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OCR AS ECONOMICS: QUESTIONS BY TOPIC

The Global Context

OCR AS Economics H060 — Topic MACRO 4

28 questions · 92 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.

28 questions · 92 marks · lowest tariff first

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6. Section A (MCQ), Q9	H060/02 Macroeconomics · June 2017	1 mark	10
7. Section A (MCQ), Q13	H060/02 Macroeconomics · June 2018	1 mark	11
8. Section A (MCQ), Q7	H060/02 Macroeconomics · June 2018	1 mark	12
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16. Section A (MCQ), Q11	H060/02 Macroeconomics · June 2023	1 mark	20
17. Section A (MCQ), Q15	H060/02 Macroeconomics · June 2023	1 mark	21
18. Section A (MCQ), Q14	H060/02 Macroeconomics · June 2024	1 mark	22
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21. Section A (MCQ), Q9	H060/02 Macroeconomics · November 2020	1 mark	25
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23. Section B, Q16(b)(ii)	H060/02 Macroeconomics · June 2024	2 marks	30
24. Section B, Q16(b)(i)	H060/02 Macroeconomics · June 2024	3 marks	34
25. Section B, Q16(c)	H060/02 Macroeconomics · June 2024	4 marks	38
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27. Section C (Essay), Q17*	H060/02 Macroeconomics · June 2022	20 marks	47
28. Section C (Essay), Q18*	H060/02 Macroeconomics · June 2022	20 marks	52

QUESTIONS

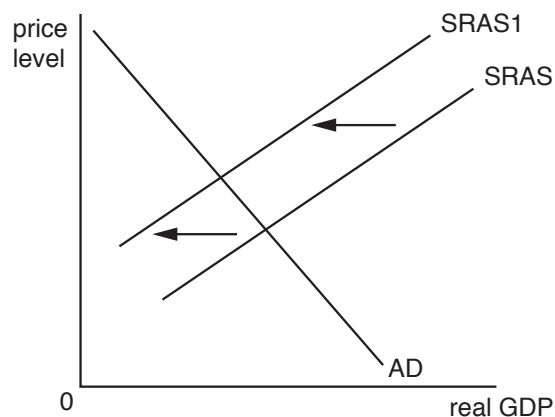
28 questions · 92 marks · lowest tariff first

1-MARK QUESTION

21 questions in this booklet

5

- 11 What could cause the shift in the short-run aggregate supply curve from SRAS to SRAS1 shown in the diagram below?

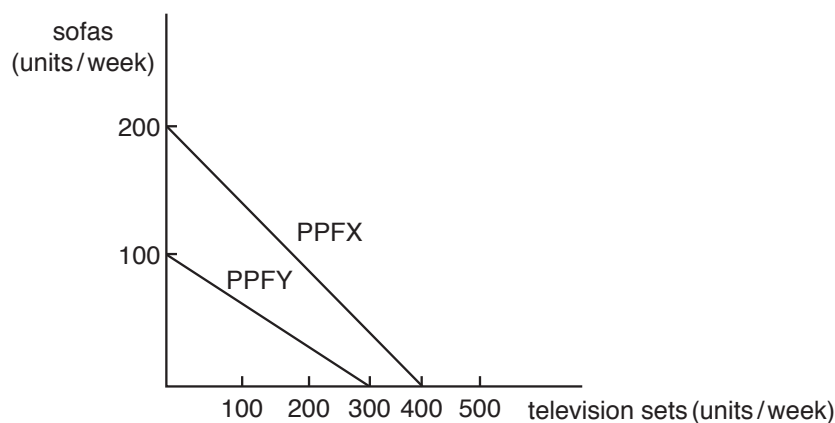


- A A fall in the money supply
- B A fall in the rate of interest
- C A rise in government spending
- D A rise in wage rates

Your answer

[1]

- 12 In the diagram below PPF_X represents the production possibility curve for Country X and PPF_Y represents Country Y.



Which of the following is correct?

- A Country X has a comparative advantage in the production of sofas
- B Country X has a comparative advantage in the production of television sets
- C Country Y has an absolute advantage in the production of sofas
- D Country Y has an absolute advantage in the production of television sets

Your answer

[1]

6

- 13 Which of the following will increase the size of the current account deficit on the UK's balance of payments in the short run?

- A An increase in loans by UK banks to Polish firms
- B An increase in the number of French tourists taking UK holidays
- C An increase in UK foreign direct investment in the USA
- D An increase in UK foreign aid given to Ethiopia

Your answer

[1]

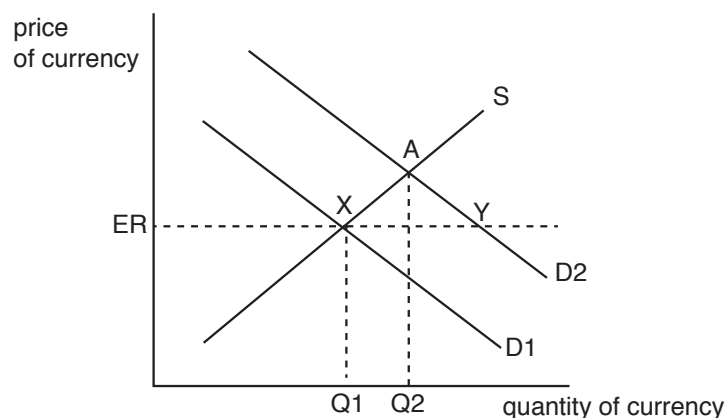
- 14 A country experiences a decline in its exports and its imports. Which of the following is most likely to have caused these changes?

- A A decrease in the country's exchange rate
- B A decrease in the extent to which the country specialises
- C An increase in both incomes at home and abroad
- D An increase in trade liberalisation policies adopted at home and abroad

Your answer

[1]

- 15 The diagram below shows the demand for and supply of a currency on the foreign exchange market. The country is committed to maintaining the foreign exchange rate at ER. If the demand for the currency shifts to D_2 which one of the following policies could be pursued to maintain the fixed exchange rate ER?



- A A cut in domestic interest rates
- B A cut in unemployment benefits
- C A subsidy given to domestic producers
- D The purchase of the domestic currency on the foreign exchange markets

Your answer

[1]

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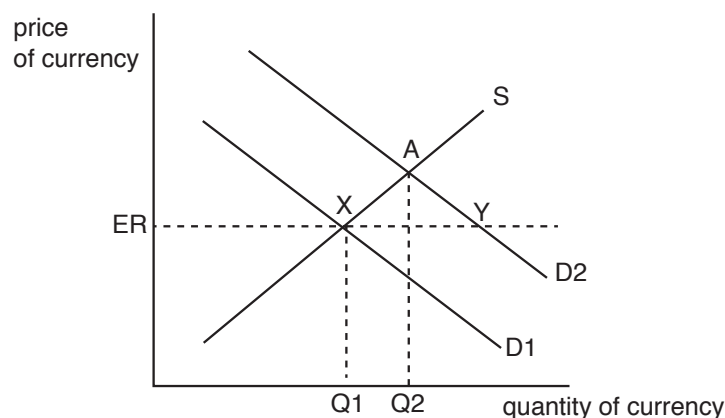
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Your answer

[1]

3

- 5 The size of a country's multiplier is 2.5. Its marginal rate of taxation is 0.1 and its marginal propensity to save is 0.1. What is the value of its marginal propensity to import?

A 0.05
 B 0.2
 C 0.4
 D 2.3

Your answer

[1]

- 6 What will cause the public sector net cash requirement (PSNCR) in the UK to decrease in the short run?

A More workers paying the higher rate of income tax
 B The economy entering a recession
 C The government embarking on a programme of capital spending
 D The government reflating the economy through cuts in direct taxation

Your answer

[1]

- 7 The Monetary Policy Committee decides to raise the UK base rate of interest by 1%. Which combination of effects is this likely to cause?

	Investment	Exchange rate
A	Decrease	Appreciate
B	Decrease	Depreciate
C	Increase	Appreciate
D	Increase	Depreciate

Your answer

[1]

- 8 Which of the following is a supply side policy measure?

A Deregulation
 B Devaluation
 C The imposition of higher rates of income tax
 D The introduction of an inflation rate target

Your answer

[1]

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 B Devaluation
 C The imposition of higher rates of income tax
 D The introduction of an inflation rate target

Your answer

[1]

4

- 9 The table shows the prices of a country's imports and exports over 4 successive years. In which year was there the most favourable terms of trade?

Year	Index of export prices	Index of import prices
1	100	100
2	106	111
3	108	114
4	118	114

- A Year 1
B Year 2
C Year 3
D Year 4

Your answer

[1]

- 10 A government may reduce the national minimum wage in order to

- A achieve a more equal distribution of income.
B cut firms' costs.
C lower voluntary employment.
D reduce government spending on benefits.

Your answer

[1]

6

13 Which of the following would be classed as a monetary policy measure?

- A Devaluing the exchange rate
- B Increasing the personal tax allowance
- C Reducing government expenditure on education
- D Subsidising firms' investment in research and development

Your answer

[1]

14 Following the financial crisis, the UK experienced its deepest recession for more than 50 years between 2008 and 2009. Which type of unemployment did this cause?

- A Cyclical
- B Frictional
- C Seasonal
- D Structural

Your answer

[1]

15 Between 1990 and 1992, UK citizens were charged a Community Charge commonly known as the poll tax – a single flat-rate per capita tax on every adult at a rate set by the local authority. What type of tax was this?

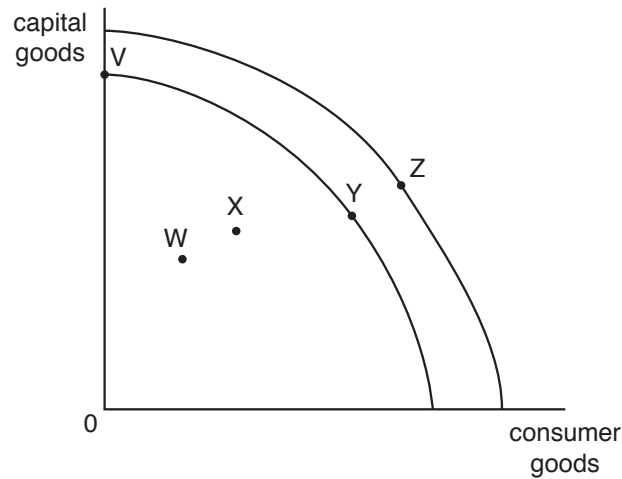
- A Indirect
- B Progressive
- C Proportional
- D Regressive

Your answer

[1]

3

- 5 What movement represents short run economic growth in the production possibility frontier diagram below?



- A V to Y
- B W to X
- C Y to X
- D Y to Z

Your answer

[1]

- 6 Which of the following is **not** a method of measuring national income?

- A Expenditure
- B Income
- C Input
- D Output

Your answer

[1]

- 7 In which of the following cases is the international competitiveness of domestic producers most likely to improve?

- A A decrease in domestic wage rates combined with an increase in labour productivity abroad
- B An appreciation of the exchange rate and a decrease in domestic wage rates
- C An exchange rate depreciation combined with an increase in wage rates abroad
- D An increase in domestic labour productivity accompanied by an increase in domestic wage rates

Your answer

[1]

4

- 8 In 2015 the value of the Chilean peso fell substantially against the US dollar because of falling copper prices (Chile's key export). The Chilean government considered selling off foreign exchange reserves in response to this. Which exchange rate system does this information suggest Chile is operating?
- A Fixed
B Floating
C Hybrid
D Purchasing Power Parity

Your answer

[1]

- 9 The data below outlines changes to the index of prices in a country between 2014 and 2017.

Year	2014	2015	2016	2017
Price Index	99.1	100	103.1	106.4

What was the inflation rate in 2017?

- A 3.2%
B 3.3%
C 6.4%
D 7.4%

Your answer

[1]

- 10 Some economists argue that one of the potential impacts of the UK voting to leave the European Union is that the long run aggregate supply curve will shift to the left. What could be the cause of this?
- A A decrease in immigration
B A fall in the value of the pound
C An increase in input prices
D An increase in trade with countries outside of the European Union

Your answer

[1]

5

9 What impact will a fall in investment have on the aggregate demand curve?

- A Movement down the aggregate demand curve
- B Movement up the aggregate demand curve
- C Shifts the aggregate demand curve to the left
- D Shifts the aggregate demand curve to the right

Your answer

[1]

10 UK government spending on the new high-speed railway line from London to Birmingham is likely, in the short run, to:

- A increase the budget deficit
- B increase the current account deficit
- C reduce the budget deficit
- D reduce the current account deficit

Your answer

[1]

11 The interest rate paid to savers is 5% per year. However, the real rate of interest is only 2% per year. What is the rate of inflation?

- A 2.5%
- B 3%
- C 7%
- D 10%

Your answer

[1]

12 China's increased production of steel has led to the closure of UK steel manufacturers. This is likely to cause which of the following types of unemployment?

- A Cyclical
- B Frictional
- C Seasonal
- D Structural

Your answer

[1]

13 What impact is an appreciation of Sterling against the US Dollar likely to have?

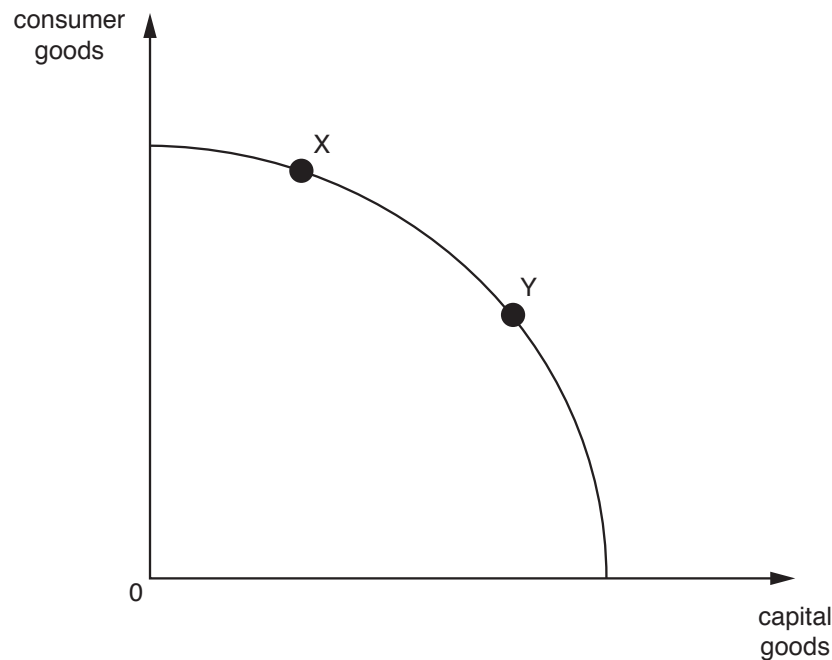
- A More UK consumers will go on holiday to the USA
- B More US consumers will buy UK exports
- C UK consumers will buy fewer US imports
- D UK firms will increase the Sterling prices of their exports

Your answer

[1]

4

- 7 In the diagram below, two countries X and Y, are operating on the same production possibility frontier.



What is likely to be true about country X?

- A It will have higher economic growth in the future than country Y
- B It will have lower economic growth in the future than country Y
- C It will have negative economic growth in the future
- D It will have the same level of economic growth in the future as country Y

Your answer

[1]

- 8 A country's average price of imports increases by 20% and its average price of exports increases by 14%. Calculate to the nearest whole number what will happen to the country's terms of trade?

- A Fall by 5%
- B Fall by 30%
- C Improve by 5%
- D Improve by 43%

Your answer

[1]

4

- 9 The table shows the tax paid by individuals at different levels of income.

Annual Income	Tax paid
£20 000	£2250
£25 000	£2500
£30 000	£3000
£35 000	£4500
£40 000	£7000

What is the marginal tax rate if an individual's annual income increases from £30 000 to £35 000?

- A 10%
- B 13%
- C 30%
- D 50%

Your answer

[1]

- 10 Which of the following is **not** a component of aggregate demand?

- A Consumption
- B Exports
- C Investment
- D Wealth

Your answer

[1]

- 11 The exchange rate at the start of 2020 was £1 = \$2. By the end of the year, the pound appreciated by 50% against the dollar. If a UK firm sells £10 000 of products to the USA, how many dollars will it receive after the currency appreciation?

- A \$10 000
- B \$15 000
- C \$20 000
- D \$30 000

Your answer

[1]

- 12 Which of the following is a component of the current account?

- A Foreign direct investment
- B Portfolio investment
- C Primary income
- D Reserve assets

Your answer

[1]

4

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[1]

2

SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

- 1 In the model of the circular flow of income, which of the following will cause national income to increase?

- A An increase in government spending
- B An increase in imports
- C An increase in savings
- D An increase in taxes

Your answer

[1]

- 2 What type of policy is deregulation?

- A Exchange rate
- B Fiscal
- C Monetary
- D Supply side

Your answer

[1]

- 3 Which of the following is a definition of hyperinflation?

- A Prices are constant
- B Prices are falling
- C Prices are rising at a slower rate than previously
- D Prices are rising excessively

Your answer

[1]

- 4 Which of the following may lead to a UK balance of payments current account deficit?

- A An appreciation of the UK pound
- B An increase in tariffs on UK imports
- C Lower UK inflation relative to other countries
- D Research and development subsidies for UK firms

Your answer

[1]

- 5 If government spending increases significantly during a recession, it may cause a:

- A capital account surplus
- B current account surplus
- C cyclical budget deficit
- D structural budget deficit

Your answer

[1]

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3

- 6 The table shows the value of imports and exports for a country in 2019.

	£bn
Imports of goods	740
Imports of services	275
Exports of goods	545
Exports of services	950

What was the balance of trade in goods?

- A – £675 bn
- B – £195 bn
- C + £480 bn
- D + £1285 bn

Your answer

[1]

- 7 The UK government is planning to limit immigration. What impact may this have on the UK economy in the short-run?

- A Shift aggregate demand to the left
- B Shift aggregate demand to the right
- C Shift aggregate supply to the left
- D Shift aggregate supply to the right

Your answer

[1]

- 8 Which of the following is **most** likely to occur in the boom phase of the economic cycle?

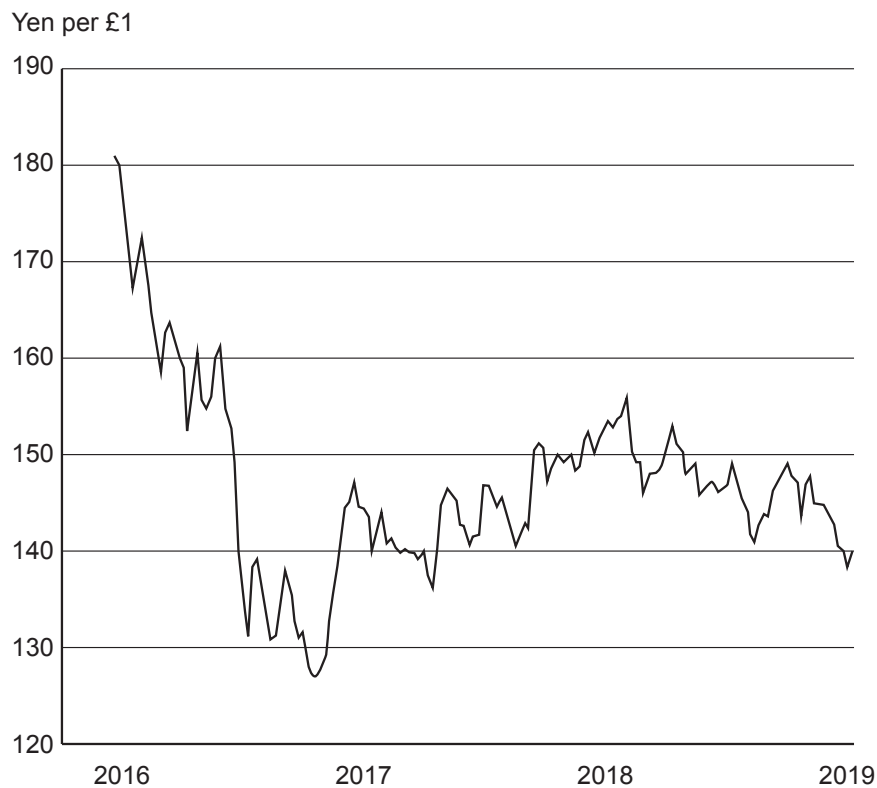
- A GDP falls and unemployment increases
- B GDP increases slowly and unemployment falls
- C Investment expenditure and unemployment increase
- D Unemployment falls and asset values increase

Your answer

[1]

6

- 11 The chart shows the Yen to Sterling (£) exchange rate between 2016 and 2019.



What was the change in the exchange rate between 2016 and 2019?

- A Sterling appreciated by 29%
- B Sterling depreciated by 22%
- C Yen appreciated by 29%
- D Yen depreciated by 22%

Your answer

[1]

- 12 What is the **most** likely impact of legislation to reduce the power of trade unions?

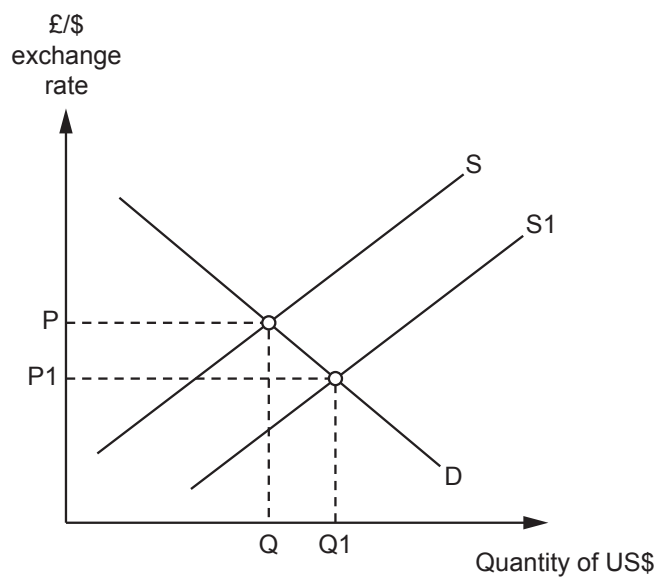
- A Aggregate demand shifts left
- B Aggregate demand shifts right
- C Aggregate supply shifts left
- D Aggregate supply shifts right

Your answer

[1]

8

15 The diagram shows the exchange rate of Sterling (£) to US dollars (\$).



What may have caused the supply curve for US dollars to shift from S to S1?

- A A decrease in exports from the US
- B A decrease in imports to the US
- C An increase in exports from the US
- D An increase in imports to the US

Your answer

[1]

6

- 13 The table shows expected changes in the next year to the main components of aggregate demand.

Component	Change in value (£m)
Consumption	+5
Exports	+8
Government expenditure	−7
Imports	+6
Investment	−2
Savings	0
Taxation	0

What impact will this have on the value of aggregate demand?

- A Decreases
- B Increases
- C Stays the same
- D Unable to say

Your answer

[1]

- 14 Which factor is assumed to be fixed when constructing a short run aggregate supply curve?

- A Exchange rates
- B Oil prices
- C Technology
- D Wage rates

Your answer

[1]

- 15 The table shows the nominal GDP for a country.

Year	Nominal GDP (£m)
2021	160 000
2022	220 000

The price index was 110 in 2022 (2021 = 100).

What is the country's real growth rate from 2021 to 2022 (to the nearest whole number)?

- A 25%
- B 27%
- C 38%
- D 51%

Your answer

[1]

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4

7 What is an example of a contractionary monetary policy?

- A Increasing government expenditure by £1bn
- B Increasing interest rates by 1%
- C Increasing quantitative easing by £100m
- D Increasing VAT by 2%

Your answer

[1]

8 Which of these is **most** likely to cause an increase in the rate of inflation?

- A An increase in labour productivity and a higher price of oil
- B An increase in technological advancements and falling employment
- C An increase in the budget deficit and falling consumer confidence
- D An increase in the minimum wage and a depreciation of the exchange rate

Your answer

[1]

9 The table shows the tax paid by an individual at different levels of income.

Annual income (£)	Tax paid (£)
15 000	1200
25 000	1700
35 000	2500
50 000	4000

What is the marginal tax rate for an individual whose annual income increases from £25 000 to £35 000?

- A 2%
- B 5%
- C 7%
- D 8%

Your answer

[1]

4

- 9 A UK retailer purchases agricultural products from Europe which cost the retailer €12500. The retailer sells these items for a total of £14 000. How much profit or loss has the retailer made, if the exchange rate at the time of purchase was £1 = €1.25?

A Loss of £1625
B Loss of £1825
C Profit of £1500
D Profit of £4000

Your answer

☐

[1]

- 10 Which of the following is a feature of a regressive tax system?

A Tax paid as a percentage of income decreases when income increases
B Tax paid as a percentage of income increases when income increases
C Tax paid as a percentage of income is the same for all income levels
D Tax paid does not change as a percentage of income

Your answer

☐

[1]

- 11 Which of the following will cause aggregate supply to shift to the right?

A Increase in corporation tax rates
B Increase in marginal propensity to import
C Increase in national minimum wage
D Increase in subsidies for research and development

Your answer

☐

[1]

- 12 When the Bank of England uses quantitative easing it:

A buys government bonds
B buys sterling
C sells government bonds
D sells sterling

Your answer

☐

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A Changes to the overall level of income tax
B Exchange rate manipulation
C National minimum wage
D Quantitative easing

Your answer

☐

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2-MARK QUESTIONS

2 questions in this booklet

8

SECTION B

UK exports to the European Union fall by 40%

The UK's exports of goods to the European Union (EU) fell by 40.7% in January 2021, according to the Office for National Statistics (ONS), while imports decreased by 28.8%. The figures showed the biggest drop since records began in 1997 and were the first since new trading rules between the UK and the EU came into existence. In contrast, the UK's trade with non-EU countries grew by 1.7% in January.

5

It is not just tariffs that could threaten exports. The additional risk is that non-tariff barriers – such as checks on meat and poultry – will increase exporters' costs sharply. These costs will have to be passed on in higher prices, reducing exporters' competitiveness. Food exporters especially are now feeling the impact.

The ONS found that in January 2021 GDP in the UK was down 2.9%, compared to the previous month, which was a "notable hit". The economy was 9% smaller than it was before the start of the Covid pandemic. Estimates for November 2020 to January 2021 showed 1.7 million people were unemployed, about 5.1% of the workforce. The unemployment rate was at a near five-year high, having risen by 1.1% over the previous 12 months.

10

Retailers, restaurants, and hairdressers were all affected by lockdowns during the Covid pandemic. Research found a 28% fall in output from the food services and accommodation sectors between December 2020 and January 2021. This "reflected many cafés and restaurants giving up on offering takeaway and delivery services, while the pandemic was raging". The research also found that households had cut back on non-essential expenditure, sending retail and wholesale output down by 9%. In contrast, UK household savings peaked in the second quarter of 2020, reaching £92 billion compared to £33 billion in the first quarter of 2020, due to the shutdown of businesses and low confidence in the economy.

15

Manufacturing also saw its first decline since April 2020, with car production falling significantly. However, increases in health services, from vaccine production and increased testing, partially offset the declines in other industries.

20

Following a trade deal announced in September 2020, nearly all exports to Japan will be tariff free, increasing the demand for UK goods in Japan. UK tariffs on imported Japanese cars will be removed by 2026. The deal is expected to boost trade between the UK and Japan by about £15 billion. Critics of the trade deal said it will boost UK GDP by only 0.07%, a fraction of the trade that could be lost with the EU.

25

9

Fig. 1

UK trade in goods with the EU 2019–2021 (seasonally adjusted)

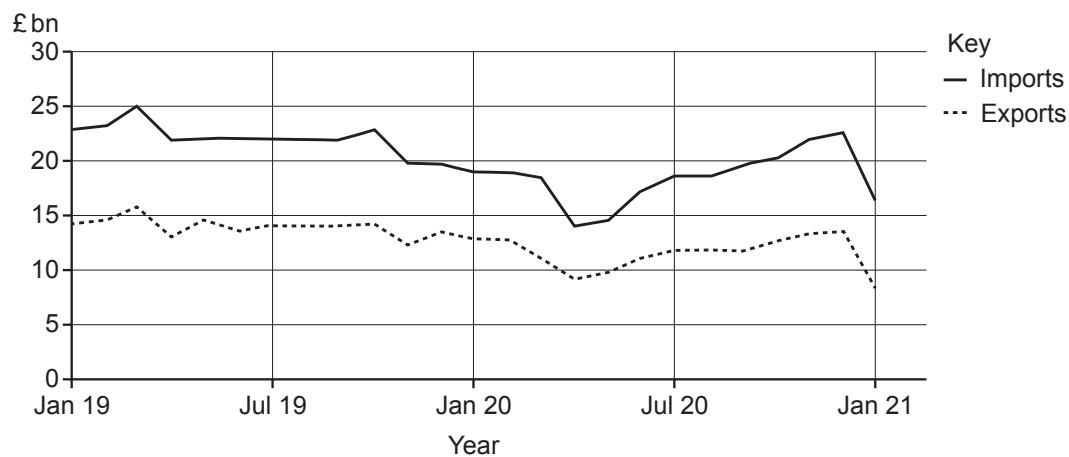
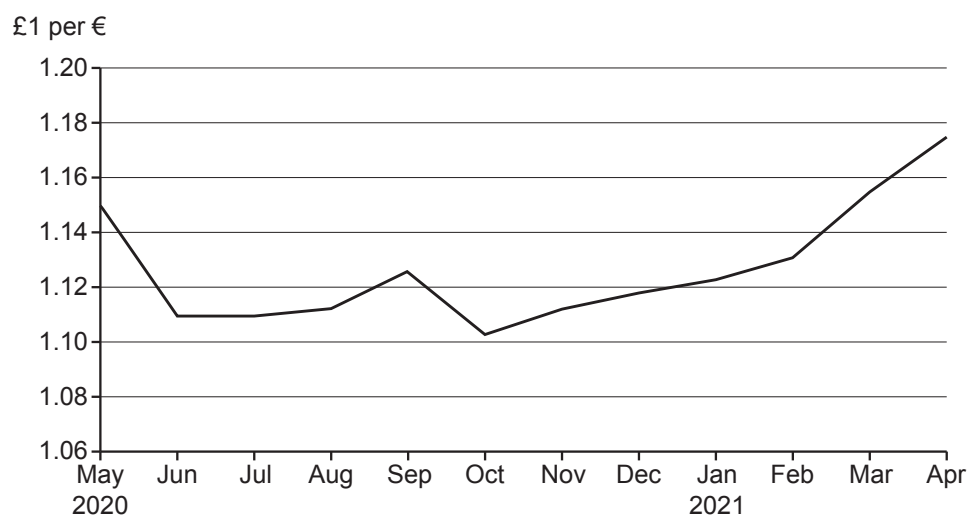


Fig. 2

Sterling to euro exchange rate 2020–2021



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- (a) Using **Fig. 1**, describe the UK's balance of trade in goods in January 2021.

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- (i) Using **Fig. 2**, explain what happened to the Sterling to euro exchange rate from May 2020 to October 2020.

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- (ii) **Lines 28–29** refer to an expected increase in international trade with Japan.

Explain **one** advantage of international trade for developed countries.

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SECTION B

UK exports to the European Union fall by 40%

The UK's exports of goods to the European Union (EU) fell by 40.7% in January 2021, according to the Office for National Statistics (ONS), while imports decreased by 28.8%. The figures showed the biggest drop since records began in 1997 and were the first since new trading rules between the UK and the EU came into existence. In contrast, the UK's trade with non-EU countries grew by 1.7% in January.

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It is not just tariffs that could threaten exports. The additional risk is that non-tariff barriers – such as checks on meat and poultry – will increase exporters' costs sharply. These costs will have to be passed on in higher prices, reducing exporters' competitiveness. Food exporters especially are now feeling the impact.

The ONS found that in January 2021 GDP in the UK was down 2.9%, compared to the previous month, which was a "notable hit". The economy was 9% smaller than it was before the start of the Covid pandemic. Estimates for November 2020 to January 2021 showed 1.7 million people were unemployed, about 5.1% of the workforce. The unemployment rate was at a near five-year high, having risen by 1.1% over the previous 12 months.

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Retailers, restaurants, and hairdressers were all affected by lockdowns during the Covid pandemic. Research found a 28% fall in output from the food services and accommodation sectors between December 2020 and January 2021. This "reflected many cafés and restaurants giving up on offering takeaway and delivery services, while the pandemic was raging". The research also found that households had cut back on non-essential expenditure, sending retail and wholesale output down by 9%. In contrast, UK household savings peaked in the second quarter of 2020, reaching £92 billion compared to £33 billion in the first quarter of 2020, due to the shutdown of businesses and low confidence in the economy.

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Manufacturing also saw its first decline since April 2020, with car production falling significantly. However, increases in health services, from vaccine production and increased testing, partially offset the declines in other industries.

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Following a trade deal announced in September 2020, nearly all exports to Japan will be tariff free, increasing the demand for UK goods in Japan. UK tariffs on imported Japanese cars will be removed by 2026. The deal is expected to boost trade between the UK and Japan by about £15 billion. Critics of the trade deal said it will boost UK GDP by only 0.07%, a fraction of the trade that could be lost with the EU.

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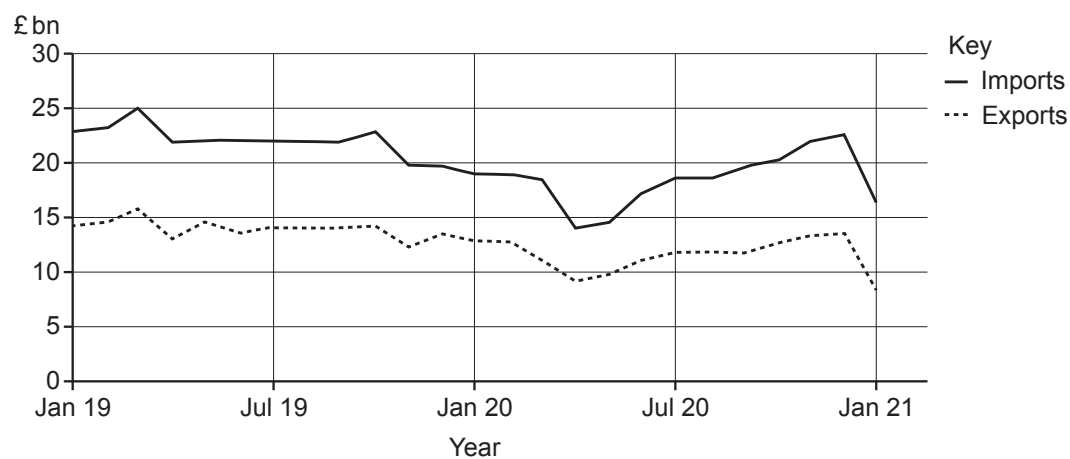
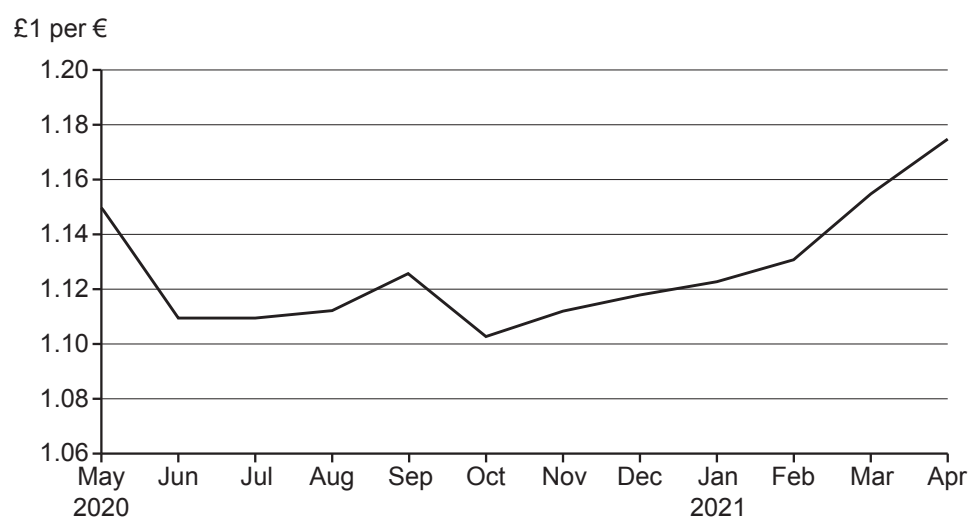


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Sterling to euro exchange rate 2020–2021



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3-MARK QUESTIONS

1 question in this booklet

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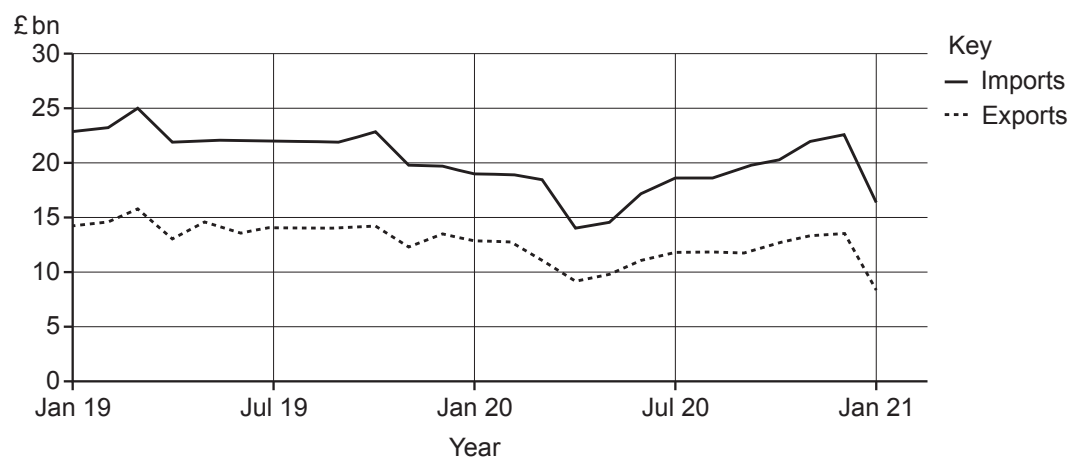
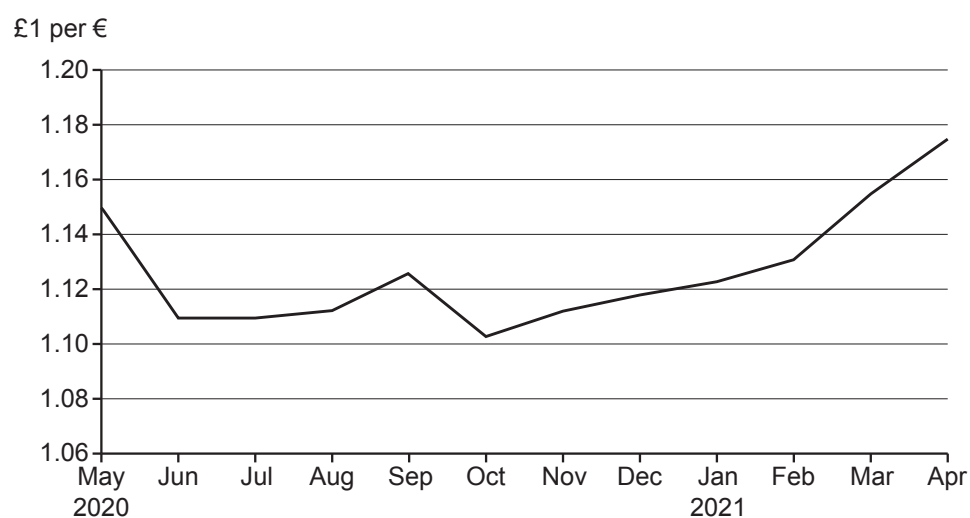


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4-MARK QUESTIONS

1 question in this booklet

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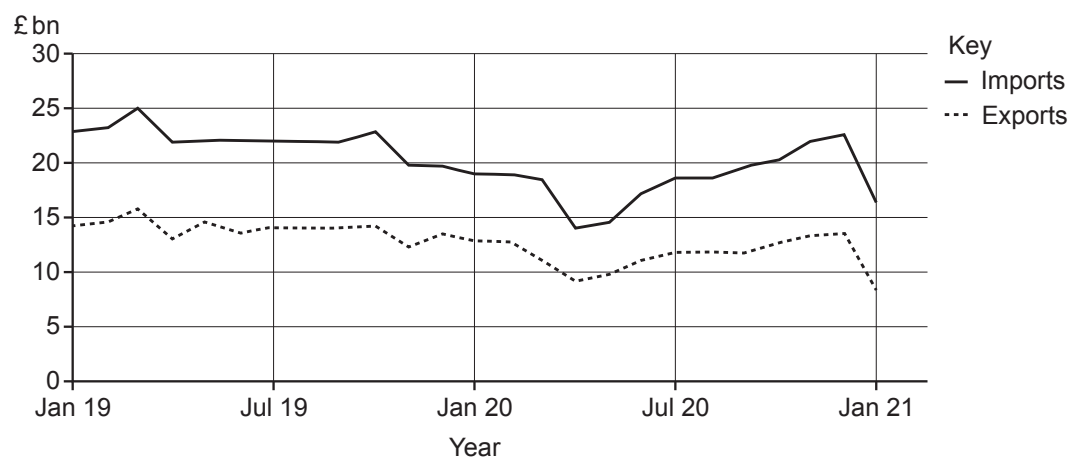
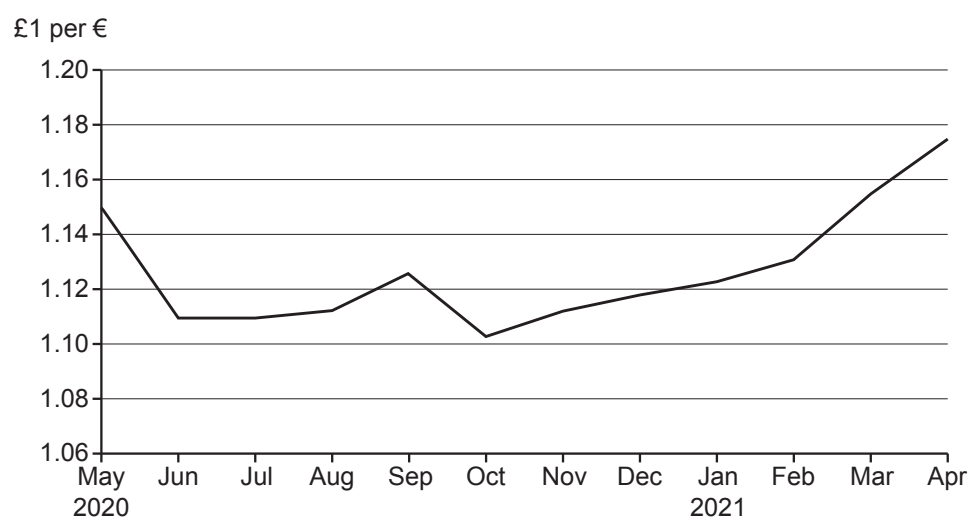


Fig. 2

Sterling to euro exchange rate 2020–2021



11

- (c) The trade deal with Japan (**lines 26–30**) may have an impact on the exchange rate between Sterling and the Japanese Yen.

Using a diagram, explain the possible impact on the Sterling to Yen exchange rate of an increase in demand from Japan for UK goods.

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..... [4]

- (d) Using information from the **Extract**, explain how the UK’s circular flow of income would have been affected during 2020 and 2021.

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20-MARK QUESTIONS

3 questions in this booklet

SECTION C

17* According to the International Monetary Fund in 2016 Myanmar in South East Asia was the world's fastest-growing economy. The country's GDP was expected to grow by 8.6%.

OR

Evaluate, using an appropriate diagram(s), the likely consequences of a fall in Pound Sterling on international competitiveness. **[20]**

[illegible]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area consisting of 30 horizontal dotted lines.

SECTION C

17* Developing countries' share of global exports increased from 30% in 2000 to 42% in 2018.

Evaluate, using an appropriate diagram(s), whether international trade is more beneficial to a developing country than a developed country. [20]

18* The Bahamas' main trading partner is the USA, accounting for around 80% of The Bahamas' total trade. Tourism accounts for more than one third of The Bahamas' gross national product and employs around 40% of its workforce.

Evaluate, using an appropriate diagram(s), whether it is beneficial for The Bahamas to operate a fixed exchange rate system. [20]

[illegible]

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Handwriting practice area consisting of 20 horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

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MARK SCHEMES

official OCR mark schemes

12	A	Rationale A Correct: Country X can produce sofas at a lower opportunity cost ($\frac{1}{2}$ television) than Country Y ($\frac{3}{4}$ television). B Country Y has the comparative advantage in the production of TVs, its opportunity cost is $1\frac{1}{2}$ sofas whereas it is 2 in the case of Country X. C Country X has the absolute advantage in producing both products – it can produce more of both. D Country X has the absolute advantage in producing both products – it can produce more of both.	3	✓
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14	B	Rationale A A decrease in the exchange rate would be expected to increase exports as their price will fall in terms of foreign currency.. B Correct: A reduction in specialisation may reduce the quality and raise the price of exports. Greater diversity of the products produced and lower export revenue may reduce imports, C Higher incomes abroad would be likely to increase spending on the country's exports. If incomes at home rise, demand for imports is likely to increase. D Trade liberalisation policies, by removing restrictions, are likely to increase international trade.	1	
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15	A	Rationale A Correct: This will reduce demand for the currency as it will discourage hot money flows. Lower demand for the currency will cause it to depreciate possibly back to the level required. B This would reduce demand for goods and services including imports. A reduction in imports will cause a reduction in the supply of the currency on foreign exchange markets and so a rise in the exchange rate. C This would be likely to increase exports and so demand for the currency. Higher demand for the currency will cause a rise in the exchange rate. D This would increase demand for the currency and so would be likely to cause an appreciation in the exchange rate.	3	✓
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7	A	Rationale A <i>Correct:</i> An increase in the base rate of interest will reduce the return on investment whilst increasing the cost of borrowing for investment. An increase in the base rate will cause an appreciation due to hot money flows. B Investment will decrease but the exchange rate will depreciate. C Investment will decrease. D Again investment will decrease.	1	
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8	A	Rationale A Correct: A measure designed to increase the efficiency of markets. B A monetary policy measure. C A fiscal policy measure. D A monetary policy measure.	1	
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9	D	Rationale A 100. B 95.5. C 94.74. D Correct: $\frac{\text{Index of Export Prices}}{\text{Index of Import Prices}} \times \frac{100}{1} = \frac{118}{114} \times \frac{100}{1} = 103.51$	2	✓
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13	A	A B C D	Correct: exchange rate adjustments are a monetary policy measure This is fiscal policy This is fiscal policy This is supply side policy	AO1	
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7	C	Which is a measure for measuring national income A An increase in labour productivity abroad will lower costs of production of foreign firms, increasing the international competitiveness of foreign producers B An appreciation of the exchange rate will make domestic goods relatively more expensive abroad C Correct: An exchange rate depreciation will mean foreign consumers find domestic goods relatively cheaper whilst a decrease in domestic wage rates will lower domestic costs of production D An increase in domestic wage rates is likely to counteract any increases in domestic labour productivity	AO1	
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8	C	A The fact that the exchange rate adjusts in response to changes in supply and demand suggests it is not a fixed exchange rate system B The potential for government intervention suggests it is not a fully floating exchange rate system C Correct: the value of the currency is determined by supply and demand with government intervention, suggesting a combination of fixed and floating elements. D This is not a type of exchange rate system	AO2	
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13	A	~~E Correct: Unemployment that is likely to be long term due to a change in demand~~ Rationale: A Correct: More US\$ per pound as the pound appreciates which means relatively cheaper to holiday in the USA (as these are imports) B The USA exports from the UK will become more expensive C USA imports become cheaper so demand will increase D As Sterling appreciates firms will need to reduce the Sterling price to compensate	1	
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8	A	Rationale: A Correct: $114/120 \times 100 = 95$; 5.0% decrease B $14/20 \times 100 = 70$; 30% decrease C $120/114 \times 100 = 105.3$; 5.3% increase D $20/14 \times 100 = 142.9$; 42.9% increase	2	Yes
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11	D	~~D Correct. Not component of AD~~ Rationale: A \$2 X 50% X £10,000 B 150% X £10,000 C \$2 X £10,000 (how many dollars at start of year) D Correct \$2 X 150% X £10,000	2	Yes
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12	C	~~Correct: \$2.100 bn / \$2.10,000~~ Rationale: A Financial account B Financial account C Correct: Current account D Financial account	1	
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2	D	Rationale: A Currency and trade B Government spending and tax C Interest rates and money supply D Correct: Policies to increase competitiveness and market efficiency	1	
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6	B	Government spending exceeds tax receipts due to long term factors Rationale: A £275 - £950bn B Correct: £545 - £740bn C (£545 + 950) – (£740 + £275) bn D £545 + £740bn	2	Yes
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11	B	Q11. The price level index is 140 in 1980 and 180 in 2023. The inflation rate over this period is: Rationale: A (180-140)/140 B Correct: (180-140)/180 C Confused Yen and Sterling D Confused Yen and Sterling	2	Yes
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15	D	Rationale: A D shifts left B S shifts left C D shifts tight D Correct: S shifts right	3	Yes
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14	C	Rationale: A Short run changes in the exchange rate can affect prices of imported inputs B Oil prices are an input cost and can change in the short run if there are supply issues C Correct: The state of technology is one of the assumptions that are taken as fixed in the short run D Wages are an input cost for firms and can change in the short run for example if there is an increase in demand	1	
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8	D	~~E Contractionary fiscal policy will increase real wages~~ Rationale: A Cheaper labour costs but dearer input costs B Technological advancements may help increase AS and falling AD from less employment C Increase in Government expenditure but Consumption and Investment are likely to fall D Correct: Increase in labour costs and an increase in AD due to higher demand for exports and more expensive imports	3	
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13	C	Exchange rate manipulation Rationale: A Fiscal policy B Monetary policy C Correct: Supply side policy D Monetary policy	1	
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9	D	means more competitive priced goods Rationale: A $12,500 \times 1.25 = 15,625$; $14000 - 15625 = (\text{£}1,625)$ B $12,500 - 14,000 \times 1.25 = (\text{£}1,875)$ C $14000 - 12500 = \text{£}1,500$ D Correct: $\text{€}12,500/1.25 = \text{£}10,000$: $\text{£}14000 - \text{£}10,000 = \text{£}4,000$ profit	2	Yes
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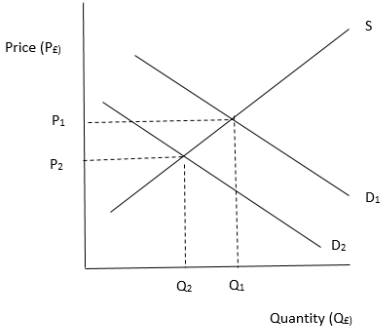
16	(a)	Using Fig. 1, describe the UK's balance of trade in goods in January 2021. Deficit (1) $£8bn - £16bn = -£8bn$ (1)	2	Annotate with  One mark for stating it is a deficit One mark for any relevant use of data (e.g., the amount of imports <u>and</u> exports <u>or</u> the balance) For exports allow range of £7.5bn to £9.5bn For imports allow range of £17bn to £16bn Quantitative skills rewarded in this question
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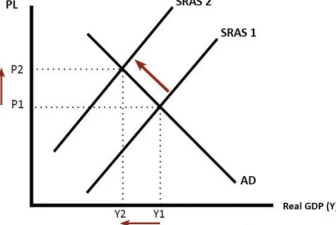
Question	Answer	Mark	Guidance
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16	(b) (ii)	Lines 28-29 refer to an expected increase in international trade with Japan. Explain one advantage of international trade for developed countries. It allows consumers more choice (1) as it gives access to goods that are not produced in their country (1) OR perceived better-quality products (1). It allows producers access to larger markets (1) and so make more profit (1) OR allows them to benefit from economies of scale (1). Allows access to raw materials (1) not available in their country as they are only found in certain locations (1). Allows consumers to buy products at lower prices (1) as specialisation leads to lower unit costs (1). Increased competition (1) improves productive efficiency lowering prices for consumers (1). May attract transnationals which provide capital, investment/skills transfer (1) therefore increasing employment/tax revenue /growth(1)	2	Annotate with  One mark for identification of an advantage of international trade One mark to explain the advantage
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16	(b) (i)	Using Fig. 2, explain what happened to the Sterling to euro exchange rate from May 2020 to October 2020. The pound has depreciated /the euro has appreciated (1) $(1.15 - 1.10) / 1.15$ (1) = 4.3% (2)	3	Annotate with  One mark for stating that Sterling has depreciated (or euro has appreciated) AND Up to two marks for calculating the size of the depreciation Quantitative skills rewarded in this question
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16	(c)	The trade deal with Japan (lines 26-30) may have an impact on the exchange rate between Sterling and the Japanese Yen. Using a diagram, explain the possible impact on the Sterling to Yen exchange rate of an increase in demand from Japan for UK goods. Up to 3 marks for a diagram: • Accurate labelling of axes and curves (1) • A rightward shift in demand curve (D1 to D2) (1) • A rise in the exchange rate of sterling (1) Maximum 1 mark for a demand and supply diagram showing correct shift of D. Japanese customers will need Sterling to buy British goods (1) so that the exchange rate will appreciate if not shown on diagram (1).	4	Annotate with ✓ Ensure the axes are labelled correctly for exchange rates
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18		In June 2016, on the day following the UK's vote to leave the European Union, the UK currency (Pound Sterling) fell by more than 10 per cent to a rate of £1:\$1.326. Evaluate, using an appropriate diagram(s), the likely consequences of a fall in pound Sterling on international competitiveness. Level 4 (16-20 marks) Good knowledge and understanding of a fall in pound sterling and international competitiveness. 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. Strong evaluation of the extent of the consequences of a fall in pound sterling on international competitiveness, weighing up both sides/comparing alternatives and reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 3 (11-15 marks) Good knowledge and understanding of a fall in pound sterling and international competitiveness.	20 (AO1 x3) AO2 x4 AO3 x6 AO4 x7)	An exchange rate is the value of one currency in terms of another. A fall in pound sterling means that it has fallen in value relative to another currency, known as a depreciation. International competitiveness measures a country's ability to provide better-value goods and services than their international competitors. The decrease in the demand for pound sterling following the Brexit voting referendum result, led to a shift in the demand for pounds from D1 to D2. This led to a fall in the value of the pound from P1 to P2.  The depreciation of the currency meant that pound sterling is now worth less in terms of foreign currency. As a result of the depreciation, UK exported goods and services became cheaper (a fall in relative export prices). If the UK is able to produce goods and services at a lower price, this is an
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Question	Answer	mark	Guidance
17*	Evaluate, using an appropriate diagram(s) whether international trade is more beneficial to a developing country than a developed country. Level 4 (16-20 marks) Good knowledge and understanding of how international trade may be beneficial. 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. Strong evaluation of whether international trade is more beneficial for developing or developed countries, weighing up both sides/comparing alternatives and reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 3 (11-15 marks) Good knowledge and understanding of how international trade may be beneficial. Good analysis of how international trade affects developed and/or developing countries. There is correct analysis 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.	20 (AO1*3 AO2*4 AO3*6 AO4*7)	Developing countries tend to have low incomes, as the economy tends to be based around primary sectors. Being able to trade with other countries allows firms to access more markets to sell their goods as the size of the home market tends to be small. This may allow firms to benefit from economies of scale and therefore sell at a cheaper price becoming more competitive abroad. Increasing derived demand for labour. Domestic consumers benefit from lower prices, increasing purchasing power, improving standards of living. However, as the economy opens to international competition, domestic firms may be unable to compete with imported goods and therefore demand for their products may fall. Some businesses may close or reduce the size of their workforce. As output falls the AS curve shifts left to AS2. This means the country may have lower growth Y1-Y2.  However, consumers would have benefitted from a wider variety of cheaper products and perhaps more superior, innovative products. Developing economies tend to be lower skilled economies not benefitting from machinery and technology. Trade provides access to machinery and technical expertise from developed countries. This could then help them to produce more higher value manufactured goods, which do not suffer the price volatility of primary commodities. As the economy diversifies this will help economic growth.

Question	Answer	mark	Guidance
18*	Evaluate, using an appropriate diagram(s), whether it is beneficial for the Bahamas to operate a fixed exchange rate system. Level 4 (16-20 marks) Good knowledge and understanding of the benefits of a fixed exchange rate system. 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. Strong evaluation of the extent to whether a fixed exchange rate system is beneficial and reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 3 (11-15 marks) Good knowledge and understanding of the benefits of a fixed exchange rate system. Good analysis of whether a fixed exchange rate system is beneficial. There is correct analysis 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. Good evaluation will weigh up whether a fixed exchange rate system is beneficial but without reaching a supported judgement.	20 (AO1*3 AO2*4 AO3*6 AO4*7)	With fixed exchange rates the currency value is maintained at a specific rate or managed within a specific band relative to another currency like the US\$. One of the advantages of fixed exchange rates for The Bahamas is that there is reduced uncertainty over fluctuations of the exchange rate for firms that export and import. With higher business confidence, firms that export goods and services, particularly to the USA, are more likely to invest and expand their business. Under a floating exchange rate system, exchange rates are left to market forces, and this can cause exchange rates to be volatile, particularly over the short term and therefore lead to uncertainty for firms and unpredictable profits. If there is an increase in demand for the Bahamian Dollar from D1 to D2 as shown in the chart this causes the Bahamian Dollar to appreciate. This means exports from The Bahamas are now more expensive abroad and potentially more difficult to sell, therefore negatively impacting firm's profits. BS\$:US\$ exchange rate Quantity of BS\$