skills assessed: QS7 Make calculations to convert from money to real terms. Up to 2 marks for calculations: • $(2\% + 1.6\%)$ (1) • $= 3.6\%$ (1) NB If correct answer (3.6%) is given, award full marks regardless of working NB Award only 1 mark for 3.6 without the percentage sign	(2)

Question Number	Explain what is meant by 'quantitative easing' (Extract A, lines 8-9). Answer	Mark
7(b)	Knowledge 2, Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 marks for understanding of quantitative easing (1+1), e.g.: • Asset purchases by central bank (1) • Increases the money supply (1) • The central bank buys government bonds (1) Application Up to 2 marks for application to quantitative easing (1+1), e.g.: • €2.5 trillion quantitative easing programme (1) • Gave firms greater access to credit (1) • ECB has also indicated that it could extend this programme (1) • This would reduce fears of economic uncertainty (1)	(4)

Question Number	With reference to Figure 1, Figure 2 and Extract A, analyse two reasons why 'Many EU countries experienced strong economic growth after 2012' (Extract A, lines 2-3). Answer	Mark
7(c)	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge and Analysis Up to 2 marks for knowledge of two reasons for economic recovery and one mark for linked expansion of each reason (2+2), e.g.: • Increase in investment (1) will increase the capital stock of the economy and increase the potential output shifting LRAS to the right (1) • Increase in consumption/consumer spending (1), which is a large component of AD, will cause AD to rise (1) • Increase in net exports (1), an injection into the circular flow, will increase (X-M) as a component of AD, will cause AD to rise (1) Application Up to 2 marks for application to the reasons for economic recovery (1+1): • Figure 1: Economic growth increasing since 2012 (1) • Figure 2: data showing an increase in FDI (% of GDP) between 2014 and 2016 (1) • Extract A: In 2018, household expenditure rose by 2% / the EU benefited from expansion in global trade / quantitative easing programme (1)	(6)

Question	With reference to Figure 1 and Extract A, explain what is meant by an 'inflation target' (Extract A, line 5). Answer	Mark
7(b)	Knowledge 2, Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 marks for understanding of an 'inflation target', e.g.: • Central bank objective of meeting a desired inflation rate / an inflation rate that the central bank wants to achieve (1) • Meeting the objective of low stable inflation (1) • Adjusting monetary policy to achieve that rate (1) Application 1 mark for application to Figure 1: • Japan's rate of inflation rose to 0.8% in December 2021 / • Bank of Japan has not met its inflation target in any month (1) 1 mark for application to Extract A: • Japan's rate of inflation started to increase in October 2021 / • Japan's inflation rate was below the BoJ's inflation target of 2% / • It was also lower than the rates of inflation experienced in several other advanced economies (1) Or 2 marks for reference to both Figure 1 and Extract A e.g.: • In December 2021, Japan's rate of inflation was 1.2 percentage points (1) below the BoJ's inflation target of 2% (1)	(4)

Question	Explain what is meant by 'monetary policy instruments' (Extract A, line 9).	Mark
	Answer	
7(c)	Knowledge 2, Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 marks for understanding of monetary policy instruments, e.g.: • These include: ○ interest rates (1) ○ asset purchases / money supply / quantitative easing (1) ○ changes in lending criteria (1) ○ reserve asset (liquidity) requirements (1) Application Up to 2 marks for application to monetary policy instruments, e.g.: • Can be adjusted to meet the inflation target, e.g. of 2% (1) • Less effective in tackling inflation created by lack of supply (1) • Allow reference to example from central bank/specific country (1)	(4)

Section B

Question	With reference to Figure 1, calculate the increase in the price of coal between January 2020 and April 2022. You are advised to show your working.	Mark
	Answer	
7(a)	Application 2 Quantitative skills assessed: QS5: Calculate and interpret index numbers. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • 500 - 100 (1) • 400% (1) NB Award 2 marks for correct answer (400%) NB Award only 1 mark for 400 without % sign	(2)

Question	Explain what is meant by 'interest rates' (Extract A, line 4).	Mark
	Answer	
7(b)	Knowledge 2, Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 marks for understanding interest rates, e.g.: • Cost of borrowing (1) • Reward for saving (1) • Monetary policy instrument (1) • Used to control inflation/AD (1) Application Up to 2 marks for application to interest rates, e.g.: • Rising base interest rates could lead to stagflation (1) • Many central banks have raised base interest rates in response to this inflationary pressure (1) • ECB increased its base interest rate from 0% to 1.25% (1) • This is an example of deflationary monetary policy (1)	(4)

Question	With reference to Figure 1 and Extract A, analyse two ways a deflationary monetary policy can 'control the rising rate of inflation'.	Mark
	Answer	
7(c)	Knowledge 2, Application 2, Analysis 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 identification of two points, e.g.: • Raising the base rate of interest to control inflation (1K) • Ending quantitative easing/increase in liquidity requirements/ stricter lending criteria to control inflation (1K) Analysis 1 mark for each linked explanation, e.g. • will increase the cost of borrowing / increase the reward for saving / decrease in the money supply (1AN) • causing a decrease in C/I/AD and reducing inflationary pressures (this may also be shown diagrammatically) (1AN) Application 1 mark for application to rising inflation from Figure 1: • Between October and December 2021, inflation rate increased by 0.7 percentage points / the inflation rate increased from 0.1% in October 2021 to 0.8% in December 2021 (1) 1 mark for application to Extract A: • increasing the base interest rate from —0.1% to 0% / BoJ decided not to pursue a deflationary monetary policy / unlike the central banks of some other advanced economies (1)	(6)

	• Spending likely to increase the possibilities of government failure (1) as the costs of these measures may outweigh the benefits (1) • The Government of Greece may have limited scope in introducing some of these measures (1) as the IMF sets conditions for its loans in relation to government spending (1)	
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Question	With reference to Extract A, analyse two roles of the European Central Bank (ECB).	Mark
Answer		
7(d)	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 knowledge marks for identifying two roles of a central bank: • Implementation of monetary policy/central bank sets base interest rates/makes asset purchases/sets lending criteria/sets reserve asset requirements (1) • Achieving an inflation target (1) • Make forecasts about the future state of the economy (1) • Give advice/make policy recommendations to national central banks/governments (1) Analysis Up to 2 analysis marks for linked development of the two roles identified (1+1), e.g.: • To influence the level of AD/control inflation (1) • Explanation of the transmission mechanism (1) • To influence economic growth/development/employment (1) Application Up to 2 marks for application (1+1): • ECB raising the base rate of interest from 2.5% (1) to 3% (1) / 0.5 percentage points in March 2023 (1+1)	(6)

Question	Answer	Mark
7 (d)	Knowledge 2, Application 2, Analysis 2, Evaluation 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 and Analysis Up to 2 marks for identifying two likely effects and up to 2 marks for linked explanations showing the effects of the reduction in the 'base interest rate', e.g.: • Increase in consumption (1) as the reward for saving and cost of borrowing falls, so consumers spend more, thereby increasing AD – leads to higher inflation/prevents deflation (1) • Increase in investment (1) as the cost of borrowing for firms fall, less interest repayments imply lower cost of production, increasing injections and AD – higher economic growth and employment (1) • Increase in net trade (1) due to less hot money flows, low demand for currency which reduces the exchange rate – an improvement in current account, as exports become relatively cheaper and imports relatively expensive (1) Application Up to 2 marks for application to sources, e.g.: • Low inflationary pressures between 2015 and 2016 (1) • GDP growth rose from 3.3% in 2013 to 3.9% in 2017 (1) • Diagram showing an increase in Aggregate Demand (1) • 0.5 <i>percentage points</i> change in the base interest rate (1) Evaluation Up to 2 marks for evaluative comments, e.g.: • Inflationary pressures are due to changes in global commodity and food prices which are volatile (1) and once they increase, it could lead to a greater rise in inflation; Figure 2 → 0.98% to 3.67% (1) • Cut in interest rate is unlikely to have an impact if consumer and business confidence is low (1) and therefore the multiplier effects may be small (1)	

	• 0.5 percentage points change in the base interest rate is small or relatively insignificant (1) and hence the impact on consumption/ investment/net trade may be limited causing small shift of AD (1) • Problem facing policymakers when applying policies (1) they are unable to control external shocks, i.e. due to cost push factors (1) • Time frame: monetary policy does not have immediate effect on behaviour (1) for example, people with fixed mortgage rates or traders who have fixed contracts – small impact on growth (1)	(8)
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Question	Examine two 'problems facing central banks when applying monetary policies to reduce the rate of inflation' (Extract A, lines 11-12). Answer	Mark
7(d)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge and analysis Up to 2 marks for identifying two problems and up to 2 marks for linked explanations, e.g.: • Inability to control the rising rate of inflation caused by external factors/shocks (1): may occur while policies are implemented or having their full impact, e.g. changes in exchange rates, prices of commodities, economic conditions in economies of main trade partners (1) • Difficulty in knowing whether the increase in the rate of inflation is temporary or permanent (1): because inappropriate policies could be applied, e.g. significant rise in base interest rate would not be appropriate if the inflation was temporary (1) • Inaccurate information (1): issues with estimating/sampling, time delays/time lags, inadequacy of information gathering systems and processes, shadow economy/informal sector (1) • Risks and uncertainties (1): the effects of policies may be difficult to predict either due to a lack of information as to consumers' and/or firms' reactions (1) Application Up to 2 marks for application from Extract A (1+1), e.g.: • Temporary issue: as a one-off increase in supply chain disruptions / one-off increase in consumer demand (1) • Permanent issue: as a result of rising wages (1) Evaluation Up to 2 marks for evaluative comments: • Different factors will be more important in different economies (1) e.g. countries with proportionally larger shadow economies, less likely to have accurate information etc. (1)	

	• Other policies e.g. reflationary fiscal policy (1) might offset the impact of deflationary monetary policy (1) • Information may be becoming more accurate over time (1) as technology and economic understanding improves (1) • Historical data/information available on policy impact in the past (1) so not a significant issue to policymakers (1)	(8)
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Question Number	Indicative content
7 (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. Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, application and analysis (8 marks) – indicative content Policies include: • Increasing means-tested benefits (not universal benefits), e.g. income support, housing benefit – helps those families in greatest need • Ending residential segregation – segregation by income, particularly isolation of low-income households correlates with reduced levels of upward mobility • Improvements in education and training for those without qualifications help increase skills and human capital, raises productivity and employability • Improvements in state provision of public services such as healthcare and social housing will assist lower income households • Reducing discrimination will allow for equal opportunities in employment and lead to higher wages/living standards for those underrepresented groups • Increasing minimum wages – higher wages for the lowest-paid workers has the potential to help people out of poverty and increase real incomes • Increase in progressiveness of tax system, e.g. by introducing more tax bands; increasing tax free allowance – this will provide more economic support for the working poor: ‘a reconsideration of how economic gains are shared.’

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 that 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 - Increased complexity and cost of running welfare, risk of poverty trap from withdrawal of income-related benefits; this does not address main causes of inequality such as low pay or skills gaps - Depends on the quality of education and training programmes in place; workers may not take up jobs in which they are educated and trained and productivity is likely to remain low - State provision might have a relatively insignificant effect in the advanced economies, as this provision is already extensive - Increase in the NMW might result in higher unemployment and increase in inequality; wages and unearned incomes of those in highest income bracket might increase at faster rate; has no impact on the unemployed or students - Progressive tax increases may cause increase in number of tax exiles and/or increase in tax evasion and avoidance: fall in tax revenue (using Laffer curve analysis). It could also reduce incentive to work - Some of the gender/age gap may reflect cultural norms - Time lag and implementation lag issues	

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.

	Following Turkey's entry to the EU there may be large emigration to other EU countries (1) leading to loss of skilled labour (1)	(8)
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Question	With reference to the information provided, discuss the likely economic effects of a further increase in the base interest rate. Indicative content
7(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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (8 marks) – indicative content - Increasing interest rate will increase the reward for saving and cost of borrowing, thereby reducing consumption and investment; AD will fall therefore not able to “support the country’s economic recovery” - An increase in the base interest rate will lower net trade due to the increase in the exchange rate of the lira – value of exports fall and could reduce the country’s export led growth; may also increase the “current account deficit” - Raising the base interest rate could help control inflationary pressures – Figure 2 shows that between 2018 and 2020, inflation has been above 10% - It would reverse negative real interest rates which reduces the real value of savings; interest on savings would be insufficient to meet increased cost of living causing households and firms to hoard cash – Figure 1 and Figure 2 - Raising the base interest rate would increase hot money flows; this is likely to increase the demand for the lira, increase the exchange rate and “avoid a currency crisis” - If the Central Bank did not raise the base interest rate, the exchange rate of the lira would continue to fall; firms that had foreign currency loans would be further constrained by the rising cost of servicing their debt - By raising interest rates and preventing the currency from falling further, the Central Bank will reduce any financial risks and bring stability in the economy – “Economists warned that the risk of a financial crisis in Turkey was growing”; this will help restore the confidence of foreign investors - Raising the base interest rate was the best policy instrument in increasing the exchange rate as the Central Bank could not intervene in the currency markets through foreign currency transactions – “have reduced most of the central bank’s foreign currency reserves”

		Raising the base interest rate could help control the credit-fuelled growth which could lead to market bubbles – “to slow the pace of credit growth”; has also been done in the “previous” years implying households and firms have existing levels of debt N.B. Candidates may take either positive effects as analysis and use their reverse arguments for evaluation or vice versa
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 that 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 - Discussion of magnitude of increase in interest rate between July 2020 and December 2020: 8.25% to 17%, an 8.75 percentage points increase - Figure 3 highlights that the currency is still depreciating and the increase in interest rates have not made a significant difference, showing that investor confidence is perhaps still low “Turkey’s President, who controls the Central Bank of Turkey, is an opponent of high interest rates” may demand the Central Bank to reduce the interest rate to support his objectives; Central Bank is not independent of political interference and/or control - Figure 2 shows that inflation remains high and is rising again; perhaps this is cost-push inflation which the Central Bank cannot control - Figure 1 highlights that the size of the increases in interest rates since July 2020 is smaller as compared to the decreases in previous years perhaps a reason why the impacts on inflation and exchange rate have been small – some economists want the Central Bank “to raise the interest rate further” - Time lags associated with the increase in the base interest rate
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 C

Question	Between 1980 and 2020 it was estimated that total global shipping container volumes increased from 100 million tonnes to 2 billion tonnes. Evaluate factors that have contributed to increased globalisation in the last 50 years. Refer to examples of countries in your answer. Indicative content
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding/definition of globalisation • Reduced cost of transport because, e.g. ○ Technical efficiencies are demonstrated through containerisation in freight ships and lorries ○ Transport/volume economies of scale – larger planes and ships have reduced average transportation cost in the long run ○ Increase in fuel efficiency in the use of planes, ships and trains which reduce transport fuel cost ○ Better transport infrastructure across the world – airports, seaports, road and rail networks • Trade liberalisation: reduction in trade barriers linked to the work of WTO; application of law of comparative advantage and link to specialisation • Increased number and size of trading blocs: application to trade creation • Reduced costs of communication: e.g. internet, mobile technology and other technological advances have made it easy to communicate/share information; introduction of new electronic payment systems • Political change: opening up of previously closed economies to the world market, e.g. breakdown of the Soviet system and opening up of China • Increased significance of TNCs: have entered new markets and invested significantly in expanding abroad to increase sales/revenues/profits (via offshoring and outsourcing) • Opening up of global financial markets: this has included removal of capital controls in many countries allowing for more FDI and/or repatriation • High and rising real incomes in many countries have resulted in an increase in demand for imports due to higher marginal propensity to import

Question	With reference to Extract C, discuss policies that the Japanese Government could implement to increase the country's long-term rate of economic growth.
	Indicative content
7(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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (8 marks) – indicative content • Understanding of potential economic growth • “Investment in the labour force” – greater levels of, or more targeted, spending on education and training will increase skills/reduce skills gap and raise human capital; hence increased productivity levels, which will increase long-term economic growth • “Investment in healthcare” – more spending on healthcare will create a healthier and more productive workforce. This will lead to an increase in potential GDP and allow for significant improvements in quality of output • “Investment in infrastructure” – developments to infrastructure through improved transport links and communications will encourage more trade and lead to increased efficiency; increases long-term economic growth NB Award maximum of Level 2 for policies not mentioned in the extract

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 that 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 • Impact on economic growth will depend on the size of direct cash payments and/or the magnitude of investment in Japan's labour force, healthcare and infrastructure • Significant time lags and implementation lags involved with these policies • Interventionist policies could increase public expenditure that may have an opportunity cost/have an adverse effect on public finances – “there remain concerns over additional spending due to Japan's large national debt” • Government spending can also increase resource/financial crowding out • Effectiveness of policies in achieving long-term economic growth ◦ investment in labour force: depends on the quality of the education and training programmes; workers may not take up jobs that they have been educated and trained in ◦ investment in healthcare: depends which areas of healthcare the state has increased its funding, e.g. geriatric care ◦ investment in infrastructure: depends on the quality of infrastructure projects undertaken by the government • Discussion of the conflicts between the macroeconomic objectives/policies, e.g. economic growth and protection of the environment
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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 likely benefits to a developing country of joint ventures between local businesses and transnational companies as a means of promoting economic development.
	Indicative content
8	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. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of joint ventures • Understanding of economic development Benefits may include: • Allows sharing of costs with TNCs – could gain internal economies of scale thus reducing cost of production and export prices, leading to growth: this raises government revenue for investment in infrastructure/human capital • Local businesses could gain access to resources including technology human capital and finance – investment in R&D/innovation allows for economic development by improving access to the internet • Risks are shared as the firms contribute a portion of the resources needed, lowering financial burden of R&D. The risk of the product and the project failing and having negative impact on profits is lower - firms will undertake more investment in technology and infrastructure, leading to development • Access to newer/wider geographic markets, customer bases and larger distribution networks: increasing output and exports, hence increased employment, incomes and standard of living • Increase in allocative efficiency – new range of products, lower price and higher quality, making goods attractive in export markets: raised demand for exports, hence increased employment, incomes and standard of living • An increase in government tax revenues which could be spent on health and education, so improving HDI and therefore economic development • Positive externalities – other local businesses benefit from skill transfer as workers move to their businesses, capital transfer, multiplier effects as