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OCR A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

The Global Context

OCR A-level Economics H460 — Topic MACRO 4

26 questions · 74 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

Questions run from the lowest mark tariff to the highest, so similar questions sit together.

Click any row below to jump straight to that question.

On every question page, click the header (top right) to jump to its mark scheme, and click again to jump back.

Mark schemes are collected together at the end of this booklet, cropped from the genuine OCR mark-scheme grid.

26 questions · 74 marks · lowest tariff first

	QUESTION	SOURCE	MARKS	PAGE
1.	Section A (MCQ), Q30	H460/03 Themes in Economics · June 2019	1 mark	5
2.	Section A (MCQ), Q16	H460/03 Themes in Economics · June 2022	1 mark	6
3.	Section A (MCQ), Q30	H460/03 Themes in Economics · June 2022	1 mark	7
4.	Section A (MCQ), Q5	H460/03 Themes in Economics · June 2022	1 mark	8
5.	Section A (MCQ), Q2	H460/03 Themes in Economics · June 2023	1 mark	9
6.	Section A (MCQ), Q5	H460/03 Themes in Economics · June 2023	1 mark	10
7.	Section A (MCQ), Q8	H460/03 Themes in Economics · June 2023	1 mark	11
8.	Section A, Q1(b)	H460/02 Macroeconomics · May 2024	1 mark	12
9.	Section A (MCQ), Q10	H460/03 Themes in Economics · May 2024	1 mark	15
10.	Section A (MCQ), Q15	H460/03 Themes in Economics · May 2024	1 mark	16
11.	Section A (MCQ), Q23	H460/03 Themes in Economics · May 2024	1 mark	17
12.	Section A (MCQ), Q12	H460/03 Themes in Economics · October 2020	1 mark	18
13.	Section A (MCQ), Q20	H460/03 Themes in Economics · October 2020	1 mark	19
14.	Section A (MCQ), Q4	H460/03 Themes in Economics · October 2020	1 mark	20
15.	Section A (MCQ), Q8	H460/03 Themes in Economics · October 2020	1 mark	21
16.	Section A (MCQ), Q16	H460/03 Themes in Economics · October 2021	1 mark	22
17.	Section A (MCQ), Q7	H460/03 Themes in Economics · October 2021	1 mark	23
18.	Section B, Q33	H460/03 Themes in Economics · June 2019	2 marks	25
19.	Section A, Q1(a)	H460/02 Macroeconomics · May 2019	2 marks	27
20.	Section A, Q1(b)	H460/02 Macroeconomics · May 2019	2 marks	30
21.	Section A, Q1(d)	H460/02 Macroeconomics · May 2019	2 marks	33
22.	Section A, Q1(a)	H460/02 Macroeconomics · October 2020	2 marks	36
23.	Section B, Q32	H460/03 Themes in Economics · June 2019	6 marks	41
24.	Section A, Q1(e)	H460/02 Macroeconomics · May 2019	8 marks	43
25.	Section A, Q1(e)	H460/02 Macroeconomics · October 2020	8 marks	47
26.	Section C (Essay), Q5*	H460/02 Macroeconomics · June 2022	25 marks	53

QUESTIONS

26 questions · 74 marks · lowest tariff first

1-MARK QUESTION

17 questions in this booklet

16

- 30 A small country engages in the international trade of seven goods. Using the information below, calculate the terms of trade.

Good	Price of good	Proportion of total export revenue
Exports		
A	£22	25%
B	£5	25%
C	£2	30%
D	50p	20%
Imports		
E	£7	10%
F	£2	70%
G	£1	20%

- A 0.31
 B 0.45
 C 2.21
 D 3.24

Your answer

[1]

9

- 16 An individual going on holiday to Spain exchanges £100 into euros when the exchange rate was 1.26 euros to 1 pound. They spend 82 euros and when they return from holiday exchange what they have left into pounds. By this point the exchange rate has changed to 1.14 euros to 1 pound. How many pounds are they left with?

- A £34.92
- B £38.60
- C £44.00
- D £50.16

Your answer

[1]

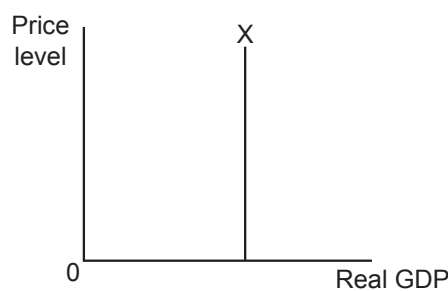
- 17 Which elasticity is the availability of stock of the product likely to impact?

- A Cross elasticity of demand
- B Income elasticity of demand
- C Price elasticity of demand
- D Price elasticity of supply

Your answer

[1]

- 18 What does curve X represent?



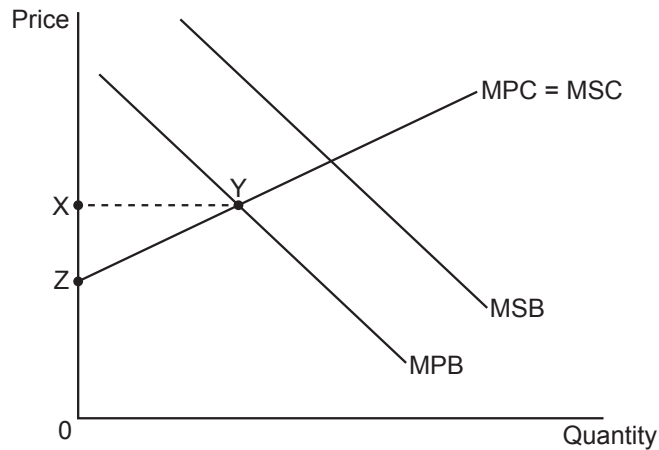
- A Long run Aggregate Supply
- B Long run Phillips Curve
- C Short run Aggregate Supply
- D Short run Phillips Curve

Your answer

[1]

14

- 29 The diagram shows the market for a good which is allocated in the free market without government intervention. What is represented by area XYZ?



- A Allocative inefficiency
- B Consumer surplus
- C Deadweight loss
- D Producer surplus

Your answer

[1]

- 30 What is the most likely impact of a policy decision to reduce the amount of protectionism in a country?

- A Domestic firms face higher tariffs on their exports
- B Sunset industries experience a decrease in the demand for their products
- C The rate of inflation increases
- D The volume of international trade decreases

Your answer

[1]

4

- 5 The table below shows the output of corn and golf clubs Country X and Country Y could produce if they used all of their resources to produce one of these goods. What can be concluded about Country X from the data?

	Corn	Golf clubs
Country X	1000 units	450 units
Country Y	5000 units	900 units

- A It has an absolute advantage in the production of corn and golf clubs
- B It has an absolute advantage in the production of golf clubs
- C It has a comparative advantage in the production of corn
- D It has a comparative advantage in the production of golf clubs

Your answer

☐

[1]

- 6 What could cause the natural rate of unemployment to decrease?

- A An increase in corporation tax
- B An increase in government spending on welfare benefits
- C An increase in government spending on education and training
- D An increase in the price level

Your answer

☐

[1]

- 7 *'There are insufficient resources to meet society's wants.'*

What does this statement describe?

- A Positive externalities of consumption
- B Positive externalities of production
- C The basic economic problem
- D The free rider problem

Your answer

☐

[1]

2

SECTION A

Write your answer to each question in the box provided.

1 What would a shift in the long run aggregate supply curve to the right be most likely to cause?

- A A decrease in the level of income inequality
- B A decrease in the rate of inflation
- C An increase in the current account deficit
- D An increase in unemployment

Your answer

[1]

2 A Central Bank is operating a fixed exchange rate.

What intervention can it take to prevent the value of the currency falling?

- A Decreasing the interest rate
- B Imposing tariffs
- C Quantitative easing
- D Selling foreign currency reserves

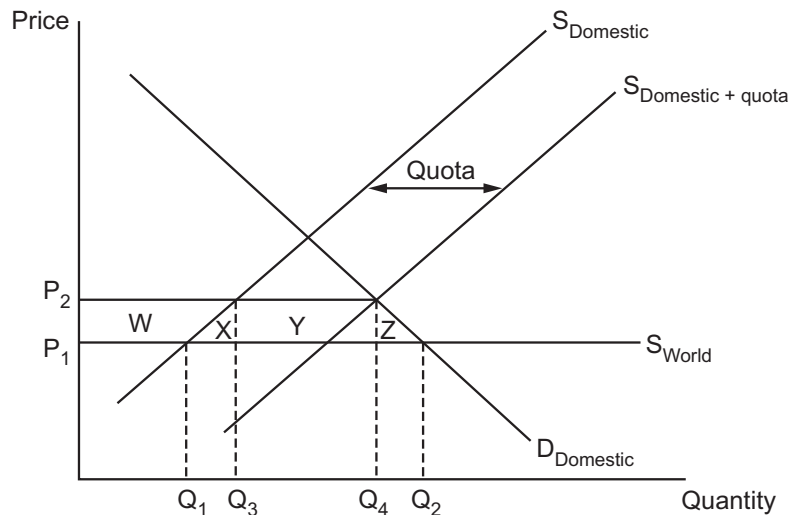
Your answer

[1]

4

- 5 The diagram shows the impact of imposing a quota on imports, which causes the price of a good to increase from P_1 to P_2 .

Which area(s) represents the net welfare loss to economic agents in the domestic economy from imposing this quota?



- A W
 B $W + X + Y + Z$
 C $X + Y + Z$
 D $X + Z$

Your answer

[1]

- 6 What is relative poverty in the UK?

- A Households are unable to afford the essentials needed for survival
 B Household income is below 60% of median household income
 C Individuals are not incentivised to work because of the high level of welfare benefits
 D Individuals earn below the living wage

Your answer

[1]

5

7 What is **one** of the roles of a firm?

- A To produce goods and/or services
- B To regulate markets
- C To supply labour
- D To tax households

Your answer

[1]

8 What does a country's terms of trade show?

- A The ability to produce a good at a lower opportunity cost than another country
- B The ability to produce a good using fewer resources than another country
- C The ratio of export prices to import prices
- D The value of exports minus the value of imports

Your answer

[1]

9 Which of these types of government spending is an example of current expenditure?

- A Construction of a new railway line
- B Flood defence schemes
- C New hospital equipment
- D Universal credit

Your answer

[1]

2

Section A

Read the stimulus material and answer **all** the parts of Question 1.

Changing economic conditions in Kenya

At the start of the 2010s, Kenya experienced high and unstable inflation. The inflation rate peaked at 14.2% in 2011. This rapid rise in the price level reduced the amount of goods and services that Kenyans' households disposable income could buy. It also reduced the international competitiveness of the country's products, decreasing net exports.

At the end of the 2010s, Kenya's inflation rate was lower and more stable. It was 5.2% in 2019 and 5.4% in 2020. The country's relative export prices had also fallen. In 2019, Kenya's export price index was 146.2 and its import price index was 215.0.

5

Kenya's economic growth rate and its government's attempts to raise the living standards of its citizens have been restricted by poor infrastructure. The country has received financial assistance from the International Development Association (IDA). This part of the World Bank is the world's largest multilateral source of concessionary financing for low- and lower middle-income countries. It provides development loans, grants and guarantees to these countries to help them increase their economic growth and development. In 2020, the IDA lent \$306 billion to 76 countries Fig. 1 shows the IDA assistance per capita received by six of those countries and their GDP per capita expressed in terms of index figures.

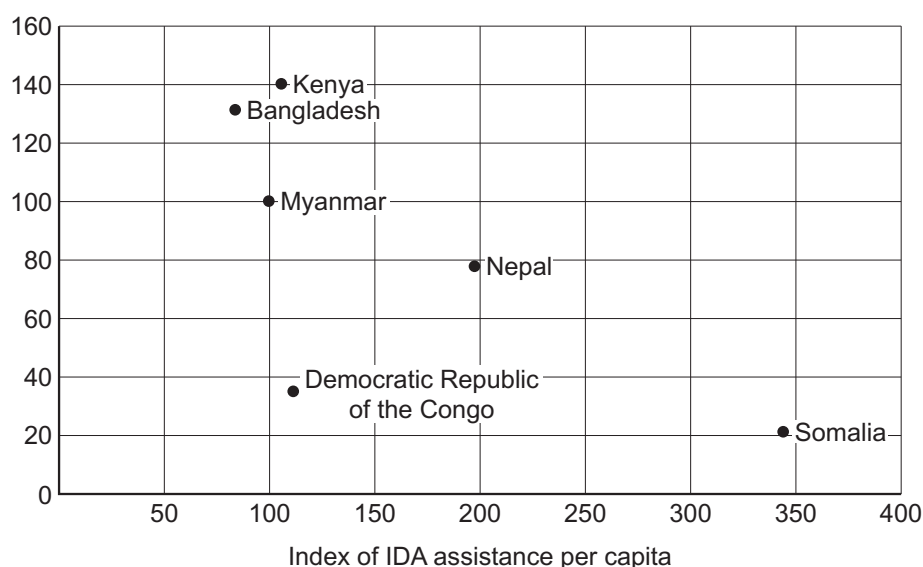
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15

Fig. 1

Index figures for the IDA assistance per capita and GDP per capita 2020

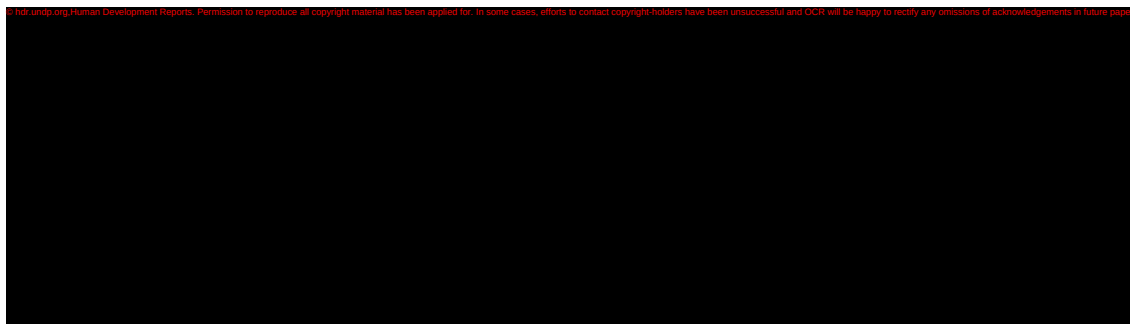
Index of GDP
per capita



3

The Kenyan government has raised its spending on education in recent years. Education can have an impact on life expectancy. Table 1 shows mean years of schooling and life expectancy in the six countries shown in Fig. 1.

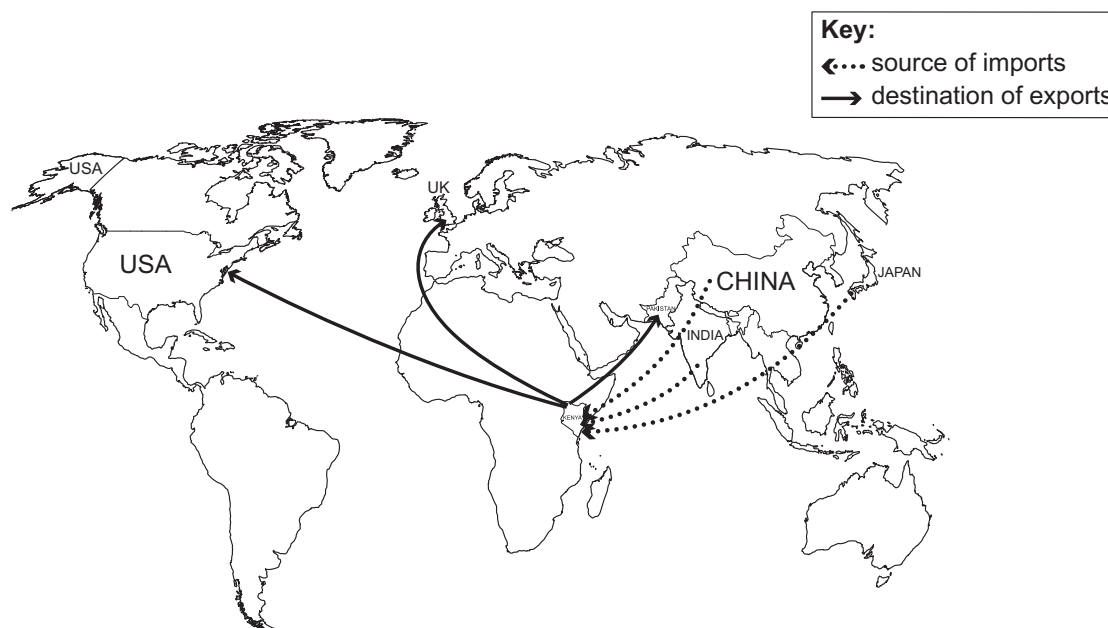
Table 1
Mean years of schooling and life expectancy 2019



As well as increases in spending on education, the Kenyan government has spent more on health care, infrastructure projects and subsidies given to farmers and tourist firms. It is expected that this increase in government spending will affect Kenya's international trade position. However, it is uncertain whether it will reduce or increase Kenya's government budget deficit.

Kenya's main exports include tea and cut flowers. Fig. 2 shows Kenya's main trading partners.

Fig. 2
Kenya's main trading partners 2020



Kenyans are affected by opportunities and challenges created by globalisation. In recent years, the prices of some products bought by Kenyans have fallen and their quality has increased. The gap between the pay of skilled and unskilled workers in the country has widened. Unemployment is high in the country although some Kenyans have gained employment in foreign multinational companies operating in Kenya.

4

1

- (a) Using information from the stimulus material, identify **two** components of Kenya's aggregate demand.

Component 1

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Component 2

.....

[2]

- (b) Using information from the stimulus material, calculate to one decimal place Kenya's terms of trade in 2019.

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..... [1]

- (c) Explain if the relationship in **Fig. 1** between IDA assistance per capita and GDP per capita is the expected one.

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..... [3]

6

- 9 The table shows the total utility from consuming units of a good.

Unit of Consumption	Total Utility
1	20
2	25
3	31
4	35
5	38
6	40
7	39

What unit of consumption does the consumer begin to experience diminishing marginal utility?

- A 4
B 5
C 6
D 7

Your answer

[1]

- 10 A UK firm imports oranges from Portugal. 200 kg of oranges costs the firm 300 euros. The exchange rate is £1 Sterling to 1.2 euros.

How much does 400 kg of oranges cost the firm in £ Sterling?

- A £250
B £360
C £500
D £72

Your answer

[1]

8

- 14 The Fisher equation of exchange shows the relationship between: Money supply (M), Price level (P), Velocity of circulation (V) and National income (Y).

Which of these is the correct equation?

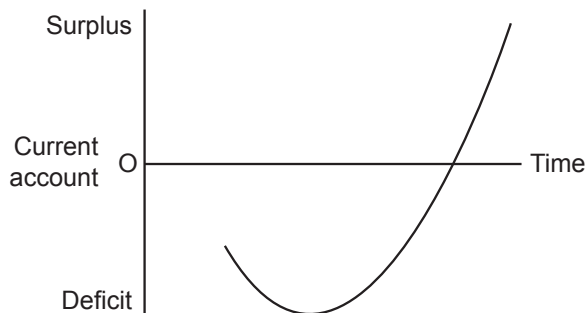
- A $MV = PY$
- B $MY = PV$
- C $PM = YV$
- D $PV = MY$

Your answer

☐

[1]

- 15 What does the diagram suggest?



- A A depreciation in the exchange rate will decrease the government's budget deficit
- B A depreciation in the exchange rate will increase the government's budget deficit
- C Demand for exports and imports is price elastic in the short run
- D Demand for exports and imports is price inelastic in the short run

Your answer

☐

[1]

12

22 A firm wants to use third degree price discrimination.

Which of these factors would make it difficult for the firm to adopt this strategy successfully?

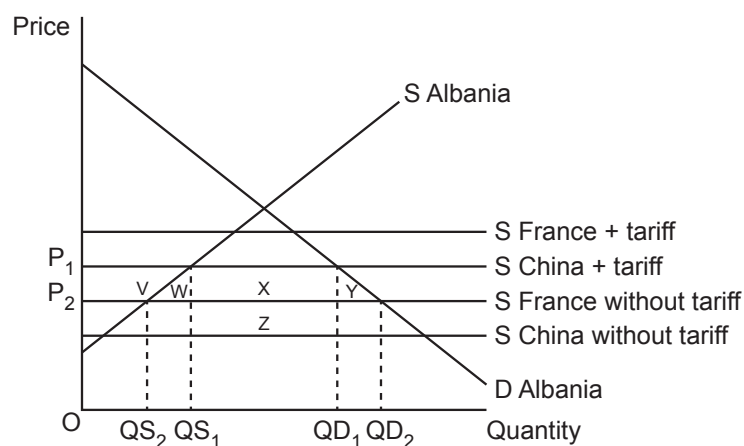
- A All consumers have the same price elasticity of demand for the good
- B Consumers from the lower price market are not able to sell to consumers from the higher price market
- C The firm is able to segment the market
- D The firm operates under imperfect competition

Your answer

[1]

23 If Albania were to join the European Union (EU) then tariffs on goods from EU countries such as France would be removed, however tariffs on goods from China would remain.

In the diagram the price of the good would fall from P_1 to P_2 as Albanian consumers could access supply from France without a tariff.



What would be the net impact to the Albanian economy because of this change?

- A $V + W + X + Y$
- B $V + X + Z$
- C $W + X + Y$
- D $W + Y - Z$

Your answer

[1]

6

9 What is most likely to cause a decrease in wealth inequality?

- A A decrease in capital gains tax
- B A decrease in income inequality
- C An increase in house prices
- D An increase in the tax-free inheritance allowance

Your answer

[1]

10 What is most likely to lead to allocative efficiency being achieved in an industry that is a natural monopoly?

- A Collusion
- B Competition policy
- C Information provision
- D Regulation

Your answer

[1]

11 What is an example of a supply side policy measure?

- A Imposing a tariff
- B Increasing interest rates
- C Privatisation
- D Quantitative easing

Your answer

[1]

12 What is the impact of the Marshall-Lerner condition holding?

- A An exchange rate appreciation will only reduce a current account deficit in the long run
- B An exchange rate appreciation will reduce a current account deficit
- C An exchange rate depreciation will only reduce a current account deficit in the long run
- D An exchange rate depreciation will reduce a current account deficit

Your answer

[1]

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9

18 Use the information below to calculate the size of the national income multiplier.

Gini coefficient	0.71
Marginal Propensity to Import	0.11
Marginal Propensity to Save	0.23
Marginal Rate of Taxation	0.17
PED for exports and imports	0.42

- A 0.51
- B 1.64
- C 1.96
- D 2.94

Your answer

[1]

19 What is likely to be required in an economy where money does not exist?

- A A barter system
- B A central bank
- C Price controls
- D Protectionism

Your answer

[1]

20 How does comparative advantage explain why the UK imports cars from Germany?

- A German car manufacturers can export tariff free to the UK
- B Germany can produce cars at a lower opportunity cost than the UK
- C Germany can produce cars more efficiently at a lower cost of production than the UK
- D Germany is located closer to the UK than US car manufacturers

Your answer

[1]

3

- 3 A change in the price of good X causes the demand for good Y to increase by 4.5%. The cross elasticity of demand between the two goods is 1.7. If the price of good X is now £2.50, what was its original price?

- A £2.32
- B £2.44
- C £2.49
- D £2.57

Your answer

[1]

- 4 What would cause the exchange rate to depreciate?

- A An increase in domestic incomes
- B An increase in incomes abroad
- C Export subsidies
- D Technological advancement of domestic goods

Your answer

[1]

5

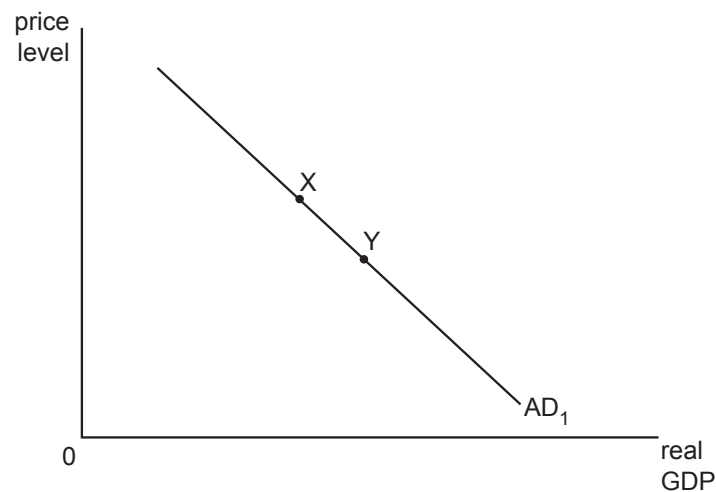
- 7 A resident of London being protected by Trident, the UK's nuclear defence system, does not affect a resident of Sunderland's ability to be protected by Trident. Which feature of a public good is described here?

- A Non-excludability
- B Non-rejectability
- C Non-rivalry
- D Zero opportunity cost

Your answer

[1]

- 8 What explains a movement from X to Y in the diagram below?



- A A decrease in corporation tax rates
- B An exchange rate depreciation
- C An increase in interest rates
- D An increase in the real value of households' wealth

Your answer

[1]

9

- 15 Output is one way of measuring the level of economic activity in an economy. What is another way?

- A Employment
- B Expenditure
- C Human Development Index
- D Inflation

Your answer

[1]

- 16 The table below outlines how import and export prices in a country have changed over time. How much has the country's terms of trade increased by between 2000 and 2020?

Year	Price index of exports	Price index of imports
2000	103	117
2020	109	119

- A 3.6%
- B 4.1%
- C 10.8%
- D 13.0%

Your answer

[1]

- 17 A local restaurant employs five staff – a manager, a chef, a barman and two waiters. What economic theory is this an example of?

- A Bilateral monopoly
- B Comparative advantage
- C Derived demand for labour
- D Division of labour

Your answer

[1]

4

- 5 Many developing nations face the problem of a poorly developed financial sector. This is partly because individuals are unwilling to save their money in financial institutions. Some are worried that the financial institutions may go bankrupt, which will result in them losing their savings. How can a central bank help to overcome this problem?

- A Act as a lender of last resort
- B Issue banknotes and coins
- C Maintain price stability
- D Manage the government's borrowing

Your answer

☐

[1]

- 6 What is likely to be the most effective policy solution to overcome the market failure caused by the existence of positive externalities of production?

- A Competition policy
- B Regulation
- C Subsidy
- D Taxation

Your answer

☐

[1]

- 7 Which form of economic integration describes a situation in which there is free trade between members who set common external tariffs but each have different currencies?

- A Customs union
- B Economic union
- C Free trade area
- D Monetary union

Your answer

☐

[1]

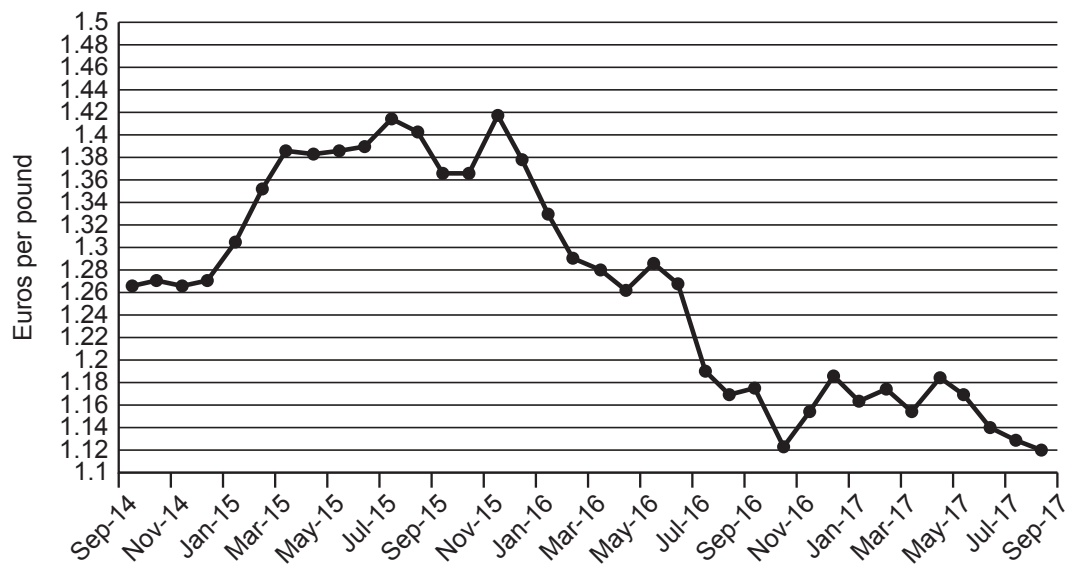
2-MARK QUESTIONS

5 questions in this booklet

18

The value of the pound is a crucial determinant of the international competitiveness of UK firms. Fig. 1.2 illustrates the impact the vote to leave the EU had on the exchange rate.

Fig. 1.2 – Sterling-Euro Exchange Rate 2014–2017



22

- 33** Using Fig. 1.2, explain what happened to the value of the pound following the UK's vote to leave the European Union.

[2]

- 34** Using Fig. 2.1, explain what has happened to migration in the UK between 2000 and 2016.

[2]

- 35** Evaluate, using the information in Extract 2, the impact on the UK labour market and wider economy of the UK ending the free movement of labour with EU countries. **[15]**

This image shows a full page of white paper with ten horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and extend across the entire width of the page. There is no text or other markings on the paper.

2

SECTION A

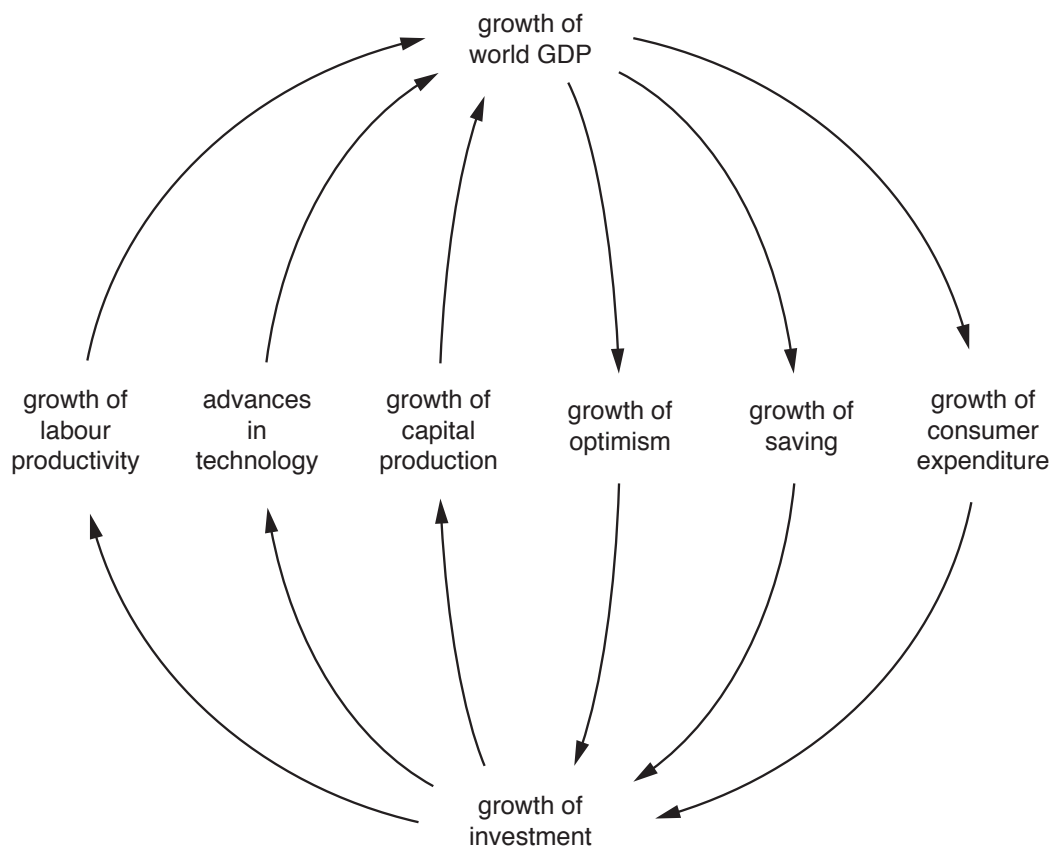
Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

Trade wars threaten globalisation

Trade wars were threatening the process of globalisation in 2018 and were restricting the ability of countries to exploit their comparative advantage and their absolute advantage. In the years before, advances in production and communication technology had lowered production and transport costs, had increased the ability of firms to move production around the world and increased the size of firms' markets.

World trade increased by 3.2% in 2017. This contributed to a growth in world GDP. Higher GDP can result in a virtuous circle as shown in Fig. 1.

Figure 1 A virtuous circle



While the benefits of globalisation are widespread, the costs are often concentrated in particular areas and among those unskilled workers who are geographically and occupationally immobile. One of the reasons why the US government imposed tariffs on steel imported from China was to protect the jobs of US steel workers.

Some economists are also concerned that globalisation can result in governments engaging in tax competition to keep firms and skilled workers in the country and to attract foreign MNCs and

3

foreign skilled workers into the country. Table 1 shows government tax revenue and expenditure
15 for selected countries in 2017.

Table 1 Government tax revenue and government expenditure 2017

Country	Government tax revenue (US\$ billion)	Government tax revenue as a % of GDP	Government expenditure (US\$ billion)
China	2672	22.4	3146
Germany	1598	43.8	1573
India	249	10.2	330
Ireland	85	26.2	87
Russia	254	17.3	288
UK	984	38.4	1076
USA	3336	22.0	3991

International competition may, on the other hand, encourage governments to spend more on education, training and health care to increase productivity and so attract foreign direct investment. Table 2 shows the corporate tax rates and the foreign direct investment attracted by the same selected countries.

Table 2 Corporate tax rates and foreign direct investment 2017

Country	Average corporate tax rate (%)	Foreign direct investment per head (US\$)
China	25.0	1098
Germany	29.8	17 963
India	34.6	287
Ireland	12.5	295 400
Russia	20.0	3378
UK	19.0	30 852
USA	40.0	12 489

- 20 The UK economy is more affected by changes in the global economy than the USA. This is because it is a more open economy. The UK has a relatively high marginal propensity to import. Between 2016 and 2017, average UK household income rose from £26 300 to £27 400 while average household spending on imports rose from £4950 to £5280.

- The growth of the emerging economies, including China and India, is having an impact on the UK.
25 For instance, Chinese steel firms have captured some of the UK's steel industry's market at home and abroad. Indian MNCs produced more than £26 billion of goods and services in the UK in 2016 and employed more than 100 000 workers in the UK.

4

- 1 (a) Distinguish between absolute advantage and comparative advantage.

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..... [2]

- (b) Explain how Fig. 1. illustrates the Harrod-Domar model.

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..... [2]

- (c) (i) Using Table 1, explain which country's government made a negative contribution to the country's aggregate demand.

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- (ii) Using Table 1, calculate Russia's GDP in 2017.

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2

SECTION A

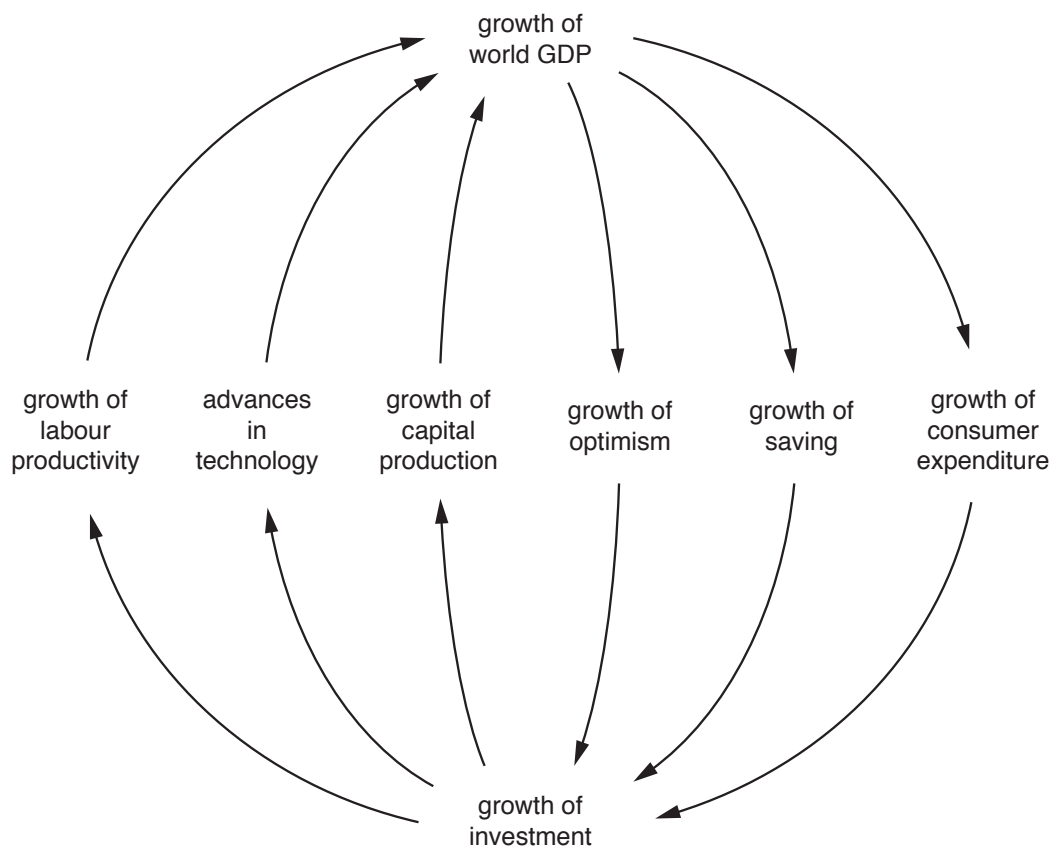
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..... [2]

2

SECTION A

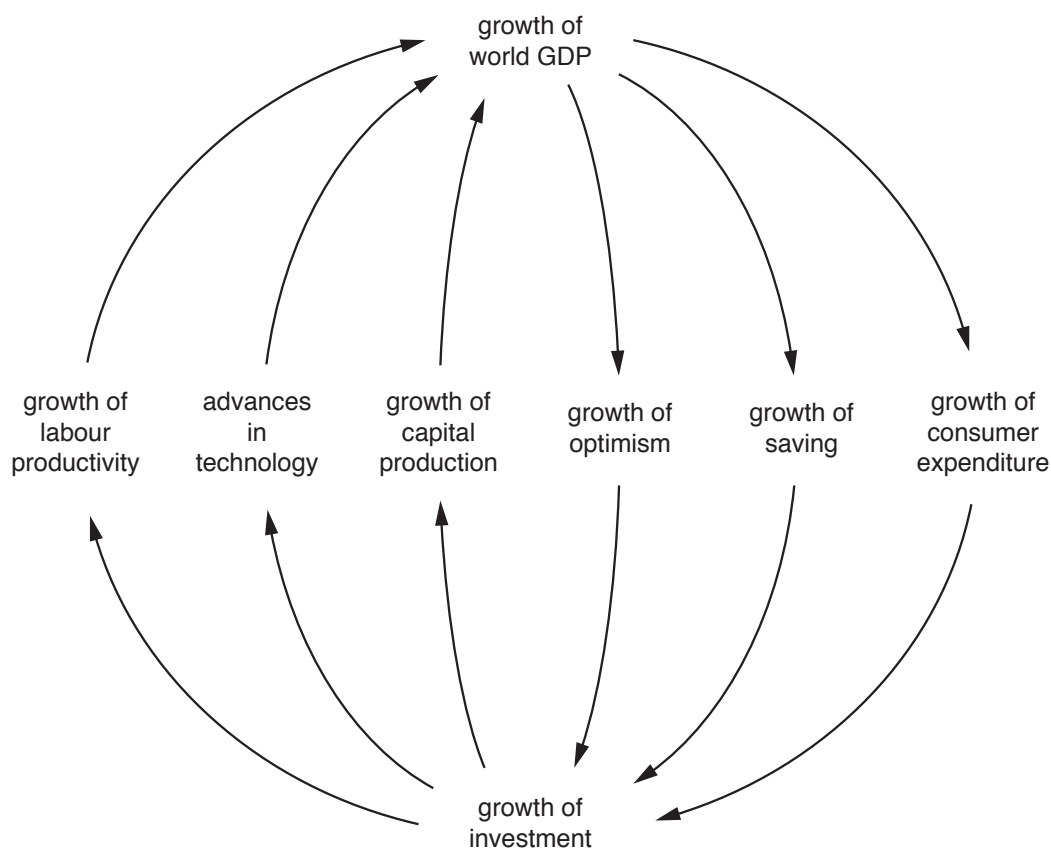
Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

Trade wars threaten globalisation

Trade wars were threatening the process of globalisation in 2018 and were restricting the ability of countries to exploit their comparative advantage and their absolute advantage. In the years before, advances in production and communication technology had lowered production and transport costs, had increased the ability of firms to move production around the world and increased the size of firms' markets.

World trade increased by 3.2% in 2017. This contributed to a growth in world GDP. Higher GDP can result in a virtuous circle as shown in Fig. 1.

Figure 1 A virtuous circle



While the benefits of globalisation are widespread, the costs are often concentrated in particular areas and among those unskilled workers who are geographically and occupationally immobile. One of the reasons why the US government imposed tariffs on steel imported from China was to protect the jobs of US steel workers.

Some economists are also concerned that globalisation can result in governments engaging in tax competition to keep firms and skilled workers in the country and to attract foreign MNCs and

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foreign skilled workers into the country. Table 1 shows government tax revenue and expenditure
15 for selected countries in 2017.

Table 1 Government tax revenue and government expenditure 2017

Country	Government tax revenue (US\$ billion)	Government tax revenue as a % of GDP	Government expenditure (US\$ billion)
China	2672	22.4	3146
Germany	1598	43.8	1573
India	249	10.2	330
Ireland	85	26.2	87
Russia	254	17.3	288
UK	984	38.4	1076
USA	3336	22.0	3991

International competition may, on the other hand, encourage governments to spend more on education, training and health care to increase productivity and so attract foreign direct investment. Table 2 shows the corporate tax rates and the foreign direct investment attracted by the same selected countries.

Table 2 Corporate tax rates and foreign direct investment 2017

Country	Average corporate tax rate (%)	Foreign direct investment per head (US\$)
China	25.0	1098
Germany	29.8	17 963
India	34.6	287
Ireland	12.5	295 400
Russia	20.0	3378
UK	19.0	30 852
USA	40.0	12 489

20 The UK economy is more affected by changes in the global economy than the USA. This is because it is a more open economy. The UK has a relatively high marginal propensity to import. Between 2016 and 2017, average UK household income rose from £26 300 to £27 400 while average household spending on imports rose from £4950 to £5280.

The growth of the emerging economies, including China and India, is having an impact on the UK.
25 For instance, Chinese steel firms have captured some of the UK's steel industry's market at home and abroad. Indian MNCs produced more than £26 billion of goods and services in the UK in 2016 and employed more than 100 000 workers in the UK.

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- (d) Using information from the stimulus material, calculate the UK's marginal propensity to import in 2017.

[2]

- (e) Using Table 2, evaluate to what extent differences in corporate tax rates explain differences in foreign direct investment in countries. [8]

[illegible]

2

SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

Are low-income countries playing catch up?

The global economy is changing. It is becoming more integrated and China is moving towards becoming the world's largest economy. Lower costs of transport continue to increase the volume of international trade. Producing in different countries and buying products from anywhere in the world are being made easier by advances in communications.

- 5 World trade grew by 4.4% in 2017 and is predicted to grow by 4.7% in 2018. China is accounting for a higher proportion of this global trade and a higher proportion of global output. The country has experienced a significant rise in its GDP per head in recent years. This has had an impact on its citizens' life expectancy. Fig. 1 shows the average income and life expectancy in a number of countries.

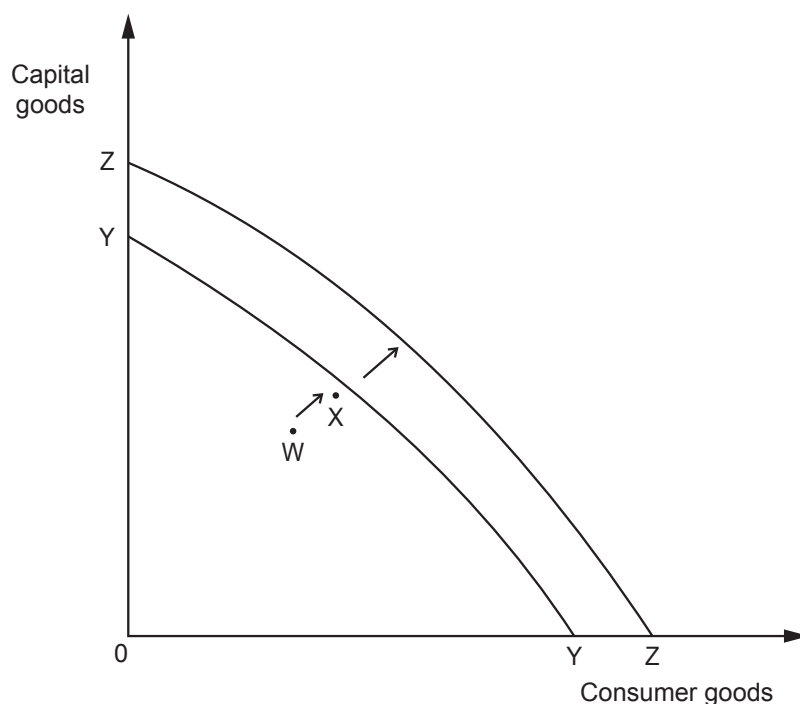
Fig. 1 GDP per head and life expectancy in selected countries 2017

Country	GDP per head (\$)	Life expectancy (years)
Bangladesh	4200	73.7
China	16 700	75.8
Egypt	12 700	73.2
Germany	50 800	80.9
Guinea	2200	62.1
Japan	42 900	85.5
UK	44 300	80.9
USA	59 800	80.1

- 10 Developments in the Chinese economy can be illustrated by both movements in the country's production possibility points and in the position of the production possibility curve as shown in Fig. 2.

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Fig. 2 A country's production possibility curve and points



The Bangladeshi economy has also grown in recent years, but its growth has been more erratic. In 2017, the country's main export destinations were the USA, Germany, UK and France. Its main sources of imports were China, India, Singapore and Japan. In 2017, the value of its exports to the UK was £2251 m while the value of its imports from the UK were £190 m. Bangladesh is also a recipient of UK overseas aid. In 2016, the UK government spent £13.4 bn on overseas aid, in line with its target of 0.7% of GDP. Bangladesh was the 11th largest recipient, receiving £170 m. Fig. 3 provides some more information on the Bangladeshi economy.

Fig. 3 Details on the Bangladeshi economy 2017

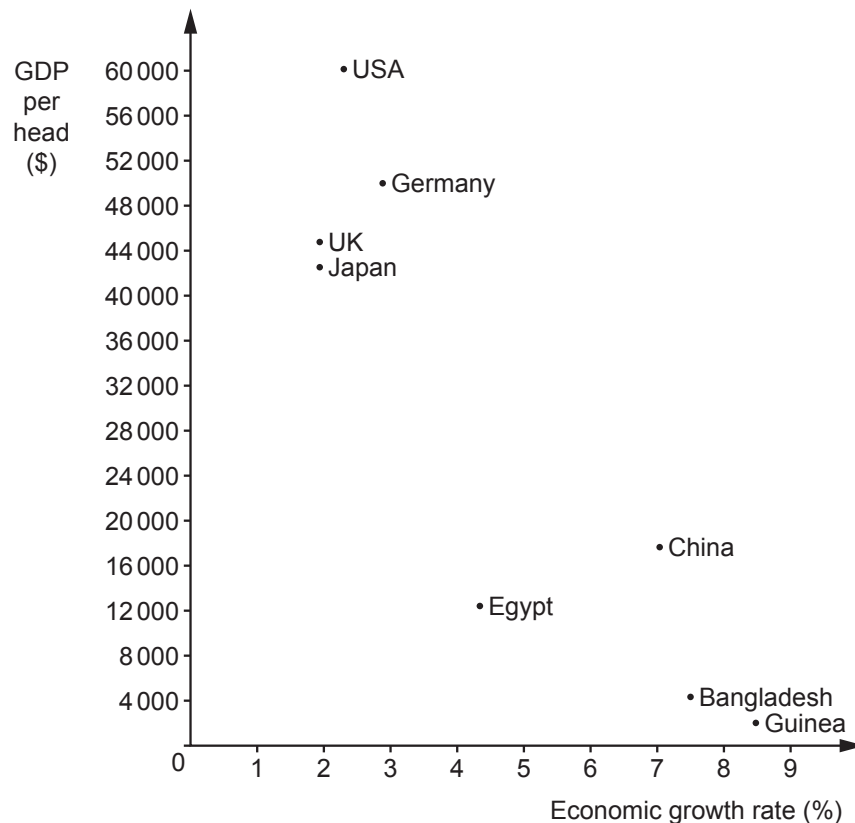
	\$ billion
Consumer expenditure	191
Exports	50
Government spending	13
Investment	76
Imports	68
Tax revenue	25

Bangladesh's finance minister suggested in 2017 that he would cut the country's corporate tax rates as they are much higher than most other countries. He argued that such a move would increase the country's rate of economic growth.

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Some economists suggest that low-income countries are likely to grow more rapidly than high-income countries. Fig. 4 shows GDP per head and economic growth rates of a number of countries.

Fig. 4 GDP per head and economic growth rate of selected countries 2017



- 25 People in low-income countries may have a greater incentive to work hard to improve their living standards. Perhaps more significantly, the countries may be able to take advantage of technology transfer from high-income countries and their relatively low wages may attract foreign direct investment. The countries may also have greater potential to reallocate resources from low to high value activities.
- 30 To date, Asian countries have been more successful in narrowing the income gap than African countries. A number of African countries have poor infrastructure, low labour productivity, rapidly growing populations and a lack of economic and political stability.

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- 1 (a) Using information from the stimulus material, identify **two** causes of globalisation.

Cause 1

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Cause 2

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[2]

- (b) Using Fig. 1, explain the relationship between GDP per head and life expectancy.

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[4]

- (c) Using Fig. 2, explain the difference between short run and long run economic growth.

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[2]

6-MARK QUESTIONS

1 question in this booklet

21

- 31** Using Fig. 1.1 and the information in Extract 1, explain whether the UK's balance of payments is likely to be harmed as a result of the UK leaving the European Single Market.

[2]

- 32** Some economists argued membership of the European Single Market caused a number of trade distortions, including in the beef market, where Irish firms had an artificial advantage over US firms as a result of being able to export to the UK tariff-free.

Explain, using an appropriate diagram and the information in Extract 1, the impact on the UK of a free trade deal that would enable US firms to export beef to the UK tariff-free.

[6]

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Turn over

8-MARK QUESTIONS

2 questions in this booklet

2

SECTION A

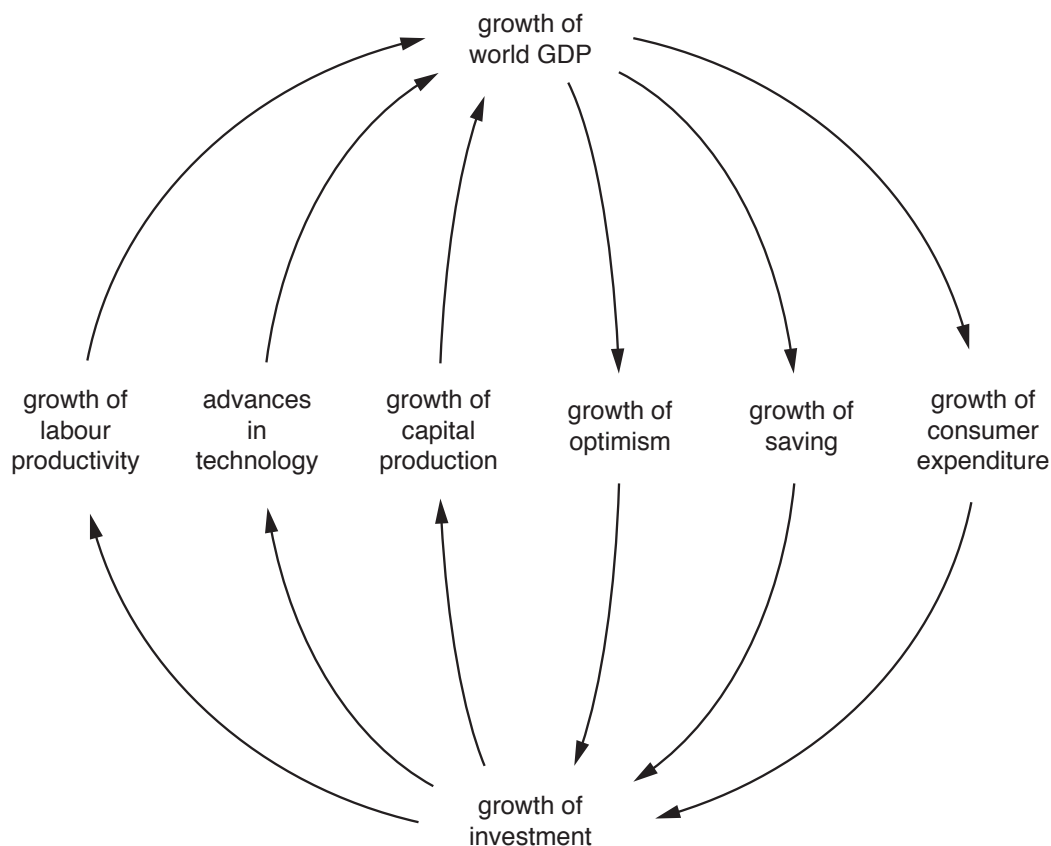
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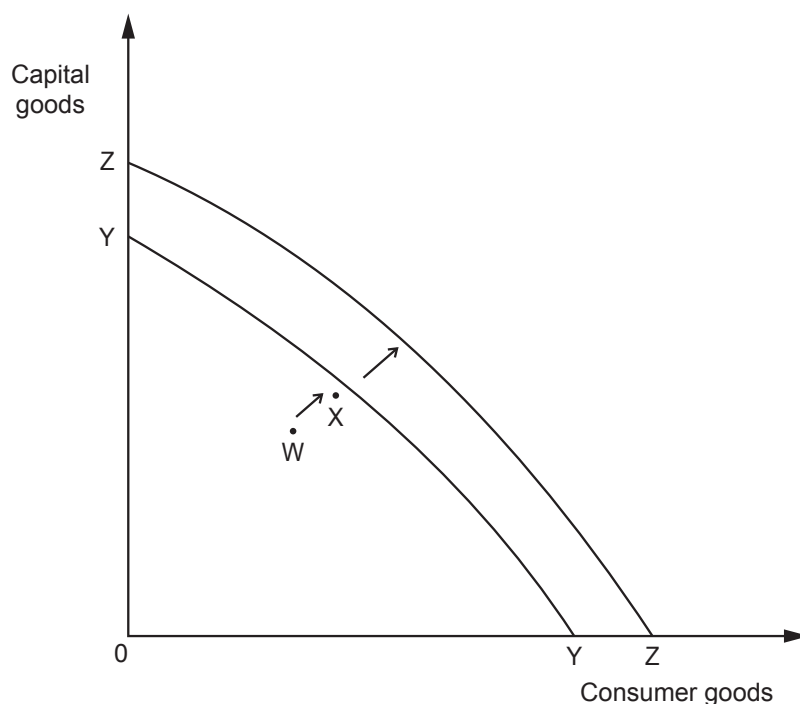
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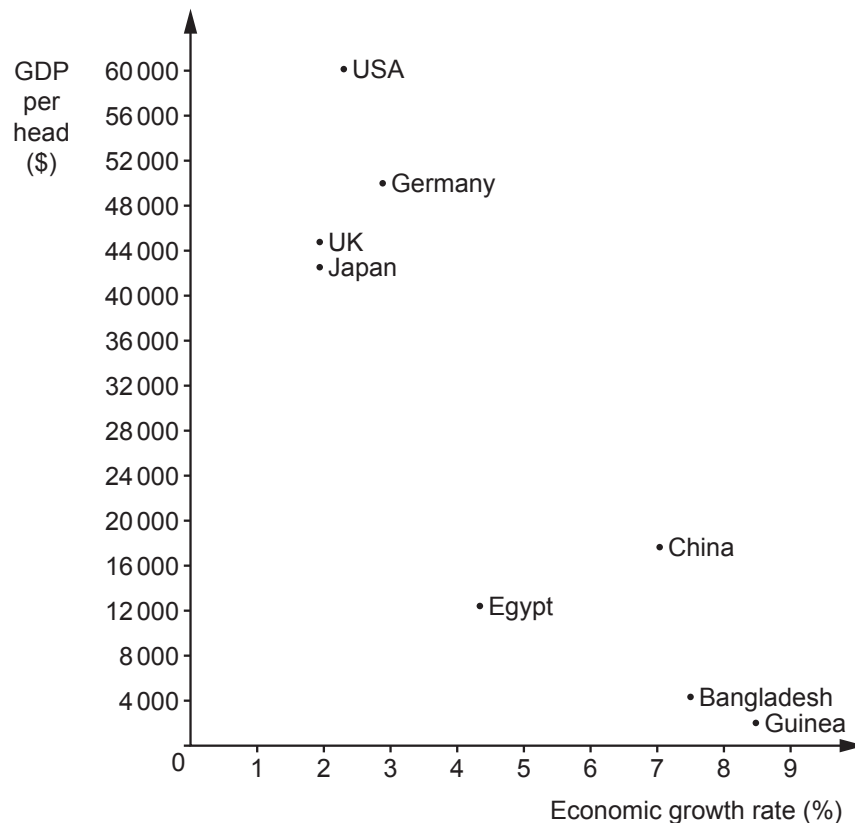
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Some economists suggest that low-income countries are likely to grow more rapidly than high-income countries. Fig. 4 shows GDP per head and economic growth rates of a number of countries.

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6

- (d) Using information from Fig. 3, explain whether Bangladesh had a budget deficit or a budget surplus in 2017.

..... [2]

- (e)** Using information from the stimulus material, evaluate whether a cut in corporate tax rates in Bangladesh would benefit the UK economy. **[8]**

[illegible]

Handwriting practice area with horizontal dotted lines.

25-MARK QUESTIONS

1 question in this booklet

SECTION C

Answer **EITHER** Question 4 **OR** Question 5.

EITHER

- ^{4*} In some recent years, Mongolia has experienced high rates of economic growth. In 2019, its government adopted a long term development strategy known as Mongolia's Sustainable Development Vision 2030.

Evaluate whether a country with a high economic growth rate can achieve sustainable development.

[25]

OR

- 5*** In recent years there has been a rise in protectionism. For example, the US Trump administration argued that higher tariffs on Chinese imports would reduce US unemployment.

Evaluate whether protectionism always reduces unemployment.

[25]

Question No.

This image shows a full page of a worksheet designed for handwriting practice. It features 18 evenly spaced, horizontal dashed lines across the entire width of the page. The background is plain white, providing a clear guide for letter height and placement. There are no margins, text, or other markings present.

Area for writing the answer to Question 5. The page contains horizontal dotted lines for writing.

Area with horizontal dotted lines for writing.

MARK SCHEMES

official OCR mark schemes

30	D	A Weighted average of import prices / weighted average of export prices B Calculates an average of export and import prices without weighting them and calculates terms of trade as import prices / export prices C Calculates an average of export and import prices without weighting them D Correct: Terms of trade = weighted average of export prices / weighted average of import prices $= (22 \times 0.25 + 5 \times 0.25 + 2 \times 0.3 + 0.5 \times 0.2) / (7 \times 0.1 + 2 \times 0.7 + 1 \times 0.2) = 7.45 / 2.3 = 3.24$	AO3	/
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16	B	A	Incorrectly specifies the exchange rate as having remained at 1.26 euros to 1 pound.	AO2	✓
		B	Correct: Individual initially gets $100 \times 1.26 = 126$ euros. Left with $126 - 82 = 44$ euros. $44/1.14 = \text{£}38.60$.		
		C	This is the number of euros remaining.		
		D	Error in the final stage of the calculation: $44 \times 1.14 = \text{£}50.16$.		

30	B	A	Tariffs are more likely to fall than rise elsewhere in response to a country reducing its own level of protectionism.	AO1	
		B	Correct: Sunset firms that have lost comparative advantage are no longer protected by protectionist measures, leading to their demand to fall.		
		C	Prices are likely to fall as a result of consumers having access to cheaper imports.		
		D	A reduction in protectionism reduces the cost of trade so should increase the volume.		

5	D	A Country Y has an absolute advantage in the production of both goods. B Country Y has an absolute advantage in the production of both goods. C Country Y has a comparative advantage in the production of corn, as it can producing it at a lower opportunity cost (0.18 golf clubs) than country X (0.45 golf clubs). D Correct: Country X can produce golf clubs at a lower opportunity cost (2.22 units of corn) than country Y (5.56 units of corn).	AO3	✓
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2	D	A This would cause hot money to flow out of the economy, putting pressure on the currency to depreciate. B The government rather than the Central Bank imposes tariffs, and it is not clear what the impact of a tariff would be on a currency – it would only lead to a reduction in import expenditure if demand for imports was price inelastic. C Quantitative easing is likely to lead to interest rates falling, which will lead to outflows of hot money and put pressure on the currency to depreciate. D Correct: By purchasing the domestic currency on the foreign exchange market this increases demand for the currency and prevents it falling in value.	AO1	
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5	C	A This is a reallocation of welfare from consumers to producers. B This is the loss in consumer surplus. C Correct: This is the loss in consumer surplus that is not reallocated to any domestic economic agent. Whilst area Y is reallocated to foreign firms, this represents a loss to the domestic economy. D Y is also part of the domestic welfare loss, as it is reallocated from consumers to foreign producers.	AO3	✓
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8	C	A This is comparative advantage. B This is absolute advantage. C Correct: The term of trade indicates the extent to which countries are likely to benefit from international trade – a decrease in the terms of trade means a country would need to export a greater volume of goods in exchange for the same volume of imports. D This is the balance of payments.	AO1	
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1	(b)	Using information from the stimulus material, calculate to one decimal place Kenya's terms of trade in 2019. Correct answer = 68 or 68.0	1	Annotate with ✓ Index of export prices/index of import prices x100 146.2/215 x 100 = 68 Do not credit 0.68 Do not credit 68.8
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Question	Answer	Mark	Guidance
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10	C	A This is the £ Sterling value of 200 Kg B Incorrectly multiplies 300 Euro by 1.2 C Correct: 300 Euro x 2 = 600 Euro. 600 Euro / 1.2 = 500 D Incorrectly multiplies 600 Euro by 1.2	AO2	✓
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15	D	Which is the incorrect statement? A The diagram shows the impact on the current account balance, it does not show the government budget. B The diagram shows the impact on the current account balance, it does not show the government budget C If the demand for exports and imports was elastic then the current account deficit would improve because of a depreciation of the exchange rate. D Correct: The demand for exports and imports is inelastic in the short run which causes the current account deficit to worsen in the short run after a depreciation of the exchange rate.	AO2	
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23	D	A B C D	as free markets and have market power. This is the consumer surplus gained. It does not consider the producer surplus and tax revenue that has been lost. This is the total loss of producer surplus and tax revenue. This is the gain in consumer surplus less the loss of producer surplus but does not consider the loss of tax revenue Correct: This is the gain in consumer surplus less the loss of producer surplus and loss of tax revenue.	AO3	✓
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12	D	A If the Marshall-Lerner condition holds an exchange rate appreciation would increase a current account deficit. B If the Marshall-Lerner condition holds an exchange rate appreciation would increase a current account deficit. C This is confusing the J-curve with the Marshall-Lerner condition. J-curve theory suggests the Marshall-Lerner condition will only hold in the long run, which explains the statement, but the question only states that the Marshall-Lerner condition holds without reference to a time period – this means the current account deficit will reduce as a result of an exchange rate depreciation. D Correct: An exchange rate depreciation will reduce the price of exports, increasing export demand, and increase the price of imports, reducing import demand. When the sum of the price elasticities of demand for imports and exports exceeds 1, this will result in a reduction in the current account deficit.	AO1	
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20	B	A	Whilst being a member of a free trade area might give Germany preferential access to UK markets, this is an alternative explanation of global trading patterns.	AO1	
		B	Correct: Because Germany can produce cars at a lower opportunity cost than the UK, it is more efficient for the UK to specialise in the production of goods it has a comparative advantage in and import cars from Germany – this enables consumption to be enjoyed beyond an economy's production possibilities.		
		C	This is an explanation of absolute rather than comparative advantage.		
		D	Whilst being located closer to a trading partner can reduce costs of transportation and increase trade, this is an alternative explanation of global trading patterns.		

4	A	A	Correct: This would increase demand for imports, increasing the supply of the currency and causing an exchange rate depreciation.	AO1	
		B	This would increase demand for exports, increasing demand for the currency and causing an exchange rate appreciation.		

8	D	A	This is likely to cause a shift in long run aggregate supply or a shift in aggregate demand, not a movement along the aggregate demand curve.	AO3	✓
		B	This would cause a shift of the AD curve rather than a movement along it.		

16	B	A 3.6%. This is the absolute change in the terms of trade ($91.60 - 88.03$), not the percentage increase. B Correct: 4.1%. 2000 terms of trade = $103/117 \times 100 = 88.03$. 2020 terms of trade = $109/119 \times 100 = 91.60$. Terms of trade have increased by $(91.60 - 88.03) / 88.03 \times 100 = 4.1\%$. C 10.8%. Calculates terms of trade incorrectly and then calculates the absolute change in these numbers rather than a percentage change. $91.80 - 81.03 = 10.8\%$. D 13.0%. Incorrectly calculates 2000 terms of trade as $(103 / 117)$ and 2020 terms of trade as $(109 / 119)$. $(91.80 - 81.03) / 81.03 \times 100 = 13.0\%$.	AO2	✓
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7	A	A	Correct: When countries have a common set of trading rules but independence over macroeconomic policy they are in a customs union.	AO1	
		B	This occurs when there is not only free trade but also closely integrated macroeconomic policy.		
		C	This is a looser form of integration where countries have tariff free trade but are free to reach their own trade deals with other countries.		
		D	This occurs when a group of countries are in a customs union and also share the same currency.		

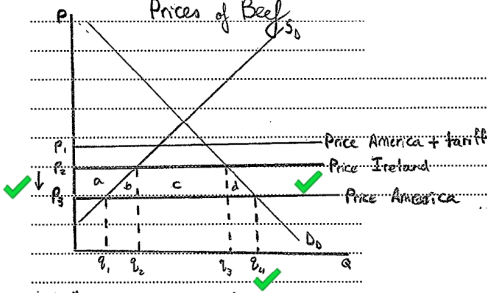
33		Using Fig. 1.2, explain what happened to the value of the pound following the UK's vote to leave the European Union. • The value of the pound depreciated/decreased/fell (1) • From 1.26/1.27/1.28 euros per pound in June 2016 to 1.12 euros per pound in August/September 2017 (1)	2 (AO2 x 2) No credit should be awarded to candidates commenting on the exchange rate throughout the period shown in Fig 1.2 rather than focusing on the period following the vote to leave the EU. Accept any correct use of data with an end point from July 2016 to September 2017.
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Question	Answer	Marks	Comments
1 (a)	Distinguish between absolute advantage and comparative advantage. Absolute advantage is being able produce the product with less resources/lower unit costs/produce more with fewer inputs. (1) whereas comparative advantage is being able to produce a product at a lower opportunity cost (1).	2 (AO1 x2)	

1	(b)	Explain how Fig. 1 illustrates the Harrod-Domar model. A model that says the rate of growth = the savings ratio/the capital output ratio (productivity of capital investment) (1) the growth of savings, leading to growth of Investment and/or growth of capital production to increase in world growth as shown by fig 1(1)	2 (AO2 x2)	
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1	(d)	Correct working i.e. $\frac{\text{£330}}{\text{£1,100}}$ (1) Using information from the stimulus material, calculate the UK's marginal propensity to import in 2017. 0.3 (2). Correct working or formula: $\text{£330}/\text{£1,100}$ i.e. change in imports/change in disposable income (1).	2 (A02 x2)	
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Question	Answer	Marks	Guidance
1 (a)	Using information from the stimulus material, identify two causes of globalisation. Lower costs of transport (1). Advances in communications/technology (1).	2 (AO1 x 2)	Annotate with ✓ Up to 2 marks for causes from the stimulus

32	Explain, using an appropriate diagram and the information in Extract 1, the impact on the UK of a free trade deal that would enable US firms to export beef to the UK tariff-free. Award up to 3 marks for diagram: - US supply at a price below Irish supply (1) - Original and new price of beef clearly labelled (1) - Increase in imports/reduction in domestic production/increase in consumption clearly illustrated (1) Award up to 3 marks for associated explanation: - Consumer surplus increases (1) by A + B + C + D (1) - Domestic production decreases from Q_2 to Q_1 (1) causing rising unemployment (1) - Producer surplus decreases (1) by A (1) - Net welfare gain of B + C + D (1) - Imports increase (1) from $(Q_3 - Q_2)$ to $(Q_4 - Q_1)$ (1), increasing the current account deficit (1) and decreasing AD (1)	6	Prices of Beef  An explanation based on an inaccurate diagram can be awarded up to a total of 3 marks as follows: - A reduction in the market price (1) - Consumer surplus increases (1) - Domestic production falls (1) causing rising unemployment (1) - Producer surplus falls (1) - Increase in beef imports (1) increases current account deficit (1) and decreases AD (1) Macro labels/explanations of the tariff diagram – e.g. Price level falls – should not be credited.
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1	(e)	Using Table 2, evaluate to what extent differences in corporate tax rates explain differences in foreign direct investment in countries. Level 2 (5–8 marks) Good knowledge and understanding of corporate tax rates and foreign direct investment. Good – strong analysis of what the table shows and how a low corporate tax rate may attract FDI and vice versa. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of whether a low corporate tax rate will attract FDI/a high corporate tax rate will discourage FDI, considering both why differences in corporate tax rates may explain differences in FDI and why they might not, underpinned by appropriate theoretical analysis. Good evaluation will weigh up the reasons why it might and the reasons why it might not but without reaching a supported judgement. Strong evaluation should include a supported judgement. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of corporate tax rates and foreign direct investment.	8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3) <i>Indicative content</i> An inverse relationship is the expected one. Foreign firms are likely to be attracted by a low corporation tax rate as more of any profit earned can be kept by the firm. This could be paid to shareholders or used to reinvest. This is shown by: • The two countries with the lowest corporation tax rates, Ireland and the UK, attracted the most foreign direct investment per head. • India, which has the 6th highest corporation tax had the lowest FDI per head. • With an analysis of why. However, this is not shown by: • The USA, who has the highest corporation tax rate but the middle level of FDI. • The level of FDI is influenced by a number of factors and not just the rate of corporation tax. For instance, firms may be attracted by the presence of skilled labour and good infrastructure. To finance a good education system and provision of, for instance, good roads, a government may impose relatively high tax rates. • A growing economy may also attract FDI as foreign firms may expect a growing market for their products. • Foreign MNCs will be encouraged to set up in countries where they expect to receive high net profit. Possible judgement. • A low corporation tax may attract FDI but on its
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1	(e)	Using information from the stimulus material, evaluate whether a cut in corporate tax rates in Bangladesh would benefit the UK economy. Level 2 (5–8 marks) Good knowledge and understanding of corporate tax. Good – strong analysis of the ways in which a cut in corporate tax rates in Bangladesh may affect the UK economy. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of whether a cut in corporate tax rates in Bangladesh will benefit the UK economy, considering the impact on the UK's trade position, underpinned by appropriate theoretical analysis. Good evaluation will weigh up the reasons why it might and the reasons why it might not but without reaching a supported judgement. Strong evaluation should include a supported judgement.	8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3) For a mark at the top of each level evidence must be provided from the stimulus material and / or the candidate's own knowledge. <i>Indicative content</i> A cut in corporate tax rates may stimulate investment and economic growth. UK multinationals with branches in Bangladesh may gain higher profits to send back to the UK. This will increase primary income coming into the current account. There is also the possibility that the UK may benefit from any growth of the Bangladeshi economy as it may be able to export more goods and services. Indeed, Bangladesh's economic growth. The growth of the Bangladeshi economy may reduce the need for the UK government to provide it with overseas aid. This, however, is more likely to change the destination of where aid goes rather than reduce the aid budget. This is because the UK government is committed to giving 0.7% of its GDP in aid. Some UK firms may be encouraged to relocate to Bangladesh to take advantage of the lower corporate tax rates. The rates, however, may still be higher than those in the UK and may not offset other causes of higher production costs such as poor infrastructure. It may be the case that a cut in corporate tax rates may not stimulate growth. Lower tax revenue may mean that the government will spend less on education which could reduce the country's productivity. The UK
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5	*	Evaluate whether protectionism always reduces unemployment. Level 5 (21 – 25 marks) Good – Strong knowledge and understanding of what is protectionism and what is unemployment. Strong analysis of how protectionism can affect unemployment. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis. Strong evaluation of how protectionism can affect unemployment, weighing up both why it may reduce unemployment and why it may increase unemployment, coming to a supported judgement. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i>	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Knowledge and understanding • protectionism: measures taken by a country to restrict international trade • unemployment: the number of people who are economically active but not in employment Context • In recent years there has been a rise in protectionism. For example, the US Trump administration argued that higher tariffs on Chinese imports would reduce US unemployment Analysis of whether protectionism reduces employment • it is possible that protectionism may reduce unemployment in some cases • imposing tariffs, quotas or using other trade restrictions to protect infant industries may create more jobs if those industries succeed in growing. • infant industries may experience difficulties competing with foreign industries as initially they may not be large enough to experience economies of scale. • protecting declining industries may prevent unemployment occurring. If an industry can
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