Please check the examination details below before entering your candidate information

Candidate surname	Other names
StemUp Model Solution	

Centre Number | Candidate Number

Pearson Edexcel Level 3 GCE

Monday 19 May 2025

Afternoon (Time: 2 hours)

Paper reference **9EC0/02**

Economics A

Advanced

PAPER 2: The National and Global Economy

You must have:
Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

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

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

You are advised to spend 30 minutes on this section.

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

1 Selected economic data on Morocco and Pakistan, 2021, constant values.

	Human development index (HDI)	Gross national income (GNI) per capita (2017 PPP US$)	Gross domestic product (GDP) per capita (US$)
Morocco	0.683	7 303	3 290.6
Pakistan	0.544	4 624	1 473.9

(Source adapted from: https://hdr.undp.org)

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

(1)

☒ **A** Average incomes are lower in Morocco than in Pakistan

☒ **B** Economic development, as measured by the HDI, is higher in Morocco than in Pakistan

☒ **C** Life expectancy in Morocco is 68.3 years

☒ **D** Total output in Morocco is higher than in Pakistan

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(b) With reference to the data provided, explain **one** limitation of using GDP to compare living standards between countries.

(4)

GDP measures the total value of output, so comparing GDP is a narrow measure of living standards: it ignores the cost of living (purchasing power parity) and other factors such as education and healthcare.

Morocco's GDP per capita of US$3 290.6 is more than double Pakistan's US$1 473.9, suggesting Moroccans are over twice as well off. However, GNI per capita adjusted for PPP is US$7 303 in Morocco compared with US$4 624 in Pakistan, only about 1.6 times higher, because prices are lower in Pakistan so each dollar buys more. A country may have a higher GDP but living standards may not be as much higher as GDP suggests, which is why a broader measure such as the HDI (0.683 against 0.544) is better.

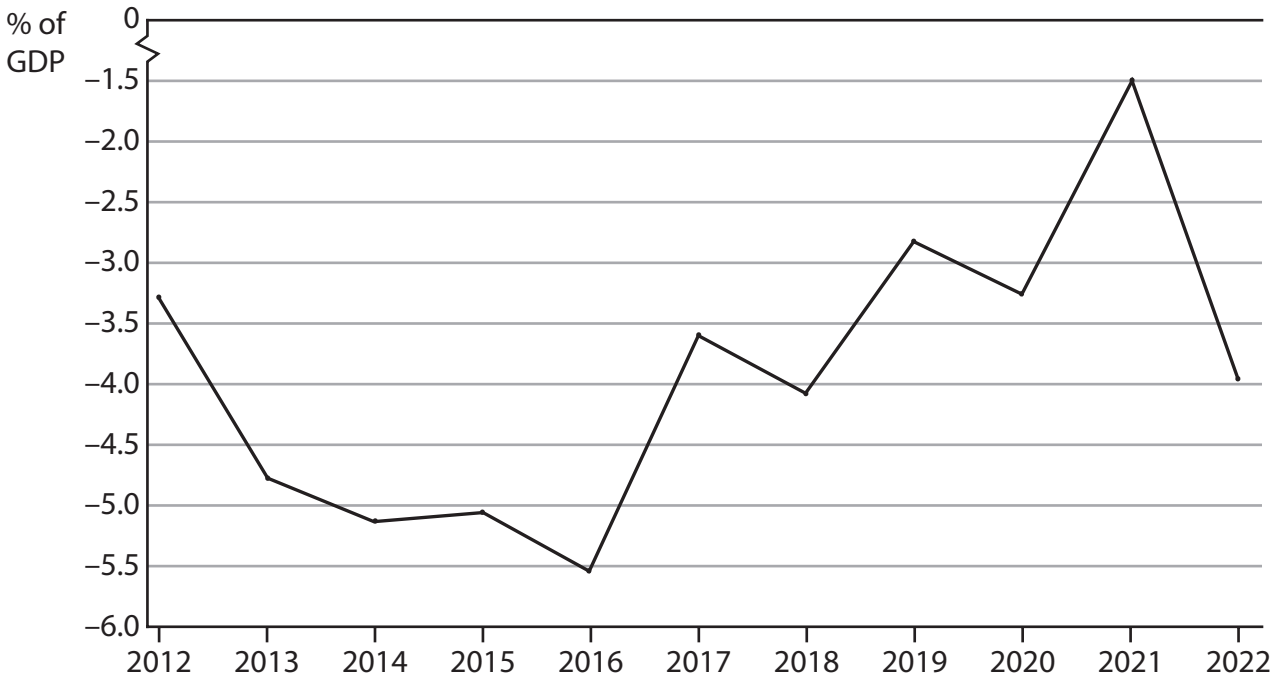
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2 UK current account of the balance of payments, percentage of GDP, 2012–2022.



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

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

(1)

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

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

(4)

The current account deficit fell from about −5.5% of GDP in 2016, the largest deficit, to about −1.5% of GDP in 2021, the smallest deficit, a reduction of about 4 percentage points.

A likely reason is the depreciation of the pound after the 2016 EU referendum. A weaker pound makes UK exports cheaper in foreign currencies and imports more expensive in pounds. This increases demand for UK exports and reduces demand for imports, so the value of exports rises relative to the value of imports, reducing the current account deficit (as long as demand is price elastic, the Marshall-Lerner condition).

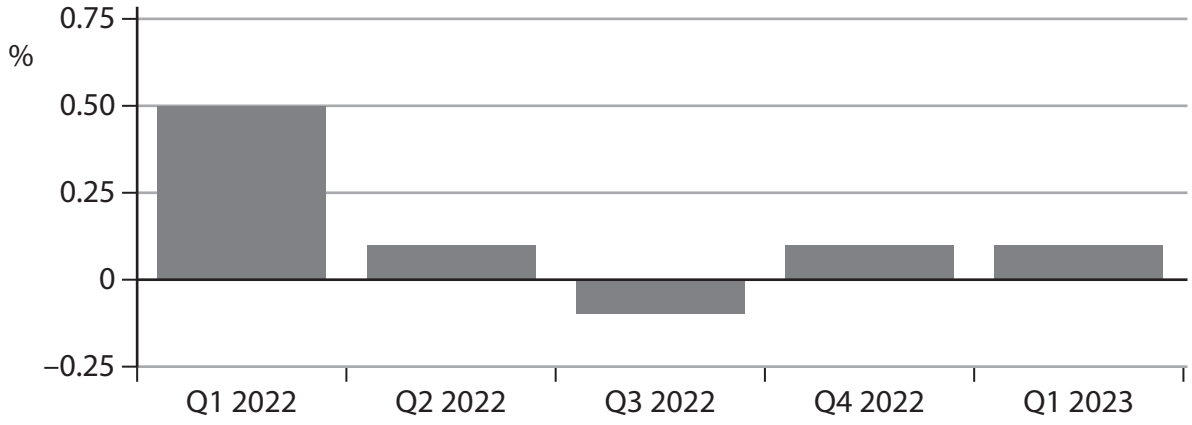
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3 UK real GDP percentage growth, quarter 1 (Q1) 2022 to quarter 1 (Q1) 2023.



(Source adapted from: https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/januarytomarch2023)

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

(1)

- ☒ **A** The UK economy grew the fastest in quarter 3 2022
- ☒ **B** The UK was in recession in quarter 2 2022
- ☒ **C** Total UK real GDP was larger in quarter 4 2022 than in quarter 1 2022
- ☒ **D** Total UK real GDP was the same in quarter 4 2022 as in quarter 1 2023

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(b) Explain **one** likely disadvantage of a decline in GDP on:

(i) workers

(2)

An increase in unemployment: lower GDP means lower demand for goods and services, and since labour is a derived demand, firms will cut their costs by reducing the number of workers, so more workers lose their jobs and income.

(ii) government.

(2)

A reduction in tax revenue and higher welfare spending: fewer people working means less income tax is paid, while more is spent on unemployment benefits, so the government's fiscal (budget) deficit worsens.

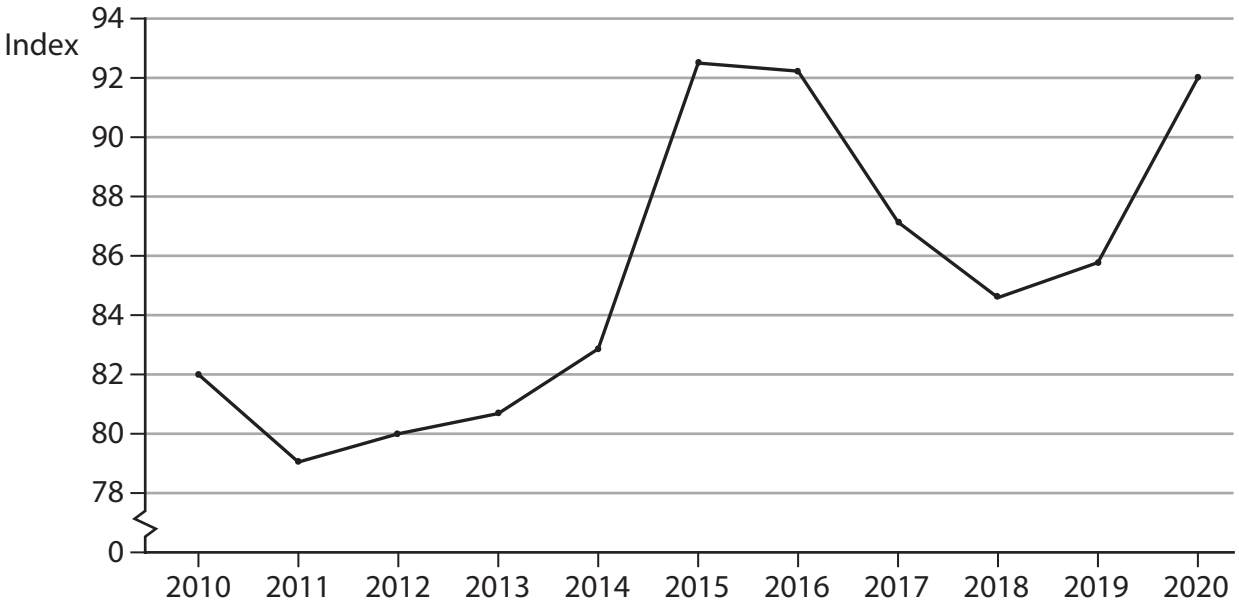
(Total for Question 3 = 5 marks)

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



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

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

(2)

The terms of trade compares the average price of a country's exports with the average price of its imports:

Terms of trade = (index of average export prices ÷ index of average import prices) × 100, showing how many imports can be bought per unit of exports.

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

(1)

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

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

(2)

China's terms of trade improved from 80 in 2012 to 92 in 2020, a rise of 15%, as export prices rose faster than import prices. Because demand is price elastic, the rise in the relative price of exports causes a more than proportionate fall in the quantity of exports demanded, so revenue from exports falls, while spending on relatively cheaper imports rises. China's current account balance is therefore likely to worsen.

(Total for Question 4 = 5 marks)

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5 The UK's labour force inactivity rate was 20.2% in January 2020 and increased to 21.5% in January 2022.

After an increase in the early stages of the global health crisis, most developed countries have recorded a decrease in the inactivity rate back to, and below, levels in 2019. This is not the case in the UK.

(Source adapted from: https://www.theguardian.com/business/2023/apr/13/uk-worst-performer-g7-workforce-participation-since-covid; tradingeconomics.com)

(a) The total UK labour force in January 2022 was 34.5 million. With reference to the information above, calculate the total number of inactive people in the UK labour force in January 2022.

(2)

Inactivity rate in January 2022 = 21.5%

Inactive = 34.5 million × 0.215 = 7.4175 million

Answer = 7.42 million people

(b) Explain **one** likely reason for the high levels of inactivity in the UK labour force.

(2)

Long-term sickness: after the global health crisis the number of people waiting for medical treatment on NHS waiting lists rose, so many people were unable to work due to illness and were not actively seeking work, reducing the labour force.

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(c) Which **one** of the following would be the most likely result of an increase in the rate of **employment**?

(1)

- ☐ **A** Deflation
- ☒ **B** Improvement in living standards
- ☐ **C** Increase in absolute poverty
- ☐ **D** Recession

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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SECTION B

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

6 (a) With reference to Figure 1, explain the distinction between direct and indirect taxation.

(5)

(b) With reference to Extract A, examine **two** factors influencing the short-run aggregate supply of the German economy.

(8)

(c) With reference to the information provided and your own knowledge, assess the likely macroeconomic effects of the German government's budget deficit.

(10)

(d) With reference to Extract B, discuss the impact of the planned investment by Intel in a new semiconductor factory on Germany's **aggregate demand**. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

(e) Discuss supply-side policies the German government could use 'to improve its economic performance' (Extract A, line 6).

(15)

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6 (a) With reference to Figure 1, explain the distinction between direct and indirect taxation.

(5)

A direct tax is a tax on income or profit, paid directly to the government by the person or firm earning it, so the burden cannot be passed on. Direct taxes are often progressive, taking a larger proportion of income as income rises. In Figure 1 income taxes (41% of German tax revenue in 2022) and corporation tax (6%) are direct taxes.

An indirect tax is a tax on expenditure on goods and services. It is paid to the government by the suppliers of products, who can pass some of the burden on to consumers through higher prices. Indirect taxes tend to be regressive, taking a larger proportion of the income of low-income households. In Figure 1 value added tax (36%), petrol duty (9%) and tobacco duty (4%) are indirect taxes; petrol and tobacco duties are also used to reduce negative externalities.

So the key distinction is that direct taxes are levied on income, whereas indirect taxes are levied on spending. Germany raises roughly half of its revenue from each type, with at least 47% from direct taxes and 49% from these indirect taxes.

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(b) With reference to Extract A, examine **two** factors influencing the short-run aggregate supply of the German economy.

(8)

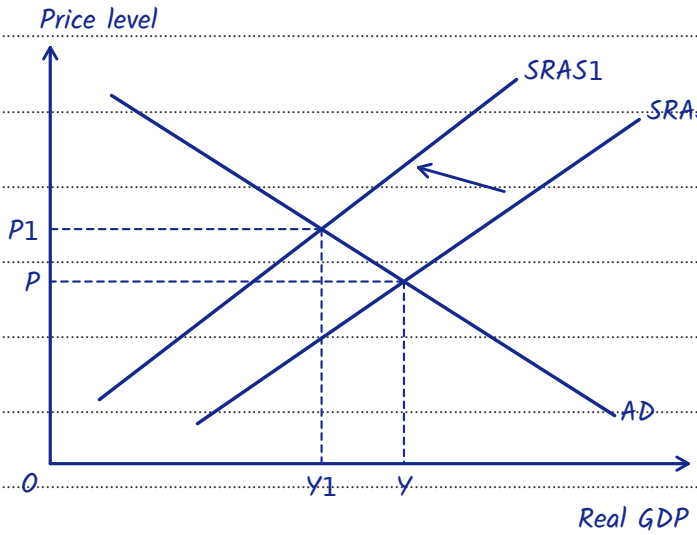
Short-run aggregate supply (SRAS) is the total output firms are willing and able to produce at each price level, assuming factor prices are constant. It is mainly influenced by costs of production.

The first factor is the cost of energy and raw materials. Extract A states that 'fossil fuels such as coal and gas still provide 75% of the energy needs' in Germany, which 'exposes it to volatile global energy prices'. A rise in the price or a shortage of imported gas raises firms' costs of production and reduces their ability to produce, so SRAS shifts left from SRAS to SRAS1. The price level rises from P to P1 (cost-push inflation) and real GDP falls from Y to Y1, which helps explain why 'the German economy entered a recession in 2023'. A 'weakening euro' also makes imported raw materials and capital equipment more expensive, adding to costs.

The second factor is labour shortages. Germany is expected to be 'short of up to 7 million workers by 2035', partly due to 'an ageing population', with 'a lack of skilled workers in the building trade, electrical engineering and professional services'. When firms cannot find the workers they need they cannot produce as much, and they must offer higher wages to attract scarce workers, raising wage costs and shifting SRAS to the left.

However, the significance of these factors differs. Energy costs are the more immediate influence: 'the rapid building of liquid natural gas terminals has helped to secure energy supplies in the short term', and the planned shift to 80% renewables would reduce exposure to volatile prices in the long run. Labour shortages are a longer-term problem, but they could be reduced through immigration of skilled workers and labour market reforms. In practice it is a combination of factors that affects SRAS, so it is not possible to focus on just one.

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(c) With reference to the information provided and your own knowledge, assess the likely macroeconomic effects of the German government's budget deficit.

(10)

A budget deficit occurs when government spending is greater than tax revenue in a year. Figure 2 shows Germany ran surpluses of between 0.6% and 1.9% of GDP from 2014 to 2019, but moved to a deficit of 4.3% of GDP in 2020, 3.7% in 2021 and 2.6% in 2022. A deficit represents expansionary fiscal policy. Government spending is an injection into the circular flow of income and greater than the withdrawal of taxation, so aggregate demand ($AD = C + I + G + (X - M)$) increases. Through the multiplier effect, higher incomes lead to further consumption, increasing economic growth and reducing unemployment, which is useful as 'the German economy entered a recession in 2023'. However, higher AD also increases inflationary pressures, especially if the economy is close to full capacity.

The deficit must be financed by borrowing, which increases the size of Germany's national debt. The government must pay interest on its bonds, and if lenders see greater risk, interest rates on German government bonds may increase, raising the cost of servicing the debt, and there is a possible downgrading of its credit rating. Higher government borrowing can push up interest rates and cause crowding out, reducing private sector investment. On the other hand, if the extra spending is on supply-side policies, such as infrastructure for renewable energy, it may shift out aggregate supply and raise long-run growth.

However, the effects may be limited. The deficit is falling, from 4.3% to 2.6% of GDP, and much of it is likely to be cyclical, caused by the global health crisis in 2020, so it should shrink as the economy recovers. German government debt is relatively low compared to other OECD countries, below the OECD average, and the budget surpluses from 2014 to 2019 will limit the negative impact. Crowding out is not an issue while growth is slowing or in recession, as private firms are not using the funds anyway, and there may even be crowding in if public investment encourages private investment.

Nevertheless, the opportunity cost of debt interest is spending that cannot be used on

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supply-side policies, and in the long term the debt may need to be repaid through higher taxes in the future. If the government tightens fiscal policy in response, growth could slow further. Overall, the effects depend on the relative sizes of the structural and cyclical deficit and on the German government's cost of borrowing; a deficit of 2.6% of GDP is unlikely to be a serious problem.

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(d) With reference to Extract B, discuss the impact of the planned investment by Intel in a new semiconductor factory on Germany's **aggregate demand**. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

Aggregate demand is the total planned spending on an economy's goods and services, AD = C + I + G + (X − M). The Intel semiconductor factory is investment, the purchase of capital goods, so it is an injection into the circular flow of income. Intel is to 'double its investment in semiconductor factories in eastern Germany to €30 billion', 'the largest foreign direct investment in Germany's history'.

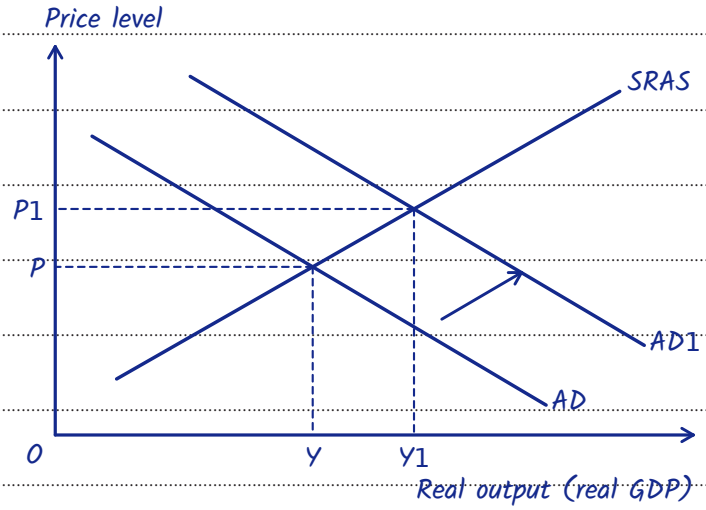
An increase in investment directly increases aggregate demand, shifting AD to the right from AD to AD1 in my diagram. Real output rises from Y to Y1, increasing economic growth, and the price level rises from P to P1, so there is some increase in inflation.

There will also be positive multiplier effects. The site is 'expected to create 7 000 construction jobs during the building phase, about 3 000 permanent high-tech jobs and tens of thousands of additional jobs across the semiconductor industry'. Lower unemployment and more employment raise household incomes, which increases consumption, the largest component of AD, and this spending becomes income for other firms, so AD rises by more than the initial €30 billion. Other firms in the supply chain may also invest to supply the factory, an accelerator effect, and once production starts, exports of semiconductors will increase and imports from Asia may fall, raising net exports (X − M).

However, the impact may be delayed. Intel only 'acquired the land for the factories in November 2022' and 'the first factory is expected to start production within four to five years', and Germany's 'lengthy planning procedures' could create further time lags. Germany's shortage of workers may hold up construction or leave the factory unable to operate at full capacity.

The size of the effect also depends on the multiplier. If much of the specialist capital equipment is imported, a large part of the spending leaks out of the German circular flow,

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and profits may be repatriated to the USA. Although €30 billion is significant, it is small relative to German GDP of around €4 trillion and is spread over several years. Other components of AD might change too: business confidence 'fell at the fastest pace since 2021' and global conflicts may reduce consumption, investment and exports elsewhere. Finally, the impact on growth, employment and inflation depends on where AD lies relative to the Keynesian LRAS, the level of spare capacity. As Germany was in recession in 2023, there is likely to be spare capacity, so the rise in AD should mainly increase real output rather than prices. Overall, the investment should increase AD significantly in the long run, but the effect in the short run will be modest.

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(e) Discuss supply-side policies the German government could use 'to improve its economic performance' (Extract A, line 6).

(15)

Supply-side policies are policies designed to increase the productive capacity of the economy by improving the quantity and quality of the factors of production, shifting LRAS to the right. This improves economic performance by raising potential growth while reducing inflationary pressure and unemployment.

Firstly, the government could reform planning regulations and reduce bureaucracy. Extract A says 'infrastructure projects in renewable energy production, such as wind farms, have been delayed by lengthy planning procedures', and 'business leaders complain of excessive bureaucracy'. Planning reforms 'to speed up construction projects' would allow wind farms to be built faster, helping the aim 'to have renewables account for 80% of its energy supply'. This reduces Germany's dependence on fossil fuels, which provide 75% of energy, lowering firms' energy costs and exposure to 'volatile global energy prices'. Productive capacity increases, so LRAS shifts right from LRAS to LRAS1 in my diagram, raising real GDP from Y to Y1 and lowering the price level from P to P1.

Secondly, labour market reforms could tackle the shortage of 'up to 7 million workers by 2035'. Increasing immigration would attract more workers to fill shortages in the 'building trade, electrical engineering and professional services'. Making it easier to hire and fire workers or reducing the power of trade unions would 'increase the flexibility of the labour market', raising the productivity of firms. Better childcare provision or raising the retirement age would increase participation and offset the 'ageing population'.

Thirdly, investment in education and training, such as more apprenticeships, would improve the skill level of the future workforce so they can take on jobs where firms are currently struggling to fill vacancies. Investment in healthcare ensures people are not unable to work while waiting for treatment. Improvements in transport and digital infrastructure allow workers to travel further to access jobs and firms to export their goods more quickly and

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cheaply. Cutting corporation tax or giving tax credits for research and development would stimulate investment in tech sectors, addressing the 'lack of technological advances'.

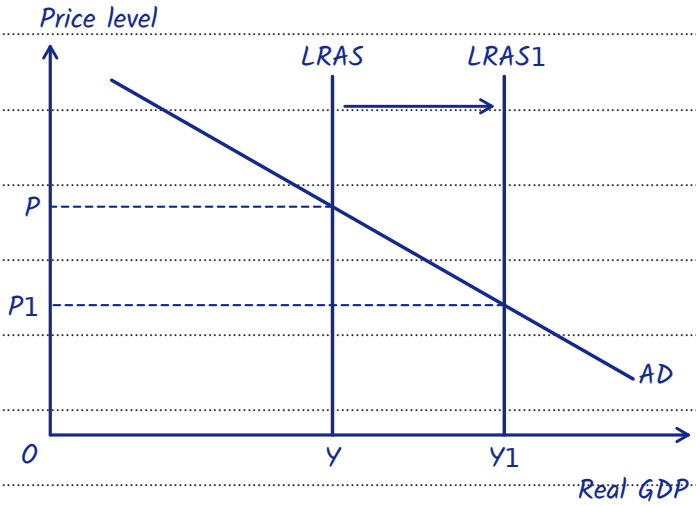
However, there are limitations. Reforming planning rules may be complicated, as new laws must be passed by the federal, state and local governments, which takes a long time. Improved education will not have an effect until students have completed their education and entered the workforce, possibly ten years or more, so it does nothing for the 2023 recession, when demand-side policies may be more effective.

Interventionist policies involve an opportunity cost for the government, as large amounts of spending on education, healthcare and infrastructure must be funded. Germany already had a budget deficit of 2.6% of GDP in 2022, so extra borrowing would increase the national debt and could cause crowding out of private investment. Immigration will only help if Germany attracts migrants with the right skills to fill the shortages, otherwise it will not solve the problem, and it may face political opposition. Greater labour market flexibility reduces job security and may increase inequality.

Furthermore, external factors such as 'global conflicts and restrictions on free trade' are beyond the government's control and may limit any improvement. The effectiveness of supply-side policies depends on how well they are targeted; if the government picks the wrong projects there is a risk of government failure.

In conclusion, Germany's main constraints are slow planning, energy costs and labour shortages, so the most effective policies are planning reform and skilled immigration, which are relatively cheap and work faster, combined with long-term investment in education and renewable infrastructure. These should improve economic performance in the long run, but they will take time and must be balanced against the government's budget position.

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 In January 2023 the UK prime minister, Rishi Sunak, promised to halve inflation by the end of the year.

In July 2023 the Bank of England governor, Andrew Bailey, said: "It is crucial that we… return inflation to its 2% target and provide the environment of price stability in which the UK economy can thrive. This is the best contribution monetary policy can make to the prosperity of the United Kingdom."

(Source adapted from: https://www.theguardian.com/politics/2023/jan/04/sunak-vows-to-be-steady-hand-on-tiller-but-are-his-pledges-all-sleight-of-hand and https://www.theguardian.com/business/2023/jul/10/inflation-bank-of-england-boss-andrew-bailey-speech)

Evaluate the possible **conflicts** between macroeconomic objectives when seeking to control inflation.

(Total for Question 7 = 25 marks)

OR

8 In Sudan, public services such as healthcare are struggling to keep running. Power outages, blocking of internet access, and fuel shortages, will mean hospitals struggle to operate. Many of the hospitals in the capital city, Khartoum, have reported shortages of doctors, blood, transfusion equipment, medical supplies, and other skilled workers and commodities.

(Source adapted from: https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(23)00858-9/fulltext)

Evaluate the possible factors influencing the level of economic development in a developing country of your choice.

(Total for Question 8 = 25 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☒ **Question 8** ☒

Write your answer here:

Question 7

Inflation is a sustained increase in the general price level. UK CPI inflation peaked at 11.1% in October 2022, far above the 2% target, so the government promised to halve it and the Bank of England's Monetary Policy Committee raised Bank Rate from 0.1% in December 2021 to 5.25% by August 2023. Controlling inflation can conflict with the other macroeconomic objectives: economic growth, low unemployment, a balanced current account, equality and a sustainable fiscal position.

The first conflict is with economic growth. Higher interest rates increase the cost of borrowing and the reward for saving, so households spend less on credit, mortgage holders have less disposable income and firms postpone investment. Consumption and investment fall, reducing injections into the circular flow, so AD shifts left and, through the negative multiplier, real GDP grows more slowly. Contractionary fiscal policy, such as freezing income tax thresholds, has the same effect. UK growth was close to zero during 2023, showing the cost of reducing inflation.

The second conflict is with unemployment, shown by the short-run Phillips curve. If firms see reduced demand from consumers due to contractionary policies, they are likely to reduce the number of workers, as labour is a derived demand. In my diagram the economy moves along the SRPC from A to B: inflation falls from $\pi 1$ to $\pi 2$, but unemployment rises from U1 to U2. UK unemployment rose from around 3.5% to over 4% as interest rates rose.

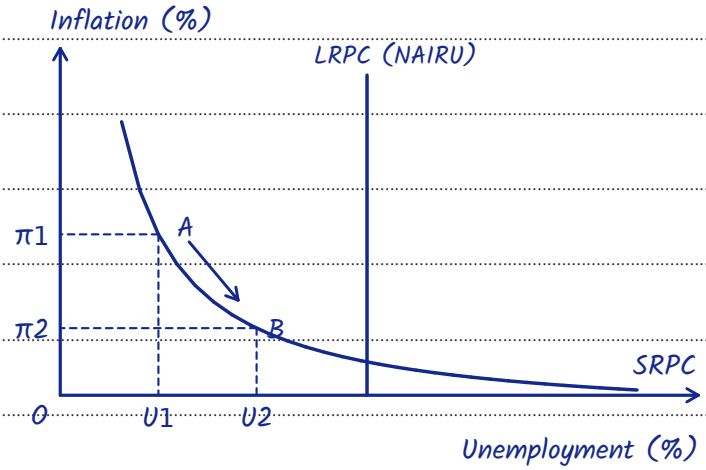
The third conflict is with the current account. Higher interest rates attract hot money inflows, increasing demand for the pound and strengthening the exchange rate. UK exports become more expensive abroad and imports cheaper, so the current account deficit may worsen. However, lower incomes also reduce spending on imports, so the overall effect is uncertain.

The fourth conflict is with equality. Higher-income households with savings gain from higher

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interest, while lower-income households bear a higher interest burden on debt and mortgages. If the government cuts welfare payments or raises regressive taxes to reduce AD, income inequality widens. Higher interest rates also increase the fiscal burden, as the cost of servicing a national debt of around 100% of GDP rises, leaving less for public services or environmental projects, which may be cut, damaging the environment.

However, these conflicts may be only short term. Once inflation has fallen, contractionary policies can be reversed: inflation fell to 4% by the end of 2023 and to around 2% in 2024, so the Bank of England began cutting interest rates in August 2024. As Andrew Bailey says, price stability provides 'the environment in which the UK economy can thrive', because low and



stable inflation increases business confidence and investment, supporting long-run growth, employment and international competitiveness. In this sense controlling inflation complements the other objectives in the long run.

The Phillips curve also has limitations. According to the expectations-augmented view, the long-run Phillips curve is vertical at the natural rate of unemployment (NAIRU), so there is no long-run trade-off: once inflation expectations fall, unemployment returns to the natural rate. If the Bank of England is credible, expectations adjust quickly and the rise in unemployment is small.

The severity of the conflict also depends on the cause of inflation. In 2022 inflation was mainly caused by cost-push factors, such as higher energy and food prices after Russia's

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invasion of Ukraine and supply chain disruption, rather than demand-pull. Demand-side policies are unlikely to be very effective against cost-push inflation, so the government and Bank of England need to limit their use, as they reduce growth and employment without tackling the cause. Monetary policy also has a time lag of approximately 18 to 24 months, so policymakers risk raising rates too far.

Conflicts can be avoided if supply-side policies take effect. Investment in infrastructure, training and energy supply increases productivity and LRAS, which reduces inflation while raising growth and employment, although these take years to work. Higher progressive taxes could also help reduce inequality as well as being contractionary in nature.

In conclusion, there are significant short-run conflicts between controlling inflation and growth, unemployment, equality and the public finances, with the size of the conflict depending on whether inflation is cost-push or demand-pull and on how credible policymakers are. Since the UK's policies to control inflation were largely successful without a deep recession, the conflicts appear to have been moderated, and in the long run price stability supports the other objectives rather than conflicting with them.

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Question 8

Economic development is an improvement in living standards and welfare, including income, health, education and freedom, often measured by the HDI. I will consider Sudan, a low-income country with an HDI of around 0.5, among the lowest in the world.

The most important factor is civil war and conflict. Since April 2023, fighting between the army and the Rapid Support Forces has destroyed infrastructure and displaced millions of people. Hospitals in Khartoum report 'shortages of doctors, blood, transfusion equipment, medical supplies', and power outages and blocking of internet access mean public services are struggling to keep running. Conflict destroys physical and human capital, deters investment and diverts government spending to the military, so output and living standards fall.

A second factor is primary product dependency. Sudan relies on exports of gold, livestock, sesame and gum arabic. Primary product prices are volatile because supply and demand are price inelastic, so export revenue and incomes fluctuate, making it difficult for farmers, firms and the government to invest and plan ahead. When South Sudan became independent in 2011, Sudan lost most of its oil reserves and much of its export and tax revenue, leading to high inflation and a sharp depreciation of the Sudanese pound.

A third factor is a lack of savings. With low incomes, most income is spent on necessities, so savings are low and there is only a very limited supply of money for banks to lend out to firms for investment. According to the Harrod-Domar model, growth depends on the savings ratio and the productivity of capital, so a savings gap traps the country in a cycle of low investment, low growth and poverty. Many people also lack access to credit and banking.

A fourth factor is low human capital. A lack of education means people lack the skills to take on advanced and higher-paying jobs, trapping them in low-income agricultural work, while a lack of healthcare limits the size of the potential workforce as many people are ill and unable to work. Rapid population growth, of around 2.5% a year, increases the dependency ratio and the supply of unskilled labour, keeping wages low.

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Other factors include corruption, as Sudan ranks near the bottom of corruption indices, which diverts resources and deters foreign direct investment, and a large external debt, where the opportunity cost of debt repayment reduces spending on health and education. A lack of infrastructure, such as power supplies, roads and water, makes it difficult for firms to grow and increase employment.

However, the significance of these factors can be questioned. If Sudan has a comparative advantage in primary products such as gum arabic, of which it is the world's largest producer, and gold, it may be beneficial to specialise in those industries and import products it is less suited to producing. Forward markets can reduce the risk and instability caused by volatile prices, so business confidence rises and investment becomes more likely.

The savings gap could be filled by aid, FDI, microfinance or borrowing from the IMF and World Bank, and Sudan qualified for debt relief under the Heavily Indebted Poor Countries initiative in 2021, which reduces the burden of debt repayment. Banking is becoming more accessible as the use of mobile phones and banking apps becomes more widespread, increasing access to credit. Spending by the government and aid organisations can also improve education and infrastructure over time.

Some factors matter less than they appear. If an economy is largely agricultural, high levels of education may not be necessary for people to develop the skills needed. Population growth means more workers are available to produce goods and services, so output may increase faster than population, increasing per capita incomes, a demographic dividend, if there are jobs available.

Crucially, it is not likely to be one factor that holds a country back, as these factors are interconnected: a lack of an educated workforce means the economy is not able to diversify away from primary products, and low incomes mean low savings and low tax revenue for education. However, in Sudan conflict is the binding constraint, because while fighting continues aid cannot be delivered effectively, investors will not commit funds and hospitals cannot

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operate, so other policies will have little effect.

In conclusion, many factors influence the level of economic development, and their relative importance varies between countries and over time. For Sudan, conflict and political instability are the most significant factors in the short run, while primary product dependency and low human capital are the main long-run barriers. Development depends first on achieving peace, then on diversification and investment in health and education supported by aid and debt relief.

TOTAL FOR SECTION C = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

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Economics A

Advanced

PAPER 2: The National and Global Economy

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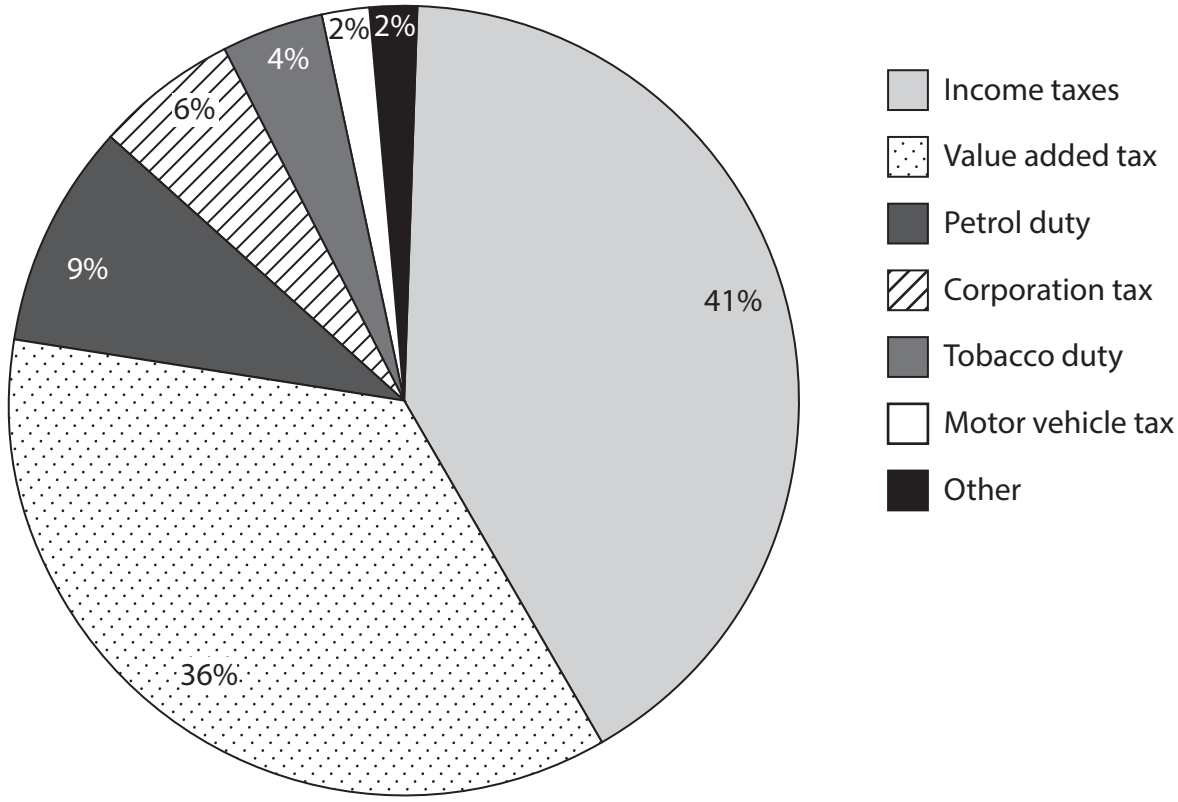
Sources for use with SECTION B

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

Question 6

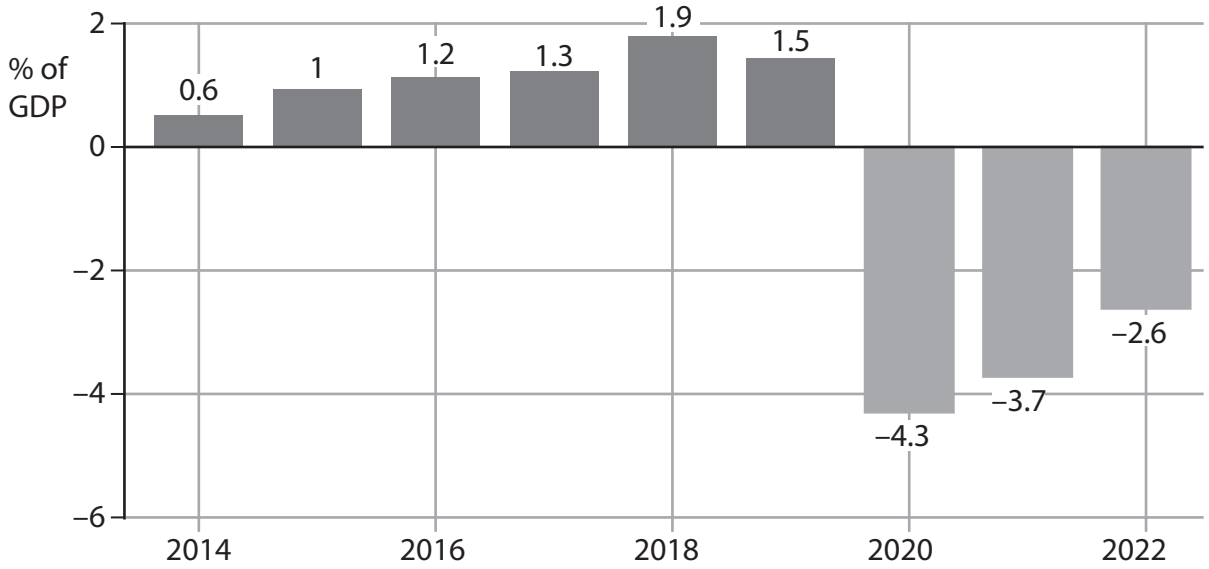
The German economy

Figure 1: German government tax revenue, % of total revenue, 2022



(Source adapted from: https://www.bundesfinanzministerium.de)

Figure 2: German government budget, % of GDP, 2014–2022



(Source adapted from: https://tradingeconomics.com/germany/government-budget)

Extract A

The opportunities and challenges facing the German economy

The German economy entered a recession in 2023, and business confidence in the country fell at the fastest pace since 2021. German growth was the lowest among major economies in 2023. The future, however, is a greater concern owing to external factors such as global conflicts and restrictions on free trade.

The German government has been trying to improve its economic performance, with an aim to have renewables account for 80% of its energy supply. However, this would be a major shift for Germany where fossil fuels such as coal and gas still provide 75% of the energy needs and exposes it to volatile global energy prices. The rapid building of liquid natural gas terminals has helped to secure energy supplies in the short term.

The German government needs to remove a number of problems that have long held back its economy. Infrastructure projects in renewable energy production, such as wind farms, have been delayed by lengthy planning procedures. Business leaders complain of excessive bureaucracy and lack of technological advances. Labour shortages are another issue. Germany is expected to be short of up to 7 million workers by 2035, partly due to an ageing population. There is a lack of skilled workers in the building trade, electrical engineering and professional services, which are important for the country's economic ambitions. The German government needs to introduce effective policies such as planning reforms to speed up construction projects or reforms to increase the flexibility of the labour market.

The German economy has long been one of the biggest exporters in the world. It has trade surpluses with all its major trading partners except China and in 2021 its current account surplus was 7.7% of GDP. However, this has caused tensions with the governments of other countries, in particular the USA, which sees Germany's surplus as partly a cause of the USA's huge current account deficit. Having said that, a weakening euro caused by higher interest rates in the USA compared to the Eurozone is beginning to have an effect in reducing Germany's current account surplus – which dropped to 4.2% in 2022.

(Source adapted from: https://www.ft.com/, https://www.cnb.cz/en/monetary-policy/inflation-reports/boxes-and-annexes-contained-in-inflation-reports/The-German-economy-and-the-dollar-euro-exchange-rate, and https://tradingeconomics.com/germany/current-account-to-gdp)

Extract B

US technology firm Intel invests in German semiconductor factories

Intel is to double its investment in semiconductor factories in eastern Germany to €30 billion. This is the largest foreign direct investment in Germany's history. Intel acquired the land for the factories in November 2022 and the first factory is expected to start production within four to five years. The site is expected to create 7 000 construction jobs during the building phase, about 3 000 permanent high-tech jobs and tens of thousands of additional jobs across the semiconductor industry.

(Source adapted from: https://www.ft.com)