PEARSON EDEXCEL A-LEVEL ECONOMICS B · 9EB0

ECONOMICS



EXAM QUESTION PACK

3.1 GLOBALISATION

SCORE	PERCENTAGE
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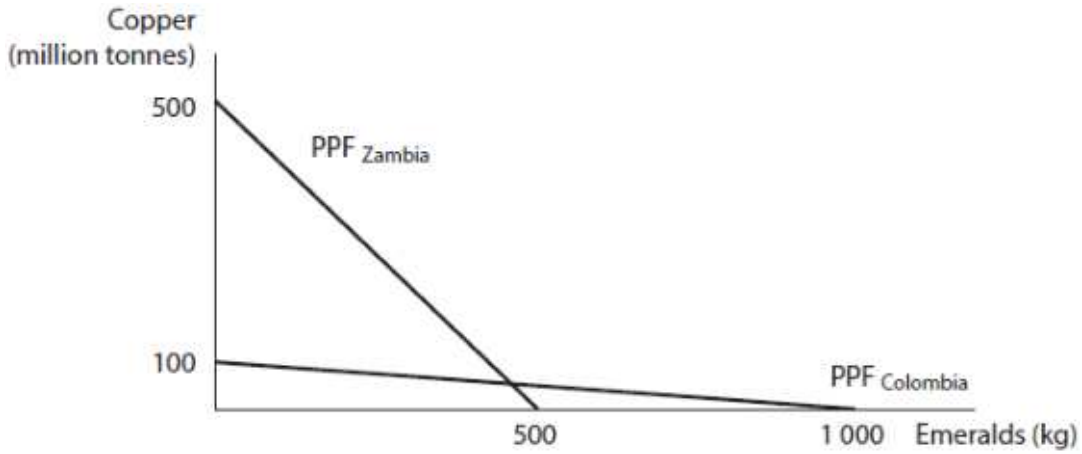
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Questions

Q1.

Colombia and Zambia each produce copper and emeralds. The production possibility frontiers below show the two countries' productive capacities for these goods.



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

(1)

A Colombia has an absolute advantage in the production of copper

B Zambia has an absolute advantage in the production of copper

C Zambia has an absolute advantage in the production of emeralds

D Neither Colombia nor Zambia has an absolute advantage in the production of emeralds

Answer ☐

(b) Using appropriate calculations, explain which country has a comparative advantage in the production of emeralds.

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(Total for question = 5 marks)

Q2.

The trade deal known as the Comprehensive Economic and Trade Agreement (CETA) is designed to eliminate or reduce trade barriers between the European Union (EU) and Canada. It is estimated that it will increase trade by 20% and boost EU GDP by 12 billion euros.

(Source: http://www.theguardian.com/business/2016/oct/30/eu-canadasign- ceta-free-trade-deal-trudeau-juncker)

(a) Which **one** of the following is most likely to decrease as a result of CETA?

(1)

☒ **A** Economic growth in EU countries

☒ **B** Exports from EU countries to Canada

☒ **C** Imports from Canada to EU countries

☒ **D** Tariffs on European exports to Canada

(b) With reference to the theory of comparative advantage, explain how CETA may increase the GDP of both the EU and Canada.

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(Total for question = 5 marks)

Q3.

With global economic growth slowing and inequality rising, the case against globalisation is strengthening. But there are also many benefits to globalisation. Global trade and international trade agreements allow countries to focus on their strengths and share expertise, as well as reducing risk through diversification.

(Source: adapted from https://www.ft.com/content/7b365844-9b75-11ea-adb1-529f96d8a00b)

Evaluate the likely impact of globalisation on the global economy.

(Total for question = 25 marks)

Q4.

Both China and the United States have been gradually increasing the tariffs imposed on each other's exports as their trade dispute continues. The IMF estimated that the trade dispute between China and the United States would reduce global GDP growth by 0.8 percentage points by the end of 2020.

(Source: adapted from https://www.theguardian.com/business/2019/oct/15/imf-recession-world-growth-forecast-central-banks)

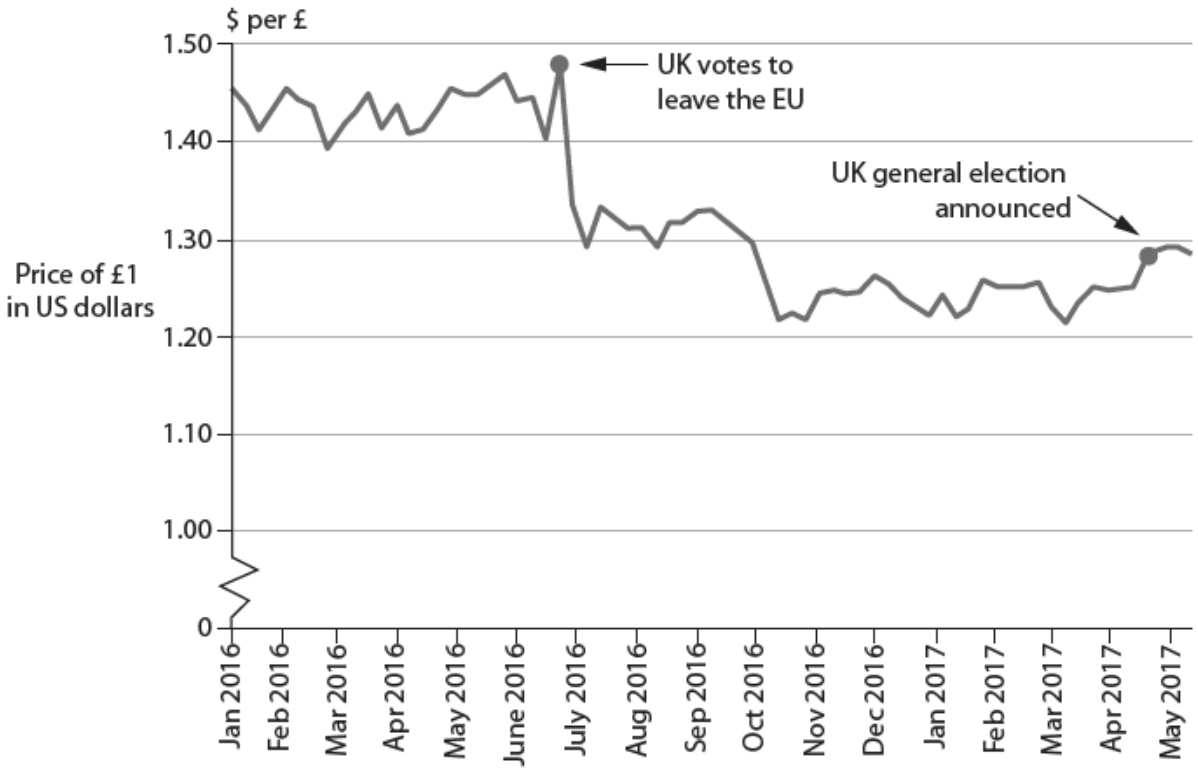
Evaluate the likely impact of an increase in protectionism on the global economy.

(Total for question = 25 marks)

Q5.

The UK economy since the financial crisis

Figure 1: Pound sterling to US$ exchange rate, 2016-17



(Source: adapted from https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract A

UK companies use forward currency market

The Norfolk-based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency fluctuations. The pound's post-Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

(Source: adapted from 'UK companies use pound strength to hedge forex risk' by Roger Blitz, Markets, © FT.com, 16 May 2017. https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract B

Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find £116 billion of funding to ensure that taxpayers will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed £65 billion of taxpayer bailouts during the 2008 Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in 2017 and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

"Just like when other businesses fail, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently," said Cunliffe.

(Source: adapted from 'Bank of England tells lenders to find £116bn to help prevent bailouts', by Jill Treanor, 02 October 2017, Copyright The Guardian News and Media Ltd https://www.theguardian.com/business/2017/oct/02/bank-of-england-bailouts-rbs-lloyds and 'Lloyds bank bailout repaid in full, Philip Hammond claims', by Jill Treanor, Larry Elliott, 21 April 2017, Copyright Guardian News & Media Ltd 2017 https://www.theguardian.com/business/2017/apr/21/lloyds-bank-bailout-repaid-in-full-philip-hammond-claims)

Extract C

Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth £11.4 billion by the end of 2018 as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady level, even during an economic downturn. In 2017 the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to 0.5% and also forecast a further increase to 1% by the end of 2017.

The move is not intended to directly reduce consumer demand for credit, which in 2017 grew by 10.3% on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975.

(Source: adapted from 'Bank of England tells lenders to increase capital buffers by £11.4bn' by Caroline Binham, Gemma Tetlow and Martin Arnold © Financial Times 2017 https://www.ft.com/content/9bc99294-5b1b-11e7-9bc8-8055f264aa8b)

(a) With reference to Extract A, explain the role of forward markets in currencies.

(5)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10)

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12)

(e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.

(15)

(Total for question = 50 marks)

Q6.

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

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

In 2018, the International Monetary Fund (IMF) lent Argentina $57 billion as part of a bailout package to help prevent the country's government defaulting on its debts. This financial crisis also caused significant capital flight out of Argentina's economy.

(Source adapted from: https://www.ft.com/content/737b48bc-c1c9-11e8-95b1-d36dfef1b89a)

(a) Explain the role of the IMF in providing financial assistance to countries such as Argentina.

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(b) Which **one** of the following is most likely to happen to Argentina's currency value as a result of capital flight, assuming it is operating with a floating exchange rate system?

(1)

☒ **A** Appreciation

☒ **B** Depreciation

☒ **C** Devaluation

☒ **D** Revaluation

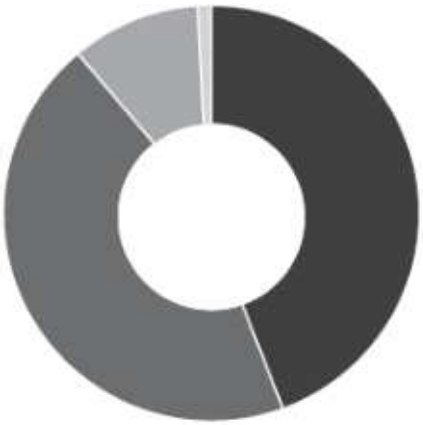
(Total for question = 5 marks)

Q7.

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

Trade and Development Issues in Africa

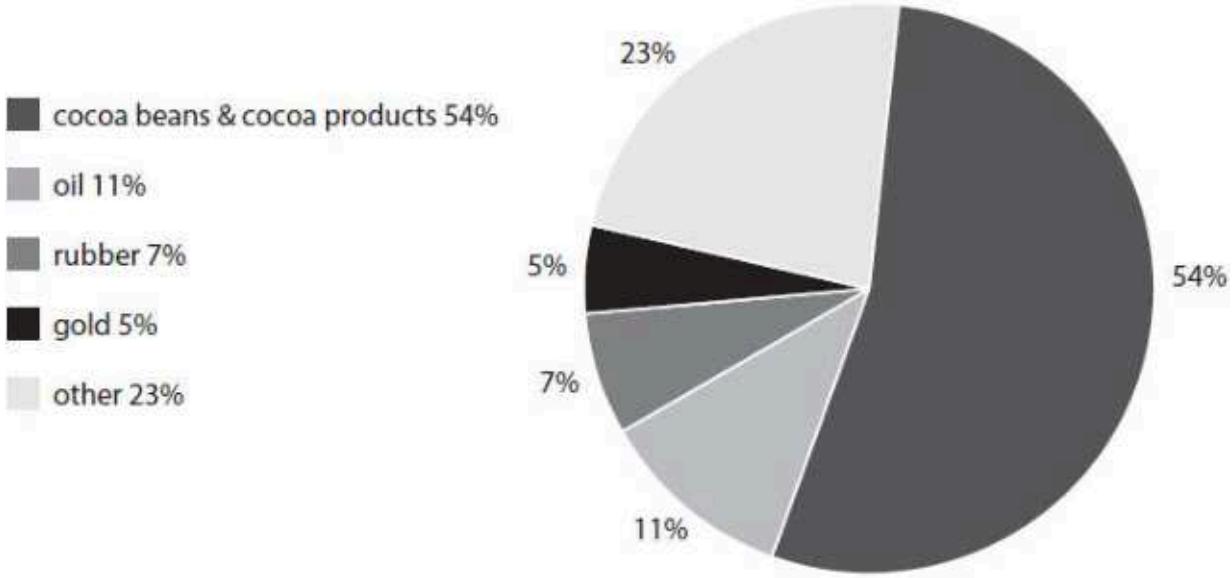
Figure 1: The Fairtrade scheme in the cocoa industry. How the additional revenue is spent by cocoa farmers.



Improving business administration and infrastructure	44%
Investing in farm equipment, training and funding	45%
Supporting social services for the community	10%
Other	1%

(Source: https://www.fairtrade.org.uk/~/media/FairtradeUK/What%20is%20Fairtrade/Documents/Policy%20and%20Research%20documents/Monitoring%20reports/Fairtrade%20Monitoring%20Report_9thEdition%202016.pdf)

Figure 2: Ivory Coast exports – relative share of main products (%), 2016



(Source: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/civ/all/show/2016/)

Extract A

Cheap cocoa is costing farmers dear

The median annual income of cocoa farmers in the west African country, Ivory Coast, is just US$2 600. Research suggests that an annual income of US$6 133 is needed for this country's farmers to have a decent, living income. This situation is even worse for farmers who are not part of a Fairtrade scheme.

World cocoa prices fell by more than a third in 2017. Cocoa farmers have to accept all the risk from price volatility, putting a significant strain on their fragile incomes. On the other hand, cocoa processors and chocolate manufacturers are able to adapt or even make high profit and consumers continue to enjoy their chocolate.

This is still happening despite considerable investment in agriculture to build a sustainable cocoa sector. The focus has been on raising productivity and diversifying crops. The average cocoa farm in the Ivory Coast produces only around half of the output that could be achieved with training and resources such as fertilisers, equipment and replanting. If farmers diversify into other crops, livestock or non-farm activities, they lower the risk they face of fluctuating world cocoa prices.

Even tripling farm output would not provide the average cocoa farmer with a living income. Diversification alone will not always make farms more profitable. If we want farmers to earn a living income, we must also be willing to pay farmers more.

(Source adapted from: https://www.fairtrade.org.uk/Media-Centre/Blog/2018/October/Cheap-cocoa-is-costing-farmers-dear)

Extract B

Sub.Saharan Africa is becoming more integrated

After two years of negotiations, representatives of a large number of African countries signed the African Continental Free Trade Agreement (AfCFTA) in Kigali on March 21, 2018. This created a trading bloc of 1.2 billion people with a combined gross domestic product of more than US$2 trillion. The agreement committed countries to removing tariffs on 90% of goods and to liberalise services.

This can be seen as a sign of rapid and steady regional integration. Sub-Saharan Africa in particular is much more integrated today than in the past. The level of integration in sub-Saharan Africa is now similar to that in the world's other developing and emerging market economies.

However, the two largest African economies, Nigeria and South Africa, refused to sign the agreement. Nigeria's manufacturers and trade unions are concerned about the potential negative impacts of becoming more open to imports from other African countries with lower labour costs.

Greater interdependence can expose small economies to their partners' recessions. After nearly 20 years of strong economic activity, sub-Saharan Africa experienced the downside of integration in 2015. The collapse in commodity prices and the slowdown in economic activity in Nigeria and South Africa contributed to sub-Saharan African growth slowing sharply. Since 2017 growth has begun to recover. The recovery is mixed, though, and it is unclear to what extent the slow recovery of the larger economies is still affecting the rest of sub-Saharan Africa.

(Source adapted from: https://www.imf.org/ and https://www.pulse.ng/)

(a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

(5)

(b) Examine two ways, apart from Fairtrade schemes, in which cocoa farmers could boost their

incomes despite the falling price of cocoa.

(8)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports.

Refer to Figure 2 in your answer.

(12)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

(10)

(e) Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

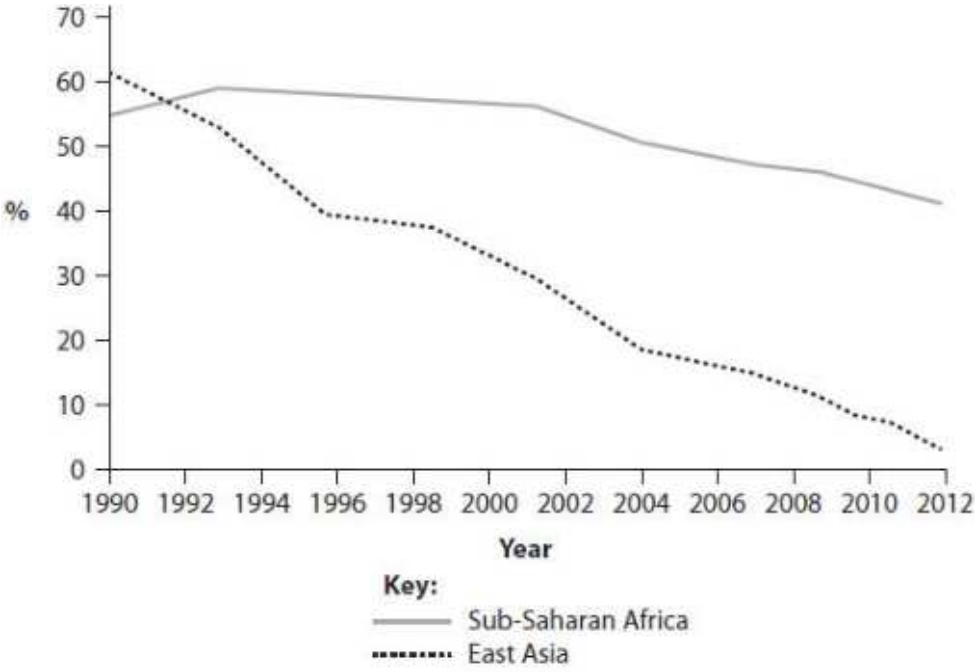
(15)

(Total for question = 50 marks)

Q8.

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US$1.90-a-day 2011 PPP)



(Source: https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

Lessons from globalisation

Extract A

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

(Source: adapted from https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism)

Extract B

Tackling inequality

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.

These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution.

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.

(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

(a) With reference to the information provided, explain the distinction between absolute poverty and relative poverty.

(5)

(b) With reference to the information provided and your own knowledge, examine **two** factors that might explain the differing rates of decline in absolute poverty in East Asia and Sub-Saharan Africa.

(8)

(c) With reference to Extract A, discuss **two** macroeconomic policies, apart from protectionism, that a government could use to reduce the negative effects of globalisation.

(12)

(d) Assess the view that 'some level of inequality is desirable to maintain an appropriate incentive structure in the economy' (Extract B, lines 19 and 20).

(10)

(e) Discuss the role of the financial sector in the growth and development of developing countries.

(15)

(Total for question = 50 marks)

Q9.

Three of Africa's main trading blocs have agreed to form the Tripartite Free Trade Agreement (TFTA). This will create one of the world's largest free trade areas, stretching across 26 countries with a combined GDP of around £1 trillion.

(Source: https://uk.reuters.com/article/uk-africa-trade/mega-african-trade-blocpaves-way-for-continental-commerce-idUKKBN0OR28M20150611)

Evaluate the effects of the growth of trading blocs such as the TFTA on global trading patterns.

(Total for question = 25 marks)

Q10.

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	**21.75%**	**18.0%**
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399)

Extract E

Mozambique's economic stability is being put to the test

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line.

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1.

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability.

(Source: adapted from http://www.africaneconomicoutlook.org/en/country-notes/mozambiqua and https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test 6 October 2017 Dr Alex Vines OBE)

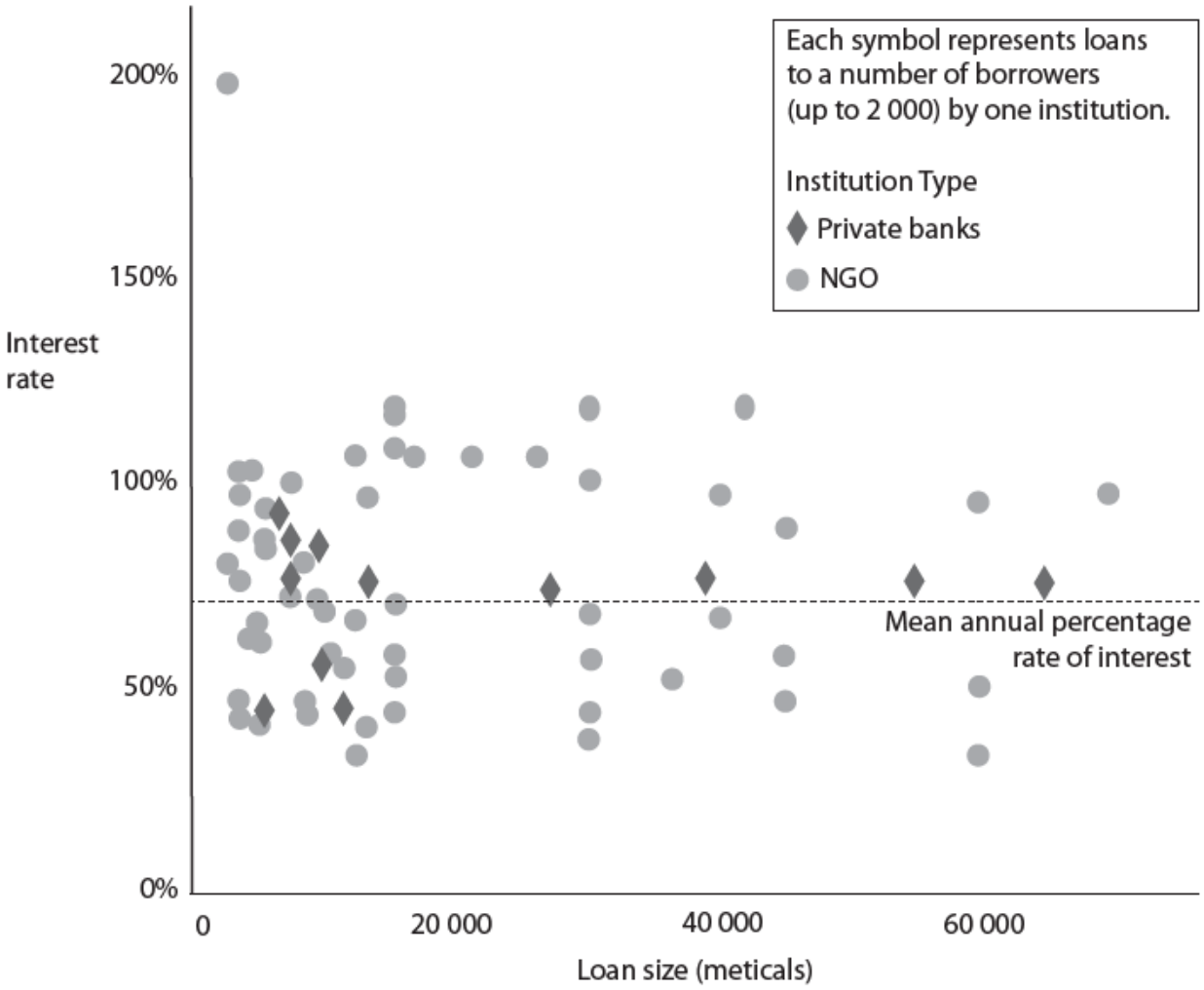
Extract F

Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion.

(Source: adapted from http://www.mftransparency.org/microfinance-pricing/mozambique/)

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: http://www.mftransparency.org/microfinance-pricing/mozambique/)

(a) With reference to Extract D line 21, explain why 'opportunity cost' is a problem for governments of developing countries when servicing debt.

(5)

(b) Examine **two** reasons, apart from access to finance, why 90% of the manufacturing sector in Mozambique 'is made up of small enterprises' (Extract E, line 9).

(8)

(c) Discuss whether borrowers benefit from microfinance. Make reference to Mozambique in your answer.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic factors, apart from access to credit and banking, influencing growth and development in Mozambique.

(25)

OR

(e) Evaluate the likely microeconomic and macroeconomic effects of relatively high inflation rates in many African countries.

(Total for question = 50 marks)

Q11.

The British pound fell by over 10% to a 30-year low against the US dollar after the UK voted to leave the European Union.

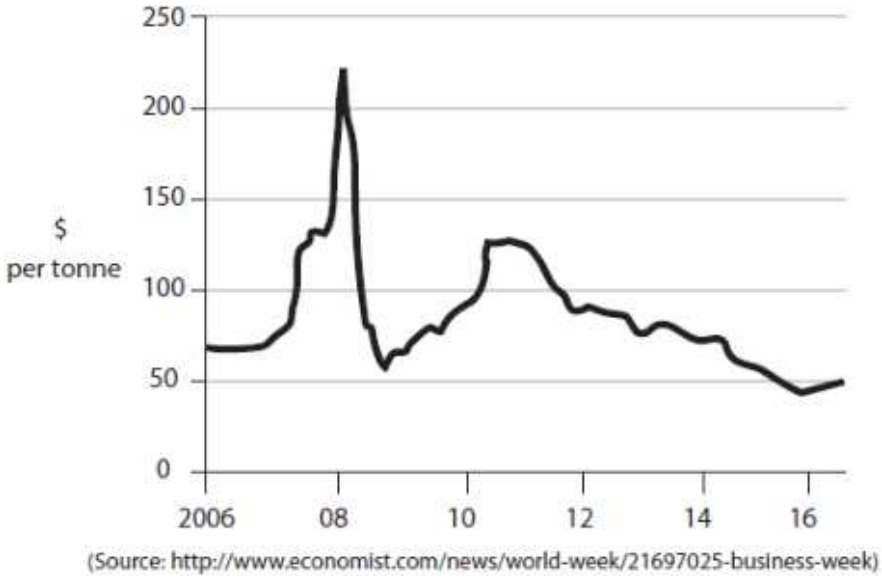
To what extent will this depreciation impact on future economic growth in the UK?

(Total for question = 25 marks)

Q12.

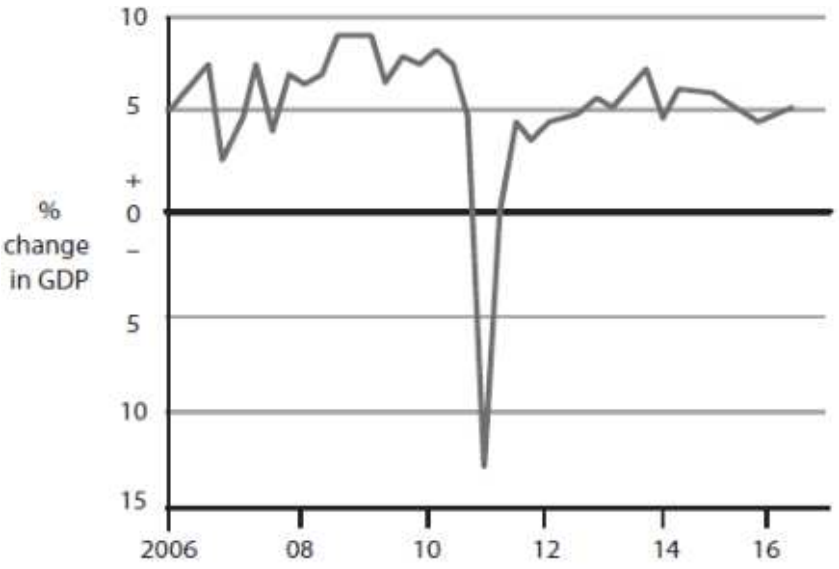
Indonesia

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Extract D

Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

Indonesia receives US$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US$14.37) a month. The World Bank has approved US$800 million in infrastructure loans to Indonesia, with another US$950 million as conditional loans. The Asian Development Bank has committed itself to lending US$2 billion. In December Japan's development agency lent Indonesia US$535 million to construct two power stations.

(Sources: adapted from http://country.eiu.com/Indonesia and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

Extract E

Indonesia's economic policies as commodity prices collapse

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US$50 per tonne, against US$125 in 2011.

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly.

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP.

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones.

The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target.

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports. In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment. Indonesia has plans for 65 dams, 16 of which are already under construction. In 2015 work started on the Keureuto Dam, designed to boost agricultural productivity in Aceh. Recently fields were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

(Sources: adapted from http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

(a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to

support your answer.

(8)

(c) Discuss the benefits of aid to Indonesia.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

(25)

OR

(e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

(25)

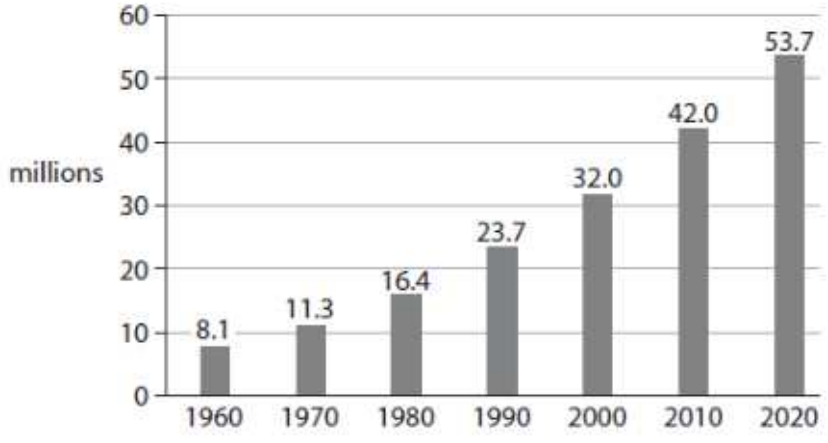
(Total for question = 50 marks)

Q13.

Read Figure 2 and the following extracts (D to G) before answering this question.

Sub-Saharan Africa – growth and development

Figure 2: Kenya population, millions, 1960 to 2020



(Source: adapted from Population, total - Kenya | Data (worldbank.org))

Extract D

Growth and development in Africa: 'Africa has a massive opportunity as a low-cost provider of services'

The outlook for Africa's economies is not as simple as the Lewis model of growth and development implies: do more manufacturing or stay poor. Many countries are expanding into areas that economists are starting to call 'industries without smoking chimneys'. Some, such as flower-exports, may not be classified as manufactured goods in export statistics. But the process of producing flowers looks a lot like factory work and demands many of the same management skills. These industries also deliver many of the benefits of normal manufacturing, including many well-paid jobs, and greater opportunities.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/many-of-africas-economies-are-doing-well)

Extract E

The demography of Kenya – 'Demography will shape Africa's future'

Falling birth rates, when accompanied by rising literacy, can help kick-start growth. In Kenya 39% of the population is below the age of 15, falling from 43% in 2009. The labour force (15–64 years) is 57% and is the fastest growing population group. 6% of the population is over the age of 60. The number of children per family has fallen sharply, from 8.1 children in 1978 to 4.6 children in 2008, and it is projected to possibly reach 2.4 children by 2050.

In the 1970s little more than half of children in sub-Saharan Africa were enrolled in primary school. That share has shot up to almost 100%. The statistic is slightly misleading, since the percentage of children regularly attending schools is nearer 60%.

Why does Kenya's population continue to rise rapidly, while family size declines? There are two reasons. First, due to high fertility in previous decades, there are many more families in Kenya today. So even though families are smaller, the total number of children continues to grow. Second, Kenyans are living longer, with better healthcare – for example, polio was eradicated in 2014. Life expectancy is projected to increase from 54 years today to 68 years by 2050.

28% of Kenya is urbanised, and is becoming rapidly more so. By the 2030s it is expected that 36% of Kenyans will live in towns or cities rather than the poorer rural areas. Rich countries are urban countries. No country has ever reached high income levels with low urbanisation. Large urban centres have two distinct economic advantages. First, as more people interact, there is more scope for innovation. Young people need jobs, but they also create jobs. Kenya has an educated workforce and a dynamic service industry, which typically has lower barriers of entry than agriculture or manufacturing, and provides opportunities for young entrepreneurs. Second, larger groups of population living in close proximity allow for economies of scale.

In light of these facts, Kenya's future pattern of population growth can be a force of good. A large urbanising and well-educated population tends to generate a strong middle class and vibrant private sector. Economic development may be easier to achieve and sustain – though it is not guaranteed.

(Source: adapted from https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050 and https://kenya.unfpa.org/sites/default/files/pub-pdf/state_of_kenya_population_report_2020.pdf and https://www.worldbank.org/en/news/opinion/2010/04/28/demographic-transition-growth-kenya)

Extract F

Kenya has an absolute advantage in cut flowers

In the UK, 80% of cut flowers come via the Netherlands, although a significant proportion come from Kenya. Some Kenyan flowers come straight to the UK on direct flights from Nairobi, where entire terminals at certain airports are dedicated to flights exporting flowers.

Kenya flower production has three major advantages over the Netherlands: areas of high altitude with cool nights, which many flowers benefit from, proximity to the equator for maximum hours of sunlight, and cheaper labour. This means an end to seasonal production and the beginning of a 365-day-a-year absolute advantage. The Netherlands has cost advantages in machinery and transport equipment, not flowers.

Cut flowers are now Kenya's second largest export after tea, contributing around 1% of the country's GDP. They are also one of the country's largest sources of employment, with over 100 000 people working directly in the flower industry and an estimated two million indirectly.

(Source: adapted from: https://www.economist.com/middle-east-and-africa/2021/02/11/kenyas-floral-exports-are-blooming-once-more)

Extract G

Changes in interest rates in sub-Saharan Africa

When Robert Matsiko was a young man his grain-milling business in eastern Africa was destroyed by fire. Now, after building it back up from the ashes, he is being hurt by high interest rates. To buy a new machine he must borrow from a bank at an annual rate of 22%. 'You fear to do that,' Mr Matsiko says. Many other entrepreneurs feel the same, which stops their businesses from growing, although very small firms can get help from microfinance schemes.

Kenya's central bank rate has fallen from over 20% to 7% in the last decade, but the rates charged to small businesses and individuals are much higher than the central bank interest rate. In sub-Saharan Africa, the gap between saving and borrowing rates is higher than anywhere else. The average bank lends at 6.8% above the central bank interest rate. Mobile banking, credit-information sharing and innovation have helped to bring borrowing costs down. But until birth rates fall, interest rates will stay relatively high, because families with many children cannot afford to save.

(Source: adapted from https://www.economist.com/finance-and-economics/2020/05/21/why-interest-rates-are-so-high-in-africa)

(a) Explain what is meant by the Lewis model. Refer to Extract D in your answer.

(5)

(b) Examine **two** demographic factors influencing development in Kenya.

(8)

(c) Using the example of cut flowers (Extract F), discuss how the concept of absolute advantage may lead to growth in Kenya. Use numerical or diagrammatic analysis in your answer.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic effects of decreasing interest rates in Kenya, or another developing country of your choice.

(25)

OR

(e) Evaluate the microeconomic and macroeconomic strategies that could be used to promote development in Kenya, or another developing country of your choice.

(25)

(Total for question = 50 marks)

Q14.

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

Unit labour costs for selected European countries, 2017, base year 2010 = 100.

Country	Unit labour costs
Austria	113
Hungary	120
Estonia	129
France	107

(Source: http://www.oecd-ilibrary.org/economics/data/labour/unit-labour-cost-quarterly-indicators-early-estimates_data-00607-en)

(a) Explain **one** likely reason for Estonia's unit labour costs rising faster than in other European countries.

(2)

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(b) Explain how Estonia's competitiveness could be affected by rising unit labour costs.

(2)

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(c) The increase in Austria's unit labour costs between 2010 and 2017 is:

(1)

- ☒ **A** 3%
- ☒ **B** 11.3%
- ☒ **C** 13%
- ☒ **D** 113%

(Total for question = 5 marks)

Mark Scheme

Q1.

Question Number	Answer	Mark
(a)	B	**(1)**

Question Number	Answer	Mark
(b)	**Application 3, Analysis 1** **Application:** 2 marks for: • the calculation for opportunity cost for Columbia (1) • the calculation for opportunity cost for Zambia (1) and 1 mark for: • in Colombia the opportunity cost of producing 1kg of emeralds is 0.1 million tonnes of copper (1) • in Zambia the opportunity cost of producing 1kg of emeralds is 1 million tonnes of copper (1) • Colombia has a comparative advantage in the production of emeralds (1). **Analysis** 1 mark for inferences from calculations carried out, e.g. • Columbia can produce emeralds relatively more efficiently/at a lower opportunity cost than Zambia (1).	**(4)**

Q2.

Question Number	Answer	Mark
(a)	**The only correct answer is D** ***A*** *is not correct because this is likely to increase* ***B*** *is not correct because this is likely to increase* ***C*** *is not correct because this is likely to increase*	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding:** 2 marks for e.g. • Countries specialise in the goods in which they have a comparative advantage (1) lower opportunity cost (1) • Through trade each country can now consume more in total as they focus on what they can produce more efficiently (1) • Identification of concept with numerical or diagrammatic example (1) • Movement to freer trade thanks to CETA agreement (1) **Application:** 1 mark for e.g. • Related to Europe/Canada, e.g. Canadian timber exports, EU car exports, or other relevant examples (1) • Use of numerical or diagrammatic example (1) • Reference to data, e.g. increase trade by 20% (1) **Analysis:** Linked development 1 mark for e.g. • Countries are now producing/consuming more so this means an increase in GDP (1) • Explanation of numerical or diagrammatic example (1)	**(4)**

Q3.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Likely impact includes: • Increased global trade • Increased global output with reference to comparative advantage • Increased incomes in developing countries due to growth of export industries/investment from MNCs • Increased global competition between firms leading to lower prices for consumers globally • Increased supply globally leading to less global inflationary pressures • Growth of multinational corporations • Increased migration reducing unemployment globally as people move to where jobs are available/where their skills are in need • Diagrammatic analysis e.g., using PPF	

	Evaluation might include e.g.: • Growth of protectionism may restrict global trade and/or limit comparative advantage • Problems with over-reliance on imports encouraging more firms/countries to look at domestic production • Increased production in countries with lower labour costs may help to reduce global inequality • Greater global integration of supply chains increases chances of delays in transport/delivery around the world • Increased inequality as some industries close down due to competition from abroad • Structural unemployment in some countries if industries more abroad • Increased exploitation by MNCs of workers in countries with weak regulations • Increased pollution from increase in transport of goods around the world **NB for KAA Level 4 candidates must refer to the global economy**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q4.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Likely impact includes: • Higher prices for consumers, especially on goods/services that can't be produced domestically, e.g. bananas in the UK, increasing inflation globally • Higher prices for consumers due to domestic firms facing less competition from abroad • Less choice for consumers as imports become too expensive • Fewer firms may decide to export due to increased cost/bureaucracy to abide by, reducing global competition and therefore lower global GDP, higher global inflation • Reduction in comparative advantage globally leading to less productivity and less output • Deadweight welfare loss Evaluation might include e.g.: • Depends on levels of tariffs that countries introduce • May only be short-term trade wars and countries such as US and China could agree new terms • WTO can enforce global trade rules to ensure countries don't distort international trade • Comparative advantage can encourage over-dependence for a country (perhaps primary product dependency) • Protection of domestic industries helps to protect domestic employment and income, helping to reduce global inequality • Protection of infant industries to allow them time to grow and expand in order to benefit from economies of scale to compete internationally • Protection of an economy from a foreign country dumping products on the country- loss of jobs, output, etc. **NB for KAA Level 4 candidates must refer to the global economy**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q5.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Understanding:** (1+1 or 2) marks Explanation of forward markets in currencies, e.g. • Firms buy their currency in advance (1) • Firms agree a fixed price (1) for purchase of foreign currency in the future (1) **Application:** (1+1) marks Reference to Extract A, e.g. • Currency 'has a big impact' on their business • Buying currency as soon as a large order is confirmed • 'The pound's post-Brexit referendum depreciation' Other application e.g. use of Figure 1. NB at least one piece of data must come from Extract A for the full 2 Ap marks. **Analysis:** (1) mark Linked development, e.g. • Enables firms to reduce risk/uncertainty • Firms can be certain about the cost of their imports in pounds	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/understanding:** 1+1 marks for identification of likely impacts of a fall in the value of sterling, e.g. • Import inflation change in cost of production for firms • Export/demand pull inflation • Changes in FDI • A change in unemployment • Economic growth • The will be an impact in the current account **Analysis:** 2 marks for linked explanation of these impacts (1+1 or 2 marks for one well developed explanation), e.g. • Fall in the value of sterling makes UK good appear cheaper to consumers in foreign countries when converted into their own currency (1) • Fall in the value of sterling makes UK imports more expensive to UK consumers when converted into pounds (1)	

	Application: (1+1) or 2 marks for reference to figure 1 and/or extract A, e.g. • Pound fell from around $1.50 (1) rapidly to $1.30 (1) after the Brexit vote • Pound fell further to a low over the period shown of just over $1.20 (1) in October/November 2016 (1) • 'pound's post-Brexit referendum depreciation' (1) • Pound fell by approximately 12% after the vote to leave the EU (2) • Trend of depreciating pound (1) **Evaluation:** 2 marks for evaluation (1+1 or 2 marks for one well developed explanation) • Short-term impact - both figure 1 and extract A show how pound has risen towards mid/late 2017 • Price elasticity of demand for UK imports/exports • J-curve effect • Marshall-Lerner condition **NB If the answer relates to a small rise in exchange rates e.g. since March 2017 then full marks can be awarded for a rise in exchange rate**	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 2,** Likely impacts on subjective happiness: • Consumers have less real income to spend on goods/services that affect their happiness • Consumers may worry more about the state of their personal finances • Consumers may worry about ability to continue paying mortgages/other debts **NB For a level 3 answer there must be context from last paragraph of Extract C e.g. reference to credit cards and personal loan repayments**	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Other factors affect happiness beside real income, e.g. leisure time, environment, etc. • Record low unemployment likely to lead to rising real incomes in future • Rises in real income may have a different effect on happiness than falls in real income • May be increased borrowing to make up for falling real incomes	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 2, Analysis 2,** Central Bank would use monetary policy (interest rates and quantitative easing) to control inflation: • Tighter monetary policy in response to rising inflation may create a conflict with objective of low unemployment- Phillips curve • Higher interest rates in response to rising inflation may create rising inequality if savers benefit and borrowers suffer • Higher interest rates in response to rising inflation may cause the sterling exchange rate to rise which can worsen the balance of payments on current account • Higher interest rates likely to reduce consumption/investment and therefore AD, so controlling inflation but reducing economic growth **NB Accept expansionary and contractionary monetary policy**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(d) continued	**Evaluation 4** There may not be a conflict between some macroeconomic objectives: • UK economy has had both low inflation and low unemployment recently so is the Phillips curve really still valid? • If incomes keep pace with inflation then inequality won't be an issue • Cutting QE reduces asset prices thereby reducing inequality • Depends on significance of change in monetary policy	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** **Arguments that providing support to banks is the best policy:** • Economy is dependent on financial system working smoothly • People could have lost their savings if banks had been allowed to fail, leading to massive drop in confidence • Potential for risk of depression had government not intervened • Government has recouped much of the money invested into bailing out the banks anyway- Government 'recovered every penny of its investment in Lloyds' **NB Discussion of other policies, e.g. central bank regulation, can also be awarded as KAA** **NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** **Arguments that providing support to banks is not the best policy:** • Huge expenditure for government that, for example in the case of the UK, already has a significant national debt- £65bn bailout of RBS and LBG. Will have to be repaid by future generations of taxpayers. • Moral hazard: will encourage reckless behaviour from the banks in the future, expecting a bailout again • Government looking unlikely to recoup losses from RBS for some time (in contrast to Lloyds) • Other policies, e.g. expansionary fiscal policy, may have been more effective **NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation**	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q6.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Enabling growth/prevent recession • Providing temporary loans/credit • Promoting economic stability • Promoting international monetary cooperation • Promoting exchange rate stability **Application:** 1 mark for relevant example e.g. • $57bn lent to Argentina • Money helps to stabilise currency • Money enables Argentinian government to continue repayments on its debt • Other relevant examples **Analysis:** Up to 1 mark for e.g. • Countries such as Argentina relied on IMF as it would be too risky for financial markets to lend to them • IMF will insist on reforms to economy as part of financial assistance	**(4)**

Question Number	Answer	Mark
(b)	**The only correct answer is B** ***A*** *is not correct because that refers to an increase in the value of the currency* ***C*** *is not correct because that refers to direct intervention in the currency markets* ***D*** *is not correct because that refers to an increase in the value of the currency*	**(1)**

Q7.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Guaranteed minimum price (1) • Reduced fluctuations in income/price (1) • Fairtrade farmers/growers/suppliers receive a higher price for their crops (1) • Fairtrade 'premium' paid to farmers/growers/suppliers (1) • Extra financial support for farmers/growers/suppliers (1) • Increased income/profit for farmers/growers/suppliers (1) **Application:** Up to 2 marks for e.g. (1+1 OR 2) • 44% of Fairtrade premium was spent on improving business administration and infrastructure • 45% was spent on investing in farm equipment, training, and funding • Price volatility for farmers • Fragile incomes for farmers • Fluctuating world cocoa prices • Diversification into other crops • Median annual income for cocoa farmers in Ivory Coast of US$2 600/not a living income • Even tripling farm output would not provide a cocoa farmer with a living income **Analysis:** Up to 1 mark for e.g. • Fairtrade is designed to support people in developing countries (1) • Farmers can use additional income to invest into their business (1) • Fairtrade is democratic in the sense that farmers can choose how to spend their Fairtrade premium money (1) • Alternative to aid using the market system (1)	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/Understanding:** Relevant methods identified (1+1), e.g. • Diversification • Invest in technology/machinery • Improved use of resources • Increased processing of cocoa beans within the country **Application:** 2 marks (1+1 OR 2) for reference to the data/candidates' own knowledge, e.g. • World cocoa prices plunged by more than a third in 2017 • Average cocoa farm yields only half of what could be achieved • Fertilisers/replanting/tractors to increase output/yield • Diversification into livestock/other crops • Producing chocolate bars from cocoa beans	
	Analysis: Linked development of each factor (1+1), e.g. • Diversify into other crops to reduce impact of fluctuating prices • Machinery can speed up harvesting and reduce labour costs • Fertiliser can increase output of cocoa so farmers have more to sell • *Adding value* by processing beans **Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1), e.g. • Significance of different methods • Improvements will only occur in the long term • Increasing cocoa yields will further reduce cocoa prices	**(8)**

Question Number	Indicative Content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Fluctuating prices make it hard for farmers to plan ahead for future purchases of seeds, equipment, etc. and will discourage investment into the farm to improve productivity • Falling cocoa prices reduce profits for farmers • Falling cocoa prices reduce the Ivory Coasts' terms of trade, affecting their ability to buy important imports such as capital equipment • Fluctuating current account • Cocoa is over half of Ivory Coast's exports and thus is a significant part of the country's economy and changes will have a big impact on AD **NB For a Level 3 response candidates must refer specifically to Figure 2**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
(c) continued	**Evaluation 4** • Ivory Coast has comparative advantage in cocoa (climate, soil, etc.) so they should specialise in this to maximise output • Growth of schemes such as Fairtrade will help in the future	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative Content	Mark
(d)	**Knowledge 2, Application 2, Analysis 2,** Possible policies might include e.g.: • Supply-side policies to improve productivity such as improved education or healthcare will make workforce more efficient and thus reduce per unit costs to better compete with cheaper imports (allow more than one supply-side policy) • Deregulation policies (e.g. labour laws) to reduce production costs for firms and therefore they will be able to compete on price with other African countries better • Investment in infrastructure to reduce transport costs for exporters • Subsidies provided by the government to help firms adjust to new competition, e.g. could be used to purchase new, more efficient machinery • Demand-side policies such as reduction in taxes on businesses to reduce their costs and increase competitiveness on price	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
(d) continued	**Evaluation 4** • Education investment will take a long time until those students enter the workforce • Opportunity cost for the government of investment • Potential side effects of wage-related policies	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** • Trade creation as a result of joining the trading bloc • Increased specialisation & trade for countries & their firms, following theory of comparative advantage so total output of the economy can increase. Could potentially be explained diagrammatically or with a numerical example • Higher incomes for workers in the countries thanks to increased demand for the country's exports pushing up wages • Increase in jobs as domestic firms now have much larger market to sell their products to, improving standard of living for citizens of the countries **NB For a Level 3 response candidates must refer specifically to benefits for sub-Saharan African countries**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** • Trade diversion resulting in loss of efficiency as trade switches to less efficient producers within the trading bloc • More integration means financial crises will spread more quickly across the trading bloc • Loss of output due to cheaper competition from lower wage cost countries	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q8.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Absolute poverty: Lacking basic necessities to survive (1) • Relative poverty: Relatively poor compared to rest of your country (1) **Application:** Up to 2 marks for e.g. (1+1 OR 2) • Absolute poverty: World Bank definition: $1.90 a day (1) PPP values (1) • Relative poverty: 60%/50% (1) below median household income in your country (1) • Reference to Figure 1 or Extract A/B (1+1) **Analysis:** Up to 1 mark for e.g. • Absolute poverty can decline at the same time as relative poverty is increasing (1) • There may be relative poverty in a country but not necessarily absolute poverty (1)	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/Understanding:** Relevant factors identified (1+1), e.g. • Level of education • Level of healthcare • Level of infrastructure • Level of trade • Capital flows • Civil war • Drought • Poor governance • Liberalisation of trade/tariff cuts **Analysis:** Linked development of each factor (1+1), e.g. in Sub-Saharan Africa • Relative lack of education means a less skilled and therefore less productive workforce (1) • Relative lack of healthcare means people spend more time absent from work with illnesses and therefore reduces productivity (1) • Relative lack of infrastructure makes it more difficult and therefore expensive to move goods around the country to markets (1)	

	Application: 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g. • Extract B: two thirds of 780 million illiterate adults are women • Extract B: poor people- more malnutrition, lower odds of receiving health care • Absolute poverty has declined far more rapidly in East Asia than Sub-Saharan Africa **Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1), e.g. • Significance of different factors • Improvements will only occur in the long term	**(8)**

Question Number	Indicative Content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** Possible policies might include e.g.: • Fiscal policy: increase people's disposable incomes, increase employment and so reduce downsides of low wages and unemployment due to foreign competition. A more redistributive tax/welfare system to reduce inequality/poverty caused by globalisation. • Expansionary monetary policy: cut in interest rates, rise in availability of credit, allows businesses to borrow for investment to help combat increased foreign competition. • Supply side policies, e.g. improved education, healthcare, infrastructure, etc.: Improvements in these will boost productivity and this boost GDP as well as meaning firms would be more likely to be able to pay higher wages. Higher productivity would enable firms to better compete with foreign competition in the form of lower prices. Candidates may discuss in the context of developed or developing countries **NB To access Level 3 there must be reference to two valid macroeconomic policies, apart from protectionism**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
(c) continued	**Evaluation 4** • Impact of expansionary fiscal policy on budget deficit • If business confidence is low, expansionary monetary policy may not lead to increased borrowing for investment • Supply side policies may not be effective in the short run or have public sector cost implications • Effectiveness of policies, e.g. lack of consumer confidence	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative Content	Mark
(d)	**Knowledge 2, Application 2, Analysis 2,** • Incentive to work hard in order to receive higher reward will help increase economic growth which can result in reduced absolute poverty • More innovation due to the profit motive for firms and inventors leads to more competitive industry and faster economic growth • Lower taxes or less redistribution may encourage entrepreneurs to relocate to the country • Reference to rising living standards in a largely market based economy, e.g. UK, US **NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation**	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
(d) continued	**Evaluation 4** • Inequality reduces consumer confidence so less consumption, increase in saving. Aggregate demand may fall as a result. • Excessive inequality can lead to more crime, poorer healthcare, etc. • Low pay can act as a disincentive to seek employment and economic growth suffers as a result. **NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation**	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** The role of the financial sector in the growth and development in developing countries includes: • facilitating saving so banks have more funds for lending, facilitating investment and therefore growth • promoting lending to enable more investment in the economy • exchanging currencies- enabling firms to imports parts and materials- often more cheaply- and also enabling them to export - helping to increase size of their market • providing a market for equities • Harrod-Domar model • Microfinance • Central banks/international organisations **NB For a Level 3 response candidates must refer specifically to growth/development in a developing country/countries/regions**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** • Clear rule of law required for financial sector to develop • Risk of corruption • Risk of market failure in financial marketss • Lack of financial literacy in developing countries may limit potential • Other factors may play a larger role, e.g. healthcare, infrastructure, education	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q9.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8 Evaluation 9 Effects might include: • Trade creation: domestic production is replaced with more efficient imports from a member of the trading bloc • More trade within the trade bloc • Increased exports due to the larger market firms can now enjoy • Increased imports due to removal of protectionist barriers that previously existed between member countries • Increased specialisation/economies of scale as can now sell to a larger market • Use of comparative advantage to support argument Diagrammatic analysis may be used to aid explanation e.g. tariff diagram	
	Evaluation points might include: • Trade diversion: Due to protectionist measures imposed on non-member countries, countries may purchase imports from less efficient countries within a trading bloc instead of more efficient ones outside of the bloc • Products may still be cheaper from outside the trading bloc due to economies of scale/lower production costs • Possibility for countries to benefit from bilateral trade deals without needing to join a trading bloc • Other factors affect ability to import/export such as quality of infrastructure at airports/ports • Possible conflict with WTO rules • Only within Africa so effect may be limited **NB For a level 4 answer candidates must use examples of real trading blocs** **NB For a level 4 answer candidates must make explicit reference to trading patterns**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q10.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis (3):** • Definition of opportunity cost as the next best alternative foregone (1) • Governments have to pay interest (1) at the expense of other expenditure (1) • Servicing means paying back interest and minimum capital requirements (1) e.g. to prevent a default, loss of confidence, other repercussions (1) • The debt is external (1), and in this case owed by governments as they have been borrowing from abroad (1) • Use of PPF to show opportunity cost may be awarded as analysis (1) **Application (2 marks for 1 point, or 1 + 1)**: e.g. • Debt service payments above 20% of G (1) are unsustainable (Extract D) (1) • £20billion raised 2010-2015 (Extract D) (1) • Commodity prices soaring and foreign loans available' (Extract D) (1) • 'Heavy repayment schedules at a time of low commodity prices' (Extract D) (1) • Governments have taken to 'private debt too eagerly' (Extract D) (1) • 'Median level of debt risen from 34% to 48% in 2017' (Extract D) (1) is heavy because of 'low tax base' (Extract D) (1) • High levels of poverty – half of the 26 million people (1), so many feel the effects of reduced government expenditure (Extract E) (1) • 'non-existent tuna fleet' or other hidden debt (Extract D) or corruption (1) at the expense of other government spending (1) • Opportunity costs applied to any developing country, e.g. spending on poverty alleviation, education and health spending or recent cyclone April 2019 (1). **Award a maximum of 1 application mark if there is no reference to Extract D**	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge**/implicit understanding of **two** reasons why manufacturing firms stay small, **(1+1)** e.g. • Size of market/lack of access to export markets/low export earnings due to lack of demand • Absence of economies of scale, or insufficient incentive or ability to grow (apart from access to financial) • Problems of human capital, e.g. lack of educated workforce • Lack of infrastructure making expansion into new areas difficult, or small markets • Actions of foreign firms to foster dependency • Government or international actions to make it hard for firms to grow • Lack of TNC involvement in Mozambique/volatility of currency/capital flight • Firms want to remain close to customers- meet needs with specific goods. • Firms might be manufacturing niche products with inelastic demand and high-income elasticity • Small firms more able to manufacture and sell through selling online and have small assets. • Perfect / monopolistic competition characteristics, e.g. low barriers to entry • Non-economic factors, e.g. natural disasters, political tensions, drought • Cost of finance, cost of servicing loans, financial economies of scale and scope. Do not allow **access** to finance.	

	Application (1+1 or 2): e.g. • Further depreciation of the metical (Extract E) • Lack of economic stability (Extract E line 26) • Slowdown in FDI (Extract E) • Depressed global demand (Extract E) • Low levels of employment in the sector (Extract E) may imply lack of skilled workers • High interest rates (Fig. 2 and Extract E line 14) • High import costs (Extract E line 15) • Needs urgently to improve its investment environment and confidence (Extract E line 17) • Large scale emigration (Extract E) • High numbers of people 'below the poverty line' (Extract E line 6) mean the market/incomes are small • 'Economic dependence on South Africa' (Extract E) may limit prices/market power of firms.	

	Analysis (1+1) • Development of each point, up to 1 mark for each valid factor **Evaluation** (2 marks for any relevant point, two points 1+1): • The development of the gas fields (Extract E) will 'transform the economy' • Pick up in coal and electricity (Extract E) which are probably larger firms and may have impact on manufacturing • may consider whether this is because of choice or lack of opportunity • Long term 'prospects are promising' (Extract E, line 20) e.g. sustainable agreement, gas fields production in 2020s or other initiatives such as trade blocs **NB Cost of finance, financial economies of scale etc are allowed. It is only ACCESS to finance e.g. unavailability of microfinance, savings gap, loss of external lenders which is excluded.** **NB Access to finance *may* be credited as part of the evaluation but not as KAA**	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Microfinance meaning and role • Plugs the savings gap / Harrod-Domar model • Enables firms to be set up – fixed or start-up costs • enables firms to invest in human capital and overcome primary product dependency • Use of Figure 3 to illustrate size and importance of microfinance operations • Use of Extract F – e.g. '100 000 borrowers', many new business start-ups which could not have gained finance from any other source', 'unfulfilled demand for microfinance' • How borrowers benefit – small firms can be set up or expanded, allowing firms to gain capital and materials to set up businesses, provide more employment, lead to improved living standards • Borrowers lack collateral so cannot borrow from banks in the normal way • The money is in small amounts £200 to £300, paid back regularly and over a short period of time, on which basis the firm forms a business plan for which the lender will approve or advise • Microfinance allows firms to form without the stigma of aid or the dependence of FDI • Use of cost/revenue analysis to support arguments (perfect/monopolistic competitive market) • Macro analysis (AD/AS) must link back to borrowers, e.g. increased standard of living, allows firms to expand/invest **NB For Level 3, answers must link to borrowers** **NB The answer can take the form that there are more costs than benefits as part of the KAA, using the benefits as the evaluation**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Use of Figure 2 to show high base rates and Figure 3 to show average 75% APR on microfinance • Large potential for expansion (Extract F) • May encounter lack of demand as more than half of the population live below the poverty line • Weak infrastructure does not allow borrowers to access markets • Alternatives to microfinance could be considered, e.g. aid, FDI, debt relief • Reasons why microfinance can be damaging to borrowers, e.g. pressure on women (98% of borrowers), over-indebtedness, poor guidance given to borrowers, macro-finance is needed for economies of scale, people borrowing multiple times, for uses which are social not business orientated. • Large numbers of people setting up similar businesses/highly competitive e.g. food stalls, so profits tend to be low/need for dynamic efficiency • Funds from private banks very different from NGOs – banks might be more cautious, and therefore more likely to succeed, might be better advice, support from specialists, softer terms from either institution might lead to moral hazard	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic influences may include: • Labour force and other demographic factors e.g. emigration of skilled/educated workers, disease, low life expectancy • Small firms with low levels of capital • Low levels of personal saving/high levels of personal debt • Primary product dependency • Volatility of commodity prices • Debt – although do not award access to credit and banking. Allow arguments based on dependency or opportunity cost, for example • Lack of infrastructure/other capital • Absence of property rights • Non-economic factors e.g. natural disasters, social problems • Joint ventures with global companies Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements • Role of FDI e.g. the tuna fleet cover-up dries up FDI • Government policy failure, e.g. weak expansion in fiscal policy, high interest rates, lack of subsidies, privatisation, interventionist strategies, e.g. management of exchange rate, buffer stocks • Actions of other international institutions e.g. IMF or NGOs • Macroeconomic stability, e.g. rate of inflation (might refer to Figure 2), rate of economic growth, exchange rate (metical at a 'new low')	

	Possible evaluation points include: • Degree to which the factors are inevitable • Signs of improvements in passages • Some factors are temporary, e.g. fall in commodity prices such as coal and drought affecting production and exports to other countries within Africa **NB Do not award KAA for arguments based on ACCESS TO credit and banking, although this approach is permitted as part of the evaluation** **NB for a Level 4 response there must be micro and macro factors (s). There must be reference to both growth and development for Level 4**	

	PPD/ Harrod-Domar/ debt/ aid/ debt relief/ cost of credit/ non-economic factors/currency issues / competitiveness index can be used as micro or macro.	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8** **Evaluation 9** Microeconomic effects may include: • On people with debt (better off) and savings (worse off) • On people with fixed incomes – may refer to falling real incomes • On firms' profits, e.g. that face rising costs and if they cannot raise prices they will face falling profits, or falling sales as consumers delay purchases. This might be illustrated with cost/revenue diagrams. • On firms' costs if they face rises in interest rates as a policy corollary of high inflation, which might lead to lower profits. This might be illustrated with cost/revenue diagrams. • Opportunity cost, e.g. effects on a government's spending if costs of servicing debts fall • Effect on labour markets e.g. people might work more hours to cover increased cost of living **NB do not award fall in profits or revenue or rise in costs unless a valid chain of reasoning is given** Macroeconomic effects may include: • International competitiveness and balance of payments, between African countries and with the rest of the world. Exports likely to fall and imports likely to rise • Distribution of income and wealth • Confidence and investment in financial markets • Policy responses, e.g. rises in interest rates and effects on AD • Shift in AS and/or AD may be used as part of the analysis • High inflation might deter Investment and FDI	

	NB do not award rise in unemployment/fall in growth unless a valid chain of reasoning is given Possible evaluation points include that the effect depends on: • Whether wages rise in line with inflation • The degree of inflation, and the policy and international responses. • The PED of countries buying the African exports • The PED of importing countries as imports become relatively cheap	

	• Whether African countries are trading with each other the effects of inflation may be cancelled out e.g. use of Figure 2 to show neighbouring countries with higher inflation rates • Whether asset prices rise as to the redistributive impact • Depends on whether this is a long-term inflation problem- could be short term e.g. linked to commodity price rises. Only a problem if it is sustained. • The figures are in one month in July 2017 and may not reflect inflation story for full year. Time series data may be more useful. • Depends on the type of inflation – e.g. cost push or demand pull. • Impact on exchange rates e.g. higher inflation may erode the value of the currency. This might cancel out the impact on competitiveness **NB for a Level 4 answer there must be reference to the context of African countries (not just one)** **NB for a Level 4 response there must be micro and macro effect (s). Costs/ shift in PPF/ currency/labour markets/competitiveness etc. can be used as micro or macro.**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q11.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Likely impacts include: • UK exports are now cheaper when priced in dollars, so should mean an improvement in UK price competitiveness leading to increased demand for UK exports and AD *However depends on quality of UK exports or if US firms/consumers demand what we are producing* • UK imports from the US are now more expensive so likely to lead to less demand for US imports which improves net trade and therefore AD *However, depends if there are domestic alternatives to the US imports. If not prices will simply rise* • Imported inflation: as prices of imports rise, particularly of necessities, then UK inflation will increase. • Lower exchange rate might attract inward investment with multiplier effects on AD • Other factors which cause growth might be considered as more than one factor • Diagrammatic analysis may be used (e.g. AD/AS) Other evaluative comments may include e.g.: • Imported inflation will be a particular problem if wages do not increase in line with inflation. • Depends if this is a temporary fall or a permanent adjustment to the exchange rate • Depends on UK exchange rate with other currencies as well • US is a significant trade partner for the UK so the impact is likely to be significant • Consideration of the Marshall-Lerner condition and J curve effect • Other factors which cause growth might be considered as evaluative comments • EU is a very significant trading partner for the UK and thus the impact is likely to be significant	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

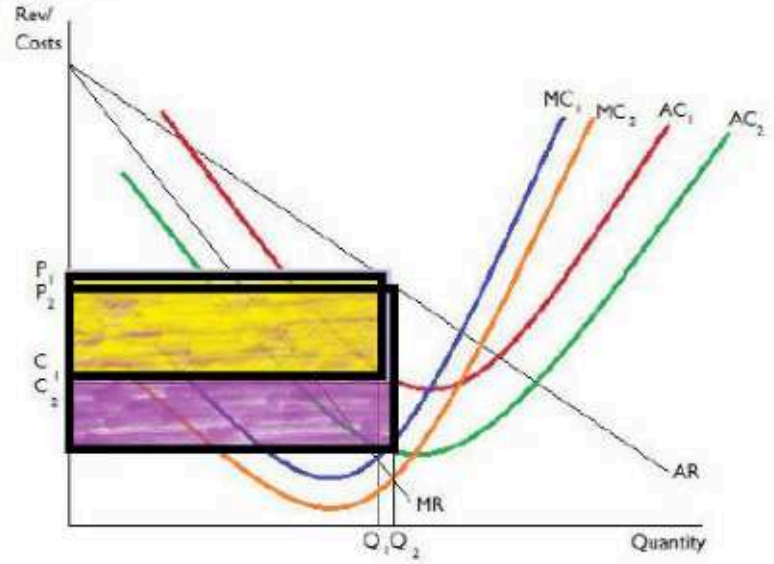
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q12.

Question Number		Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** • Terms of trade definition or formula e.g. index of export prices / index of import prices x 100 (1) • Import prices have risen (1) (e.g. because exchange rate fell) relative to export prices (1) • Import prices stay constant (1) relative to main export prices falling (1) • Fewer imports can be bought for the same amount of exports (2) **Application** 2 marks for e.g. • It is likely to have worsened (1) • Coal is the main export (1), 11% of revenues (1) • Export prices/commodity prices have fallen Figures 4 & 5 e.g. coal prices have fallen Fig 4 (1+1) • Export price of coal has fallen from US$125 to US$50 per tonne (1+1) • The exchange rate (rupiah) has fallen (1) 30% (1) **NB award application if the answer says that the terms of trade falls, goes down, or that it is a negative change**	**(5)**

Question Number		Mark
(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Diagram (2) Reserve 2 marks for costs and revenue diagram.** This can be awarded as 2 application marks or 1AN + 1AP. **Knowledge and analysis (1+1): e.g.** • Increasing efficiency resulting from investment lowers costs for firms **(K)** which means AC falls – might also show fall in MC **(A)** • Profit increases **(K)** with new area shown on diagram linking the new MC=MR with the AR and new AC **(A)** **Application (2 or 1+1):** answer relates to the output of farmers increasing relative to input, e.g. Productivity of each farm increases (1) as rice output doubles (1); Plans for 65 dams, 16 already under construction (1) Or: 'two harvests a year' (1) means more output from same fixed land/factor (1)	

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	Diagram e.g. shows a decrease in AC (if fixed costs) or decrease in AC and MC (if variable costs) e.g. as shown below. The diagram must be **consistent** with the description, although shift/non shift in MC might be implicit.  • 1 mark for correct shift in cost (relevant to answer given) and • 1 mark for new correct profit area shown. Diagram may show a fall in costs and/or an increase in revenue **if linked** to double the number of harvests, or a decrease in revenue **if linked** to falling worldwide prices, more firms entering the market. Diagram may be perfect competition.	

	Evaluation (2 marks for any relevant point, or two points 1+1) • The investment is taking many years and may not be completed • Governments might increase tax on farmers to compensate for increased costs of dam investment • The farmers might face other increased costs as output rises e.g. law of diminishing returns • There may be more efficient and effective ways of increasing output, e.g. better technology, fertiliser • Increased world supply could lower the price per unit, and with low PED the revenue and therefore profit could fall.	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Specific impact on Indonesia: ○ Recovery from the Tsunami / financial crisis (Extract D); ○ impact of reconstruction investment; ○ impact on the likely poverty trap that many Indonesians will find themselves in; ○ the impact of the cash transfer; ○ the long term problems of conditional loans; ○ the long term impact of constructing two new power stations (via Japan's development agency) ○ lack of tax revenue due to inefficient tax collection and low tax base (10%) Ext E. • Aid is the transfer of resources on concessional terms – allow wide variety of aid e.g. from international institutions such as the IMF/World Bank, from NGOs, concessional loans (interest paid is below market rates, or with softer repayment conditions than in free market) • Aid is being used to pay for education and health, transfers of cash, $2.3 billion a year • Consideration of macro effects, e.g. multiplier effects, shifts in AD, equality • Consideration of development theory, e.g. Harrod-Domar, plugging the savings gap / foreign exchange gap	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Aid can lead to moral hazard, over-dependence, corruption, poor governance e.g. Ext E tax incentives offered by Mr Widodo might widen inequality • Dependency theory might be use to show the problems of aid • Alternative to aid e.g. debt relief, microfinance, investment by TNCs, loan from the World Bank • Conditions attached to aid may have negative consequences, e.g. not clear that the loans offered in Extract D are concessionary, or interest rates may still have a high opportunity cost • Aid may be more effective if used in conjunction with supply side measures • The concessionary loans need to be paid back, Extract E. These can increase a country's indebtedness and exposure to risk, and could affect government finance, where tax collection is inefficient and tax base (10%) is small.	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

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Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **Microeconomic effects might include:** • Producer revenue from exports is volatile from primary products. Firms might close down when prices fall. • Other primary product dependency arguments – a diagram showing low PED and PES might be used. • Labour market – impact on wages and employment • Diagram showing effects on revenue, consumer/producer surplus, price, profits might be used • Local firms might go out of business **Macroeconomic effects might include:** • Balance of payments problems – Prebisch-Singer (declining terms of trade) might be used for products such as coal in reference to falling prices (NB this only addresses part of the volatility issue) • Government finances – the government might rely on export taxes • Primary product dependency/over-dependence on one sector can cause problems if natural disaster or changes in worldwide demand, e.g. China slowdown • Dutch Disease impact on exchange rate – e.g. higher value of rupiah when coal prices rise • Increased use of protectionism • Inflation (Extract E) • Limits investment (might link to Harrod Domar model) • Limits government and private expenditure on health and education	

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	NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics, if developed appropriately. **NB for a Level 4 answer there must be reference to the context of *Indonesia* and *volatility*.** **Evaluation points might include:** • Degree to which GDP is dependent on commodity exports. Data suggests Indonesia GDP has not suffered as much as other countries from the fall in commodity/coal prices (Extract E) and Figures 4 and 5 • Depends on the PED and/or YED of importing countries for the specific commodities • Fiscal expansion (Extract E) has offset the effects of falling prices • There may be no alternative to primary product dependency/Lewis model is flawed • Comparative advantage argument • The reduction in prices might be short term/there are benefits to rising prices/depends if it is just one commodity which distorts the exchange rate for other commodities ('Dutch disease') • Buffer stock schemes • Financial markets can help limit effects, e.g. through futures contracts • Improved infrastructure can help farmers be more aware of price trends and take products to markets at high prices	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **Microeconomic effects might include:** • on firms e.g. from quicker planning approvals, tax incentives locating to special economic zones, better roads and ports • improved quality of labour force e.g. from education and health reforms (Extract D) • lower bureaucratic costs • lower prices as competition increases **Macroeconomic effects might include:** • lower inflation (might be shown by rightwards or downwards shift of LRAS) • improved balance of payments as exports improve • infrastructure improvements attracts FDI • indirect increased AD via G, I or X, and multiplier effects • increase in real GDP	
	NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics if developed appropriately. **NB for a Level 4 answer there must be reference to the context of *Indonesia*.** **Evaluation points might include:** • impact will depend on success of policies – may refer to previous underinvestment in the Extract E, or higher investment in neighbouring countries • Some supply side policies conflict with other policies, e.g. fiscal and there is a fiscal constraint by law (Extract E) • depends on whether supply side policies are interventionist or market-based as to whether there will be an inflationary effect, crowding out effect etc. • labour market still appears to be inflexible (Extract E) • collecting tax to pay for the capital spending or repayment of loans can have negative impact, e.g. government failure, aid dependency	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
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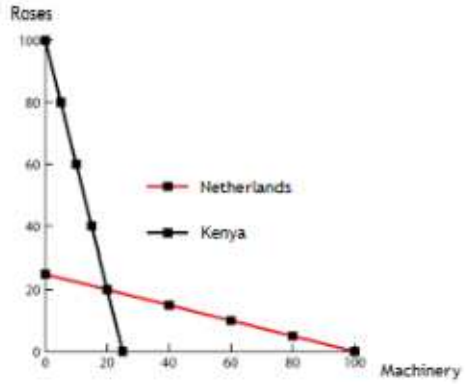
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

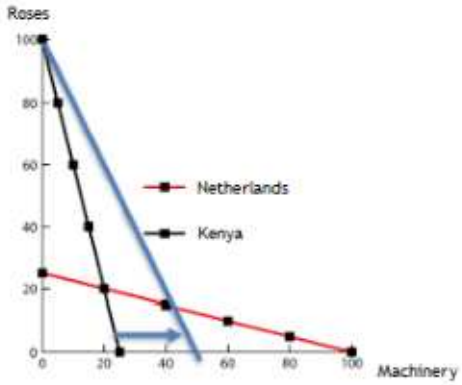
Q13.

Question Number	Indicative content	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis: up to 3 marks.** **Points might include:** • Lewis model suggests that countries dependent on agriculture would see productivity gains and growth if they moved to industrialisation • unproductive agriculture moves to more productive and profitable manufacturing • reference to law of diminishing returns, e.g. farming has a very low marginal productivity • surplus labour moving to industrial production has very low opportunity cost • productivity gains in industrialisation means that the sector can grow (linear growth model) • dual economy of rural agriculture and urban manufacturing/reference to migration/mobility of labour • model of structural change e.g. increasing the industrial sector rather than agriculture • growth in industry and manufacturing can be achieved without reducing agricultural • everyone becomes better off than they were • movement away from subsistence sector (non-market transactions/informal sector/hidden economy) **Application (2 marks for 1 point, or 1 + 1)** e.g. • flower farming is more productive than traditional farming, and involves higher skills and technology than other agriculture • industrialisation can still involve agriculture • 'do more manufacturing or stay poor' • 'industries without smoking chimneys' • Kenya and processing of flowers • well paid jobs with greater opportunities	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/implicit understanding of two factors, which could either improve or worsen development** (1 + 1) e.g. • health care issues e.g. child mortality rates/changes in number of children • falling birth rate • fertility changes/other reproductive issues • increased life expectancy • higher school enrolment/literacy rates/other education • urbanisation • falling dependency ratio • larger population • larger workforce • declining family size **Application:** (1 +1 or 2): e.g. • Figure 2 shows 53.7 million population in 2020 • Kenya's population has doubled over the last 25 years, to about 40 million people (Fig 2) • due to high fertility in previous decades, there are many more families in Kenya today (Ext E) • life expectancy is projected to increase from 54 years today to 68 years by 2050 (Ext E) • only 6% over age 60 (Ext E) **Analysis** (1+1) Development of points made, **must make reference to development not just growth (might be implicit)** e.g. • higher literacy rates/life expectancy may mean higher productivity, greater employment opportunities • there are more people of working age relative to people who depend on them, so living standards will improve • smaller families will make it easier to borrow so there will be more investment to increase opportunity for firms to set up • falling birth rates mean savings are higher so there will be more opportunities to improve living standards	**(8)**

	Evaluation (2 marks for any relevant point, or two points 1 +1): e.g. • the population is rising very rapidly • changes will be seen over time • higher working population now is a benefit, but there might be a demographic time bomb when this generation is over 60 • comments about the relative significance of the factors/combination of factors	

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • more flowers with a lower average cost than another country **Application** • heating costs make Dutch flowers more expensive to produce despite lower transport costs to the UK • high altitude with cool nights • proximity to equator and sunlight hours • cheaper labour • end to seasonal production • 365-day a year absolute advantage • application marks may be awarded on the diagram/table • Creates additional employment (100,000 directly and two million indirectly) **Analysis** Example of analysis:  Diagram showing outward shift in Kenya's PPF e.g.	(8)



Numerical analysis e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	25
Netherlands	25	100

Output, after specialisation:	Flowers	Machinery
Kenya	200	0
Netherlands	0	200

Leads to growth: this might be shown by an outward shift of the PPF, or use of output table, e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	100
Netherlands	100	100

NB for a Level 3 response there must be at least one valid diagram or numerical example clearly linked to costs absolute or comparative advantage (i.e. relative costs/opportunity costs)

Other analysis:

- countries can focus all of their production in one product and swap/trade it for a greater quantity of the other good.
- Kenya may benefit from economies of scale as they produce more
- enables larger exports and GDP
- example of before and after output and then gains from trade e.g. pre-trade 125F and 125M, after trade (full specialisation) 200F and 200M, so gains from trade = 75F and 75M

- terms of trade lie between opportunity cost ratios
- calculation of a suitable terms of trade e.g. F=2M, meaning Kenya can swap 200F for 400M

NB allow reference to comparative advantage also countries could have both absolute and comparative advantage. Allow diagrams/tables showing both concepts.

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • limitations of the model e.g. immobility of factors/trade barriers, transport costs, more products/trade conflicts or dependence between countries in the world/can average costs be easily compared/are there constant returns to scale? • if energy costs change then the absolute advantage might be eroded • monopsony buyers e.g. supermarkets make a huge advantage and erode any benefits for Kenya • global health crisis has reduced international flights so costs have risen/no spare capacity on flights • other factors that could have a more significant impact on growth e.g. interest rates • only 1% of GDP so may not be that significant • short run/long run considerations e.g. in changing from one type of production to another	**(4)**

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of decreasing interest rates • lower costs to businesses, so fixed costs fall and increase competitiveness. May be shown using a cost/revenue diagram • greater credit for businesses to expand/invest in R&D and gain dynamic efficiency • higher consumer demand as consumption increases; greater consumer surplus • impact on Kenya's housing market • Mr Matsiko in Ext G pays 22% not 7%, and there is a large information gap for lenders (asymmetry of information in credit markets) • labour market effects (derived demand) • lower prices for consumers • less available credit (so less investment, dynamic efficiency etc) Macroeconomic effects may include: • lower saving (unlikely in the context) but easier to borrow, so consumption and investment increases; hence AD rises with multiplier effects. May be shown using AD/AS analysis or diagram • lower exchange rates – improvement in current account position of BOP, with effects on competitiveness and trade • lower cost of financing public deficit/debt may mean greater government spending elsewhere • redistribution of income, e.g. from savers/lenders to borrowers • impact on LRAS/PPF over time if investment continues to grow **NB for a Level 4 response, there must be micro and macro effect(s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** **NB if there is no reference to a developing country then award a maximum of Level 3 KAA.** **NB Effects in KAA could be used as evaluation and vice-versa. Counter-effects may be used as evaluation.**	**(25)**

	9 marks for evaluation – points might include: • interest rate is not the only cost for firms e.g. depends on how much the interest rate costs are as a percentage of costs overall • impact on real output depends on level of spare capacity/elasticity of LRAS/other components of AD • the central bank rate is not the rate that individuals can access • degree to which the factors might be a success • depends on other countries' interest rates are (relative competitiveness issue) • fixed interest rates and other short term/long term issues • interest rates are low in Kenya compared to other sub-Saharan countries • impact on borrowers will depend on whether people have assets or collateral • magnitude/pattern of the interest rate change	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic strategies may include: • state provision or tax relief to encourage increased job opportunities • other attempts to encourage private production e.g. flower firms benefit from airport improvements • methods to improve value of workers' output e.g. vocational training at school, or improving student attendance • disease prevention and cures e.g. polio vaccine • infrastructure • skills • technology • government intervention e.g. minimum wage or subsidies Macroeconomic strategies may include: • trade liberalisation e.g. promote international trade, e.g. absolute advantage means there are gains from international trade but currently 90% flowers are from the Netherlands • privatisation – the flower industry is private • information and health assistance to lower birth rate • development of human capital, e.g. better healthcare in other areas, spending on education and skills • increased FDI by shoring up capital markets • aid • debt relief • microfinance **Accept standard government/international institution/NGO policies to promote macroeconomic stability or growth if linked to development e.g. fiscal policy aimed at reducing inequality**	**(25)**

	NB for a Level 4 answer there must be reference to Kenyan data or another developing country **NB many strategies such as vaccines, tourism, education/skills, privatisation, microfinance, supply side policies or infrastructure could be counted as macro or micro** **NB Counter-effects can be counted as strategies or evaluation** 9 marks for evaluation – points might include: • There is a limit to what strategies can influence, e.g. health and education, if for example children are needed as a social insurance policy • Global health crisis has affected poor countries more profoundly • Comparison or contrast with another developing country or a more economically developed country e.g. as an example of how population growth can be limited	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 – 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q14.

Question Number	Answer	Mark
(a)	**Knowledge 1, Analysis 1** **Knowledge/understanding (1):** Identification of relevant reason, e.g. • Faster economic growth in Estonia • Lower unemployment in Estonia • Lower labour productivity in Estonia • Increase in the national minimum wage • Power of trade unions • Shortage of labour **Analysis**: 1 mark for linked development, e.g. • Workers able to negotiate higher pay due to low unemployment	**(2)**

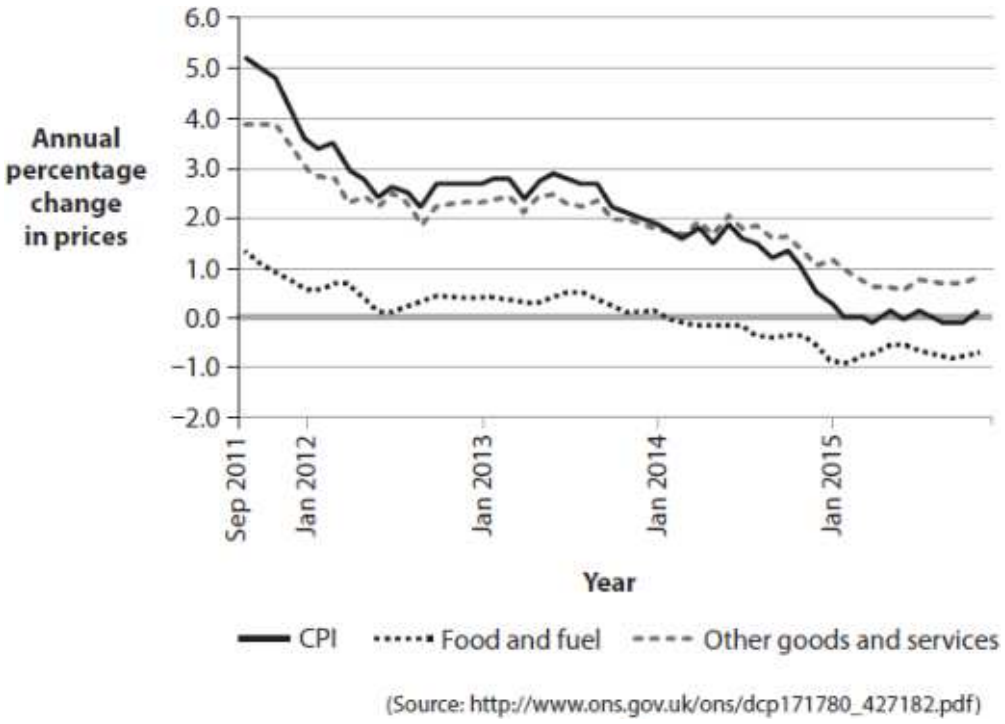
Question Number	Answer	Mark
(b)	**Knowledge 1, Analysis 1** **Knowledge/understanding (1):** Identification of reduced competitiveness for Estonia **Analysis**: 1 mark for linked development, e.g. With rapidly rising labour costs Estonia's exports may become more expensive than those of other countries such as France	**(2)**

Question Number	Answer	Mark
(c)	**The only correct answer is C** ***A, B and D*** *are not correct because they give incorrect answers to the calculation:* *Base year 2010=100. Austria's figure for 2017 is 113.* *113-100=13*	**(1)**

Questions

Q1.

The chart below shows UK inflation as measured by the Consumer Prices Index (CPI), 2011 to 2015.



(Source: http://www.ons.gov.uk/ons/dcp171780_427182.pdf)

(a) Which **one** of the following statements is correct about the UK's inflation record between September 2011 and January 2013?

Based on the data shown, the UK experienced:

(1)

☒ **A** deflation

☒ **B** disinflation

☒ **C** falling average prices

☒ **D** falling money supply

(b) With reference to the data provided, explain the process of calculating the rate of inflation in the UK using the Consumer Prices Index. Refer to the concept of weights in your answer.

(4)

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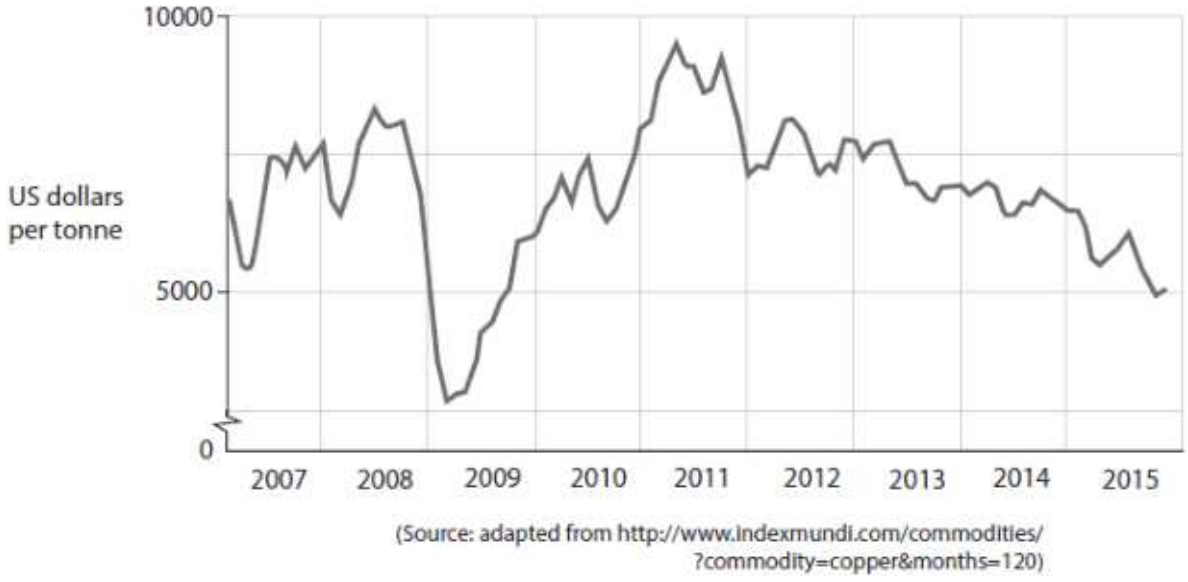
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(Total for question = 5 marks)

Q2.

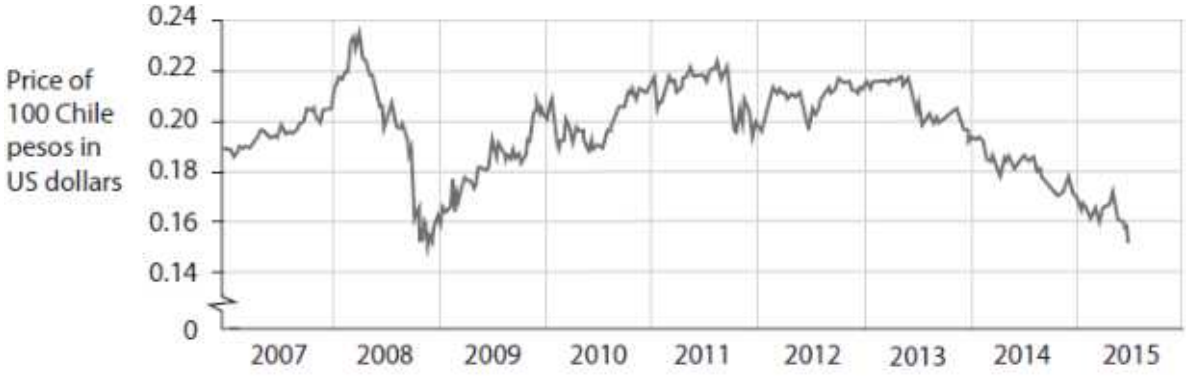
Chile

Figure 1: Copper prices, US dollars per tonne, 2007–2015



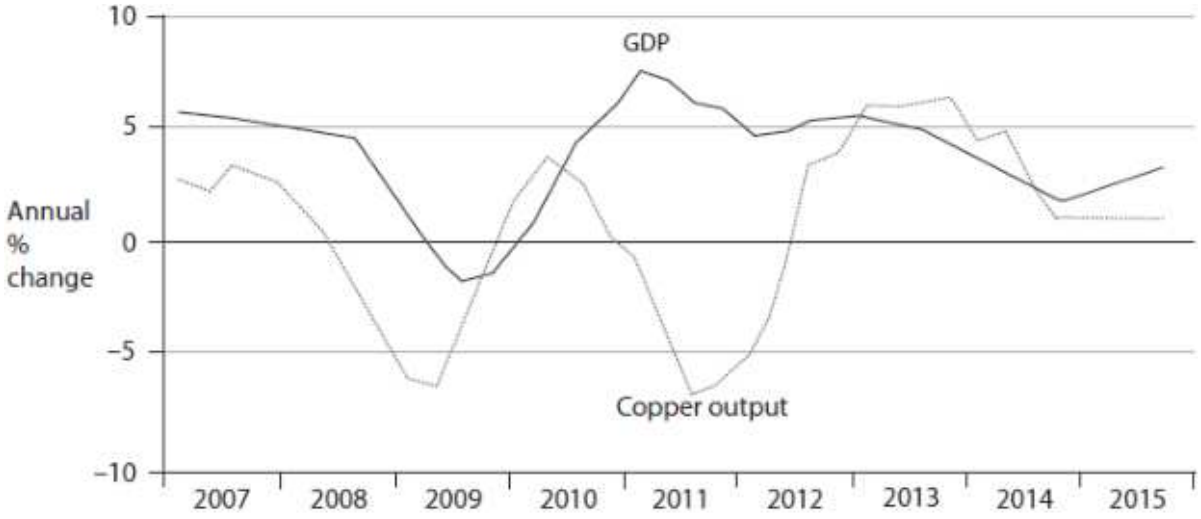
(Source: adapted from http://www.indexmundi.com/commodities/?commodity=copper&months=120)

Figure 2: US dollar per 100 Chile pesos exchange rate, 2007–2015



(Source: https://www.google.co.uk/finance?q=CLPUSD&ei=OGEvVun-AoulU6awJugF)

Figure 3: Chile: copper output and real GDP growth, 2007–2015



(Source: adapted from FT.com sources below)

Extract A

Chile's economic outlook brightens

Chile has been hit hard by a worldwide fall in commodity prices since 2011. Copper accounts for 20% of Chile's GDP and 60% of its exports; one third of the world's copper is produced by Chile. China purchased 40% of the world's copper, so a slowdown in China combined with increased global over-supply has meant copper prices have collapsed (see Figure 1). Chilean government income from copper exports had reached $11.5 billion a year before copper prices fell, but now tax revenues from this source have fallen drastically. Growing numbers of copper mines struggle to break even at current prices.

Chile's GDP is now growing, helped by a weak currency that has boosted export industries outside the mining sector, such as its successful wine and salmon industries. There are strengths in tourism and high-tech products. Public services are good in Chile, and poverty rates have been falling fast. On top of this, a large and diversified financial sector with high domestic savings provides a useful safety net, given high levels of corporate debt and the government's need to finance a fiscal deficit of 3% of GDP.

Chile's economy is often regarded as the best run in the region. This is attributed to the credibility of its financial institutions, relatively low levels of national debt (about 15% of GDP) and its free-trade model, which is unrestricted by government interventionism that has distorted the economies of countries such as Argentina and Venezuela. "Chile is an example of how credible institutions can smooth the economic cycle and make adjustments less traumatic," said Mr Valdés, the minister of finance in Chile, pointing to its widely respected and independent central bank and a well-established fiscal rule that give officials the freedom to implement counter-cyclical policies.

However, there are worries that without enough spare capacity in the economy, expansionary fiscal and monetary policies could end up increasing inflation rather than economic growth. Meanwhile monetary policy is restricted by inflation that has reached 5%, well outside the central bank's 2–4% target range, fuelled by a weaker exchange rate. Crucially, investment remains low because of uncertainty over the outcome of the Prime Minister's reforms, which are aimed at reducing inequality. A recent rise in corporation tax from 20% to 25% and labour market reforms that strengthen the power of trade unions may have a negative effect on business confidence.

Despite a "mildly contractionary" budget, Valdés insisted that the government would continue with costly reforms. Increased taxes on those on higher incomes are considered by the government to be necessary to sustain economic development in Chile. "We do want to change society, while recognising all the good things that have been done in the past 25 years," said Mr Valdés, referring to an average growth rate of 5.3% over the past three decades, but under 2% in 2015. There is broad consensus that investment in education is the key to unlocking Chile's growth potential.

(Sources: adapted from http://www.ft.com/cms/s/0/89926ce8-df96-11e4-a6c400144feab7de html#axzz3pCnzT3PC FT 20 April 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 and http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC FT 19 October 2015 all by Benedict Mander)

Extract B

Chile's copper mining on a downward track

There was a time when investing in Chilean mining meant guaranteed success. After 1990, when military rule was replaced by an elected government, market reforms and restored relations with the US and UK meant foreign companies were keen to exploit vast copper reserves. The existence of large copper reserves in a stable country with a business-friendly government is rare, making Chile much more attractive to investors than countries such as Zambia.

By mid-2015, however, the copper price hit a six-year low. Chilean mines are becoming less productive. After 20 years of heavy digging, the ore is lower grade, and much further down. The deeper pits take longer to mine, and use more fuel. Wages are high, and trade unions are powerful. A mining truck driver earns $70 000 a year, $10 000 more than the US equivalent. Many mining projects that were planned are being postponed, and investors are looking to Peru; even the US copper mining industry is becoming more competitive.

Energy supply is also a worry as Chile produces virtually no fossil fuels and relies on imported coal and liquid natural gas to power its mines. Energy costs account for 18% of the cost of copper production.

Water supply is also becoming a major problem. Farmers and communities accuse mining companies of causing water shortages to keep their operations running. A prolonged drought has not helped. Mining firms are turning to desalination plants or using untreated seawater. However pumping water 200 kilometres from the Pacific Ocean to the copper mines is costly.

Chile's environmentalist movement has forced the government to tighten regulations. In 2001, it took 236 days to get an environmental impact assessment of a new mine approved. By 2013, this had increased to 506 days.

(Source: adapted from http://www.ft.com/cms/s/0/ea060ef4-6ae2-11e5-8171-ba1968cf791a.html#axzz3p20if45k Gideon Long September 27, 2015)

(a) With reference to Figure 2, explain **one** likely reason for the change in the Chile peso exchange rate between 2013 and 2015.

(5)

(b) Examine the likely impact of externalities of copper mining on firms and communities within Chile.

(8)

(c) Apart from externalities, discuss the problems that Chile faces as a result of dependency on copper mining.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of policies that could be used to stimulate economic growth and development in Chile.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic impact on Chile's economy of changes in the level of investment.

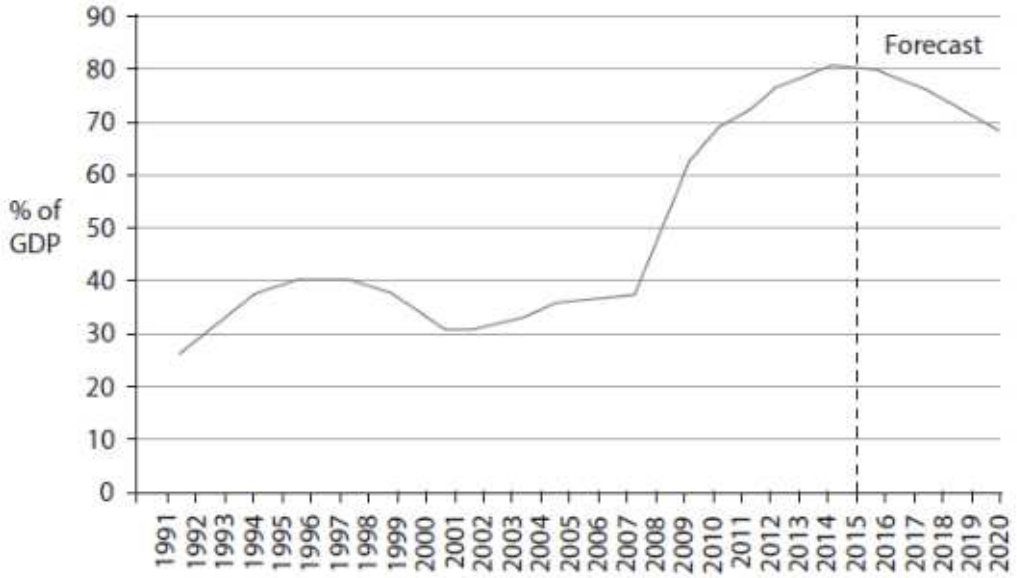
(25)

(Total for question = 50 marks)

Q3.

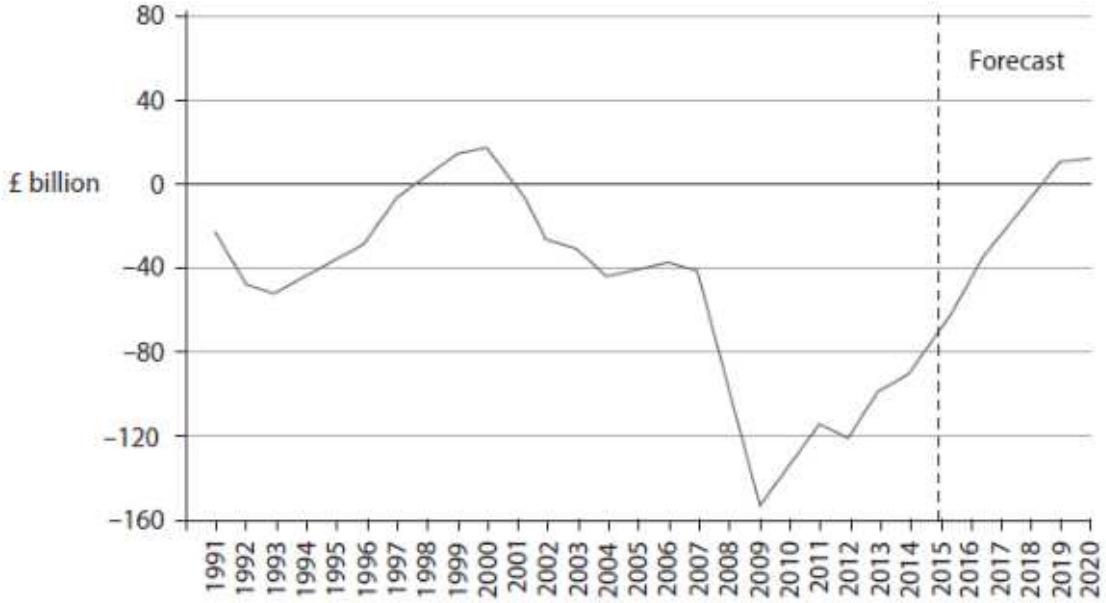
The UK economy

Figure 4: UK national debt as a percentage of GDP



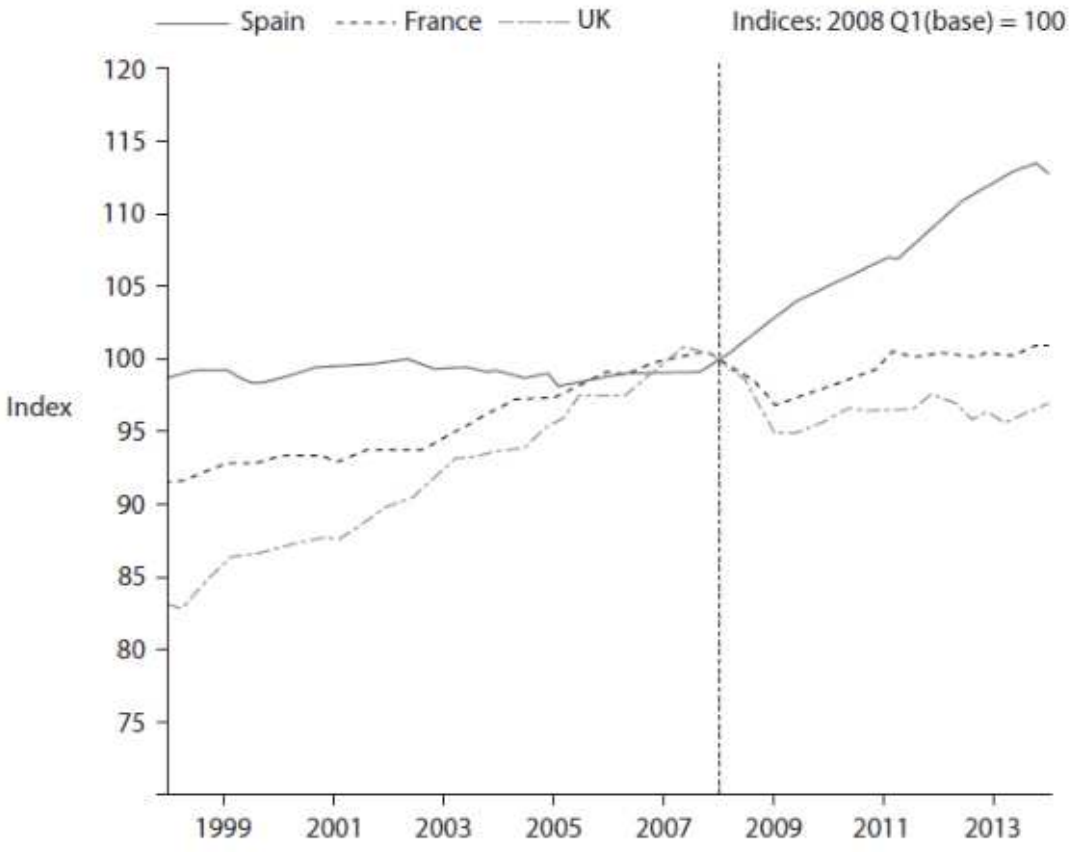
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 5: UK fiscal deficit, public sector net borrowing (PSNB)



(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 6: Labour productivity per head, selected countries



(Source: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf)

Extract C

The National Living Wage (NLW)

The Government has announced that from 2016 it will introduce a Living Wage Premium that will apply on top of the National Minimum Wage (NMW) for employees aged 25 and over to deliver a National Living Wage (NLW) for those people. The main NMW will continue to be set for all employees aged 21 and over, so that those aged 21 to 24 will continue to be subject only to that rate.

The effective minimum wage for the 25+ age group will therefore be over 13% higher in 2020 than would otherwise have been the case, and result in a 0.3% increase in wage costs overall. Further impacts on real GDP are estimated to be higher productivity (+0.3%) but lower average hours worked (-0.2%) and higher unemployment. Overall real GDP is forecast to fall by 0.1% as a result of the NLW. However these forecasts depend on estimates of the likely elasticity of demand for labour.

Academic evidence suggests that changes to the NMW since 1999 have led to only limited effects on demand for labour in the UK. The types of work that will be affected are relatively labour intensive, which may limit the scope for firms to substitute towards using capital. Firms may also be expected to shift demand in favour of the under-25s given that they will not be subject to the NLW, which all else being equal would lead to a smaller reduction in overall labour demand. Some of the reduction in employees could also be partially offset by a rise in self-employment. But increasing the NLW to a higher proportion of median earnings may lead to bigger effects than have been experienced in the past.

(Sources: adapted from http://cdn.budgetresponsibility.independent.gov.uk/July-2015-EFO-234224.pdf and http://budgetresponsibility.independent.gov.uk/)

Extract D

The productivity puzzle in the UK

Since the onset of the 2007–2008 financial crisis, labour productivity growth in the UK has been exceptionally weak. Despite some modest improvements in 2013, whole-economy output per hour remains around 16% below the level implied by its pre-crisis trend. Even taking into account possible measurement issues and changes in the size of the service sector, this shortfall is large and is often referred to as the 'productivity puzzle'.

Measures of productivity can be used to inform estimates of an economy's ability to grow without generating excessive inflationary pressure, which makes understanding recent movements important for the conduct of monetary policy. During the initial phases of the recession, companies appear to have acted flexibly by holding on to labour and lowering levels of capacity utilisation in response to weak demand conditions. But the protracted weakness in productivity and the strength in employment growth over the past two years suggest that other factors are likely to be having a more persistent impact on the level of productivity. These factors are reduced investment in both physical and intangible capital, such as innovation and training, and failings in the labour market such as immobility of labour and under-employment of skilled workers. Some economists explain this by using the concept of an output gap.

(Source: adapted from http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf)

(a) With reference to Extract D (line 18), explain the meaning of the term 'output gap'. Use an aggregate demand and aggregate supply diagram in your answer.

(5)

(b) With reference to Figures 4 and 5 and your own knowledge, examine the relationship between the national debt as a proportion of GDP and the fiscal deficit.

(8)

(c) Discuss the likely impact of the National Living Wage on the profitability of firms. Use a cost and revenue diagram in your answer.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic influences on the UK's international competitiveness.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of a government policy of cutting public expenditure rather than raising taxes as a means of reducing a fiscal deficit.

(25)

(Total for question = 50 marks)

Q4.

The chart below shows an index of Brazil's terms of trade.



(a) Calculate Brazil's terms of trade for November 2014 from the following information:

Index of export prices: 148.5
Index of import prices: 134.1

You are advised to show your workings.

(2)

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(b) Explain what may have happened to Brazil's import and export prices to cause the change in the terms of trade shown from May 2014 to November 2014.

(2)

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(c) The change in Brazil's terms of trade shown between May 2014 and October 2014 is most likely to cause

(1)

A a decrease in competitiveness of Brazil's goods and services

B an increase in Brazil's fiscal surplus

C an increase in the competitiveness in Brazil's goods and services

D a decrease in inequality in Brazil

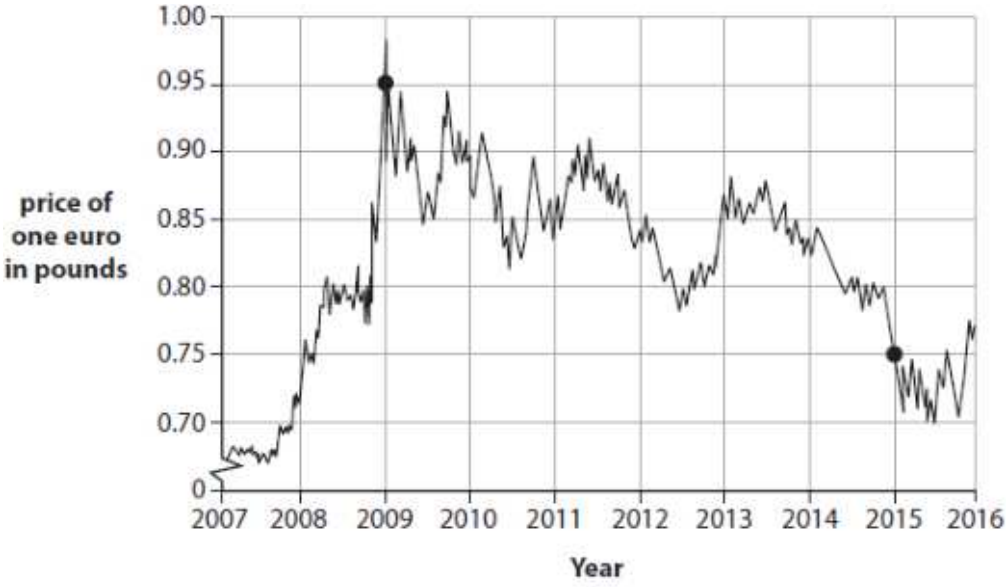
Answer ☐

(Total for question = 5 marks)

Q5.

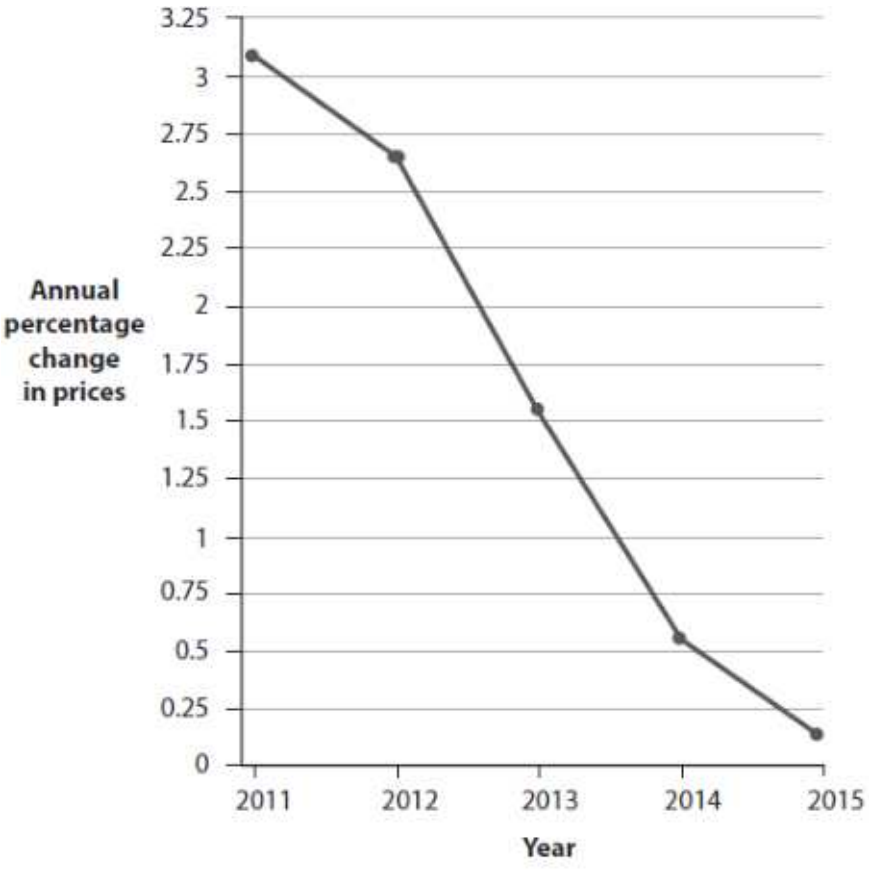
The Eurozone economy

Figure 1: Exchange rate of the euro (€) to the British pound (£)



(Source: https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-gbp.en.html#)

Figure 2: Eurozone inflation rate as measured by the Consumer Prices Index (CPI)



(Source: adapted from http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/download.aspx)

Extract A

European Central Bank disappoints markets with weaker than expected stimulus

Mario Draghi, president of the European Central Bank (ECB), surprised financial markets in November 2015 with a less ambitious package of monetary stimulus than many had anticipated.

The ECB cut its base interest rate by 0.1% to minus 0.3% in order to encourage private banks to lend funds to companies and households rather than deposit them at the central bank. The central bank agreed to extend its €60 billion (£45 billion) monthly bond-buying quantitative easing (QE) programme for a further six months. The ECB's €1.1 trillion QE scheme had originally been due to end in September 2016.

"We are doing more because it works," Mr Draghi said. Yet the ECB did not increase the size of its monthly asset purchases and also disappointed those expecting that it would cut interest rates more aggressively.

The euro rose almost 3% against the dollar to $1.08 after the announcement. Italian and Spanish bond yields both jumped by 0.27% to 1.62% and 1.72% respectively.

The ECB's economists reduced their inflation forecasts for the next two years. They now predict consumer prices in the Eurozone rising by just 1% in 2016 and 1.6% in 2017 – still below the central bank's ceiling of 2%. In November 2015, the inflation rate was just 0.1% and core inflation, excluding volatile items such as fuel and food, dropped to 0.9%.

Mr Draghi stressed again that monetary policy alone could not restore the Eurozone to economic health. He called for looser fiscal policy among member states to support aggregate demand and more rapid implementation of supply-side reforms. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively," he said.

(Source: http://www.independent.co.uk/news/business/news/ecb-disappoints-traders-with-weaker-than-expected-stimulus-a6759786.html, 4th December 2015)

(a) With reference to Figure 1, calculate the percentage change in the value of the euro in pounds from the start of 2009 to the start of 2015.

(5)

(b) With reference to the information provided and your own knowledge, examine **two** factors which might explain the change in the rate of Eurozone inflation as shown in Figure 2.

(8)

(c) Since mid-2015 the euro has appreciated. Assess the likely impact of an appreciation of the euro on the current account of the balance of payments for Eurozone countries.

(10)

(d) Discuss the likely success of the ECB's quantitative easing programme in moving Eurozone inflation closer to 'the central bank's ceiling of 2%' (Extract A, line 17).

(12)

(e) Discuss 'looser fiscal policy' and 'supply-side reforms' (Extract A, lines 20 and 21) that may be used by governments of Eurozone countries to increase economic growth.

(15)

(Total for question = 50 marks)

Q6.

The East African Community (EAC)

	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP (US$ bn)	2.47	37.23	7.10	28.25	19.80
Population (mn)	16.14	62.78	18.21	58.43	48.89
GDP per capita (US$)	.....	.....	390	483.48	405
GDP per capita PPP (US$)	483	1 517	1 167	1 380	1 165
HDI	0.355	0.519	0.434	0.476	0.456
IHDI	no data	0.344	0.287	0.346	0.303

(Sources: www.tradingeconomics.com, United Nations)

Figure 1

Economic indicators for the five EAC member countries, 2012

(a) With reference to Figure 1, calculate the ratio of Burundi's GDP per capita to Kenya's GDP per capita in 2012.

(5)

Extract A

Burundi's economic growth

Burundi has maintained a stable macroeconomic environment and over recent years improved its performance in health, education and gender equality. However, in spite of this recent progress, Burundi's economic growth has been modest compared to neighbouring countries in the EAC.

Burundi is a small, land-locked country and is one of the most aid-dependent countries in the world. The country is vulnerable to external shocks, such as volatile food and energy prices, declining aid flows, and the adverse impact of climate change.

These factors are made worse by the high proportion of current expenditure in the government budget, and a high level of tax exemptions – counting for as much as 3% of GDP.

Coffee and tea make up almost 70% of Burundi's total export earnings. This lack of export diversity makes it difficult to widen the tax revenue base and finance public investments.

(Source: adapted from 'Burundi: more fiscal resilience will improve government effectiveness', All Africa, 19 December 2013, http://allafrica.com/stories/201312190925.html)

Extract B

Trade in East Africa

The EAC was established as a free trade area in 2000 by Kenya, Tanzania and Uganda, with Burundi and Rwanda joining in 2007. Its objectives are the promotion of free trade and the free movement of capital and labour among its members. In 2013, an agreement was signed outlining plans for launching a monetary union by 2024.

Between 2000 and 2011, lower tariffs within the EAC boosted regional trade, offering the five member countries a route to faster growth. During 2000–10, intra-regional exports increased from US$700 million to US$2 billion. Rwanda's exports have grown the most during this period, from US$1.6 million to US$156 million, but are still a fraction of those of Kenya, the region's largest economy. Kenya's exports to the other EAC members were about US$1.2 billion in 2010. In contrast, export growth in Burundi – the poorest member – has remained constant and imports have declined, mainly because of civil war and inferior infrastructure, such as airports, roads, and docks.

(Source: adapted from 'Trade in East Africa', Finance & Development, IMF, December 2011, Vol. 48, No. 4, http://www.imf.org/external/pubs/ft/fandd/2011/12/data.htm)

(b) With reference to Extract A and Extract B, examine **two** factors that constrain economic growth in Burundi.

(8)

(c) With reference to Figure 1, discuss the use of GDP data as a means of comparing living standards among the five EAC member countries.

(12)

(d) Assess the benefits Kenya has gained from its membership of the EAC since 2000.

(10)

(e) Discuss the likely costs and benefits of monetary union to the five members of the EAC.

(15)

(Total for question = 50 marks)

Q7.

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

The UK Government is planning to cut the rate of corporation tax on all pre-tax profits of companies to 17% by 2020.

(Source: adapted from https://www.ft.com/content/ 7579f124-5742-11e7-9fed-c19e2700005f)

(a) This would be an example of:

(1)

- ☐ **A** a contractionary monetary policy
- ☐ **B** an exchange rate policy
- ☐ **C** an expansionary monetary policy
- ☐ **D** a supply-side policy

(b) If a company makes £500 000 pre-tax profit in 2020, calculate how much corporation tax it will pay. Assume that the government cuts the rate of corporation tax as planned.

(2)

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(c) Explain **one** possible reason why the revenue from corporation tax could increase if the government cuts the rate of tax.

(2)

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(Total for question = 5 marks)

Q8.

(a) With reference to Extract C, explain what can be inferred about the price elasticity of demand for coffee beans.

(5)

(b) With reference to Figure 4, examine the likely impact of the 19% increase in the price of coffee beans between January and February 2014, on the price of a cup of coffee bought from a coffee shop.

(8)

(c) Discuss the different degrees of contestability in the farming of coffee beans **and** in the UK coffee shop market.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of fluctuating coffee bean prices on coffee-producing countries.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the depreciation of the *real* on Brazil's economy.

(25)

(Total for question = 50 marks)

Q9.

(a) With reference to Figure 5 and Extract C, explain **one** likely reason for the fall in the exchange rate of the Turkish lira.

(5)

(b) Discuss the costs to the Argentine economy of an inflation rate "estimated by some economists to be over 25%". (Extract D, line 9)

(12)

(c) With reference to Extract E, examine the impact of restrictions on beef exports on how Argentine farmers decide to use their land.

(8)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the imposition of 'price controls' (Extract E, line 8) in Argentina.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the 23% devaluation of the Argentine peso.

(25)

(Total for question = 50 marks)

Q10.

(a) With reference to Figure 1, calculate the annual CPI inflation rate for China in October 2014.

(5)

(b) With reference to Figure 2 and Extract A, examine **two** factors that may have caused disinflation in China in 2014.

(8)

(c) Assess the likely effects of investment in China on Chinese real GDP since 2009.

(10)

(d) **Apart from its effects on investment**, discuss the likely benefits to the Chinese economy of the Government devaluing the currency.

(12)

(e) Discuss the likely economic effects of 'the European Commission applying high tariffs on Chinese mobile equipment entering the EU' (Extract C, lines 5-6).

(15)

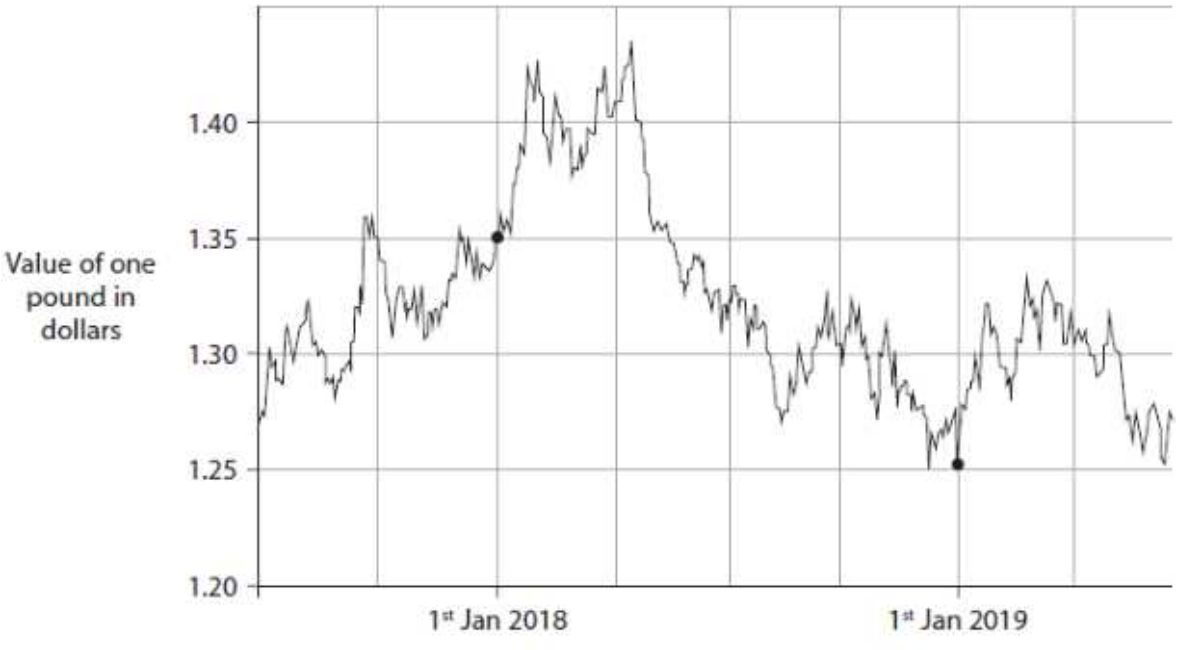
(Total for question = 50 marks)

Q11.

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

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

British pound to US dollar exchange rate (value of one pound in dollars), June 2017 to June 2019.



(Source adapted from: https://www.xe.com/currencycharts/?from=GBP&to=USD&view=2Y)

(a) Which **one** of the following has been the overall change in the British pound to US dollar exchange rate from 1st January 2018 to 1st January 2019?

(1)

☒ **A** Appreciation

☒ **B** Depreciation

☒ **C** Devaluation

☒ **D** Revaluation

(b) Explain the likely impact of the change in the exchange rate of the pound shown in the graph from 1st January 2018 to 1st January 2019 on the UK current account of the balance of payments.

(4)

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(Total for question = 5 marks)

Q12.

Turkey – an emerging economy

Figure 1: Turkey's central bank lending rate, percent, 2013–2018

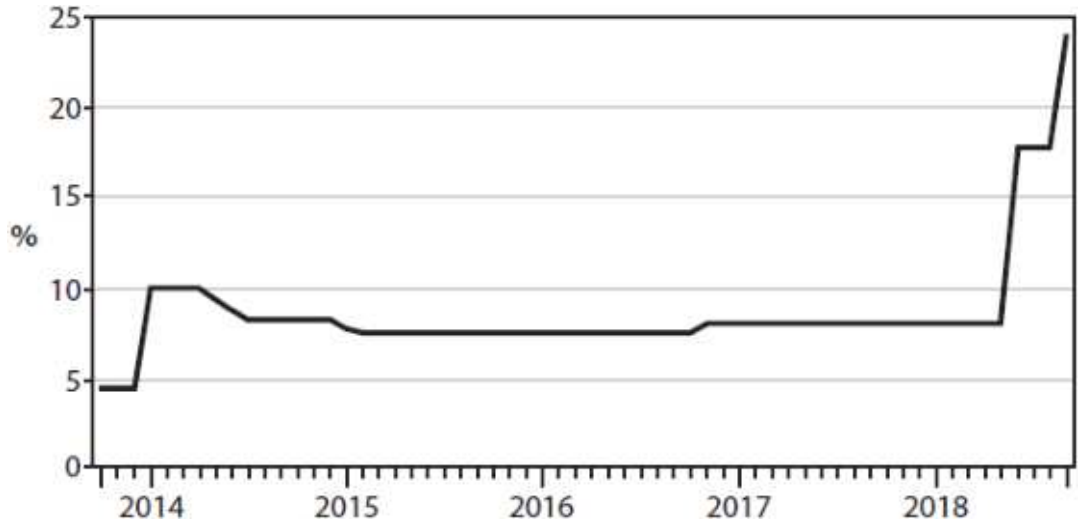
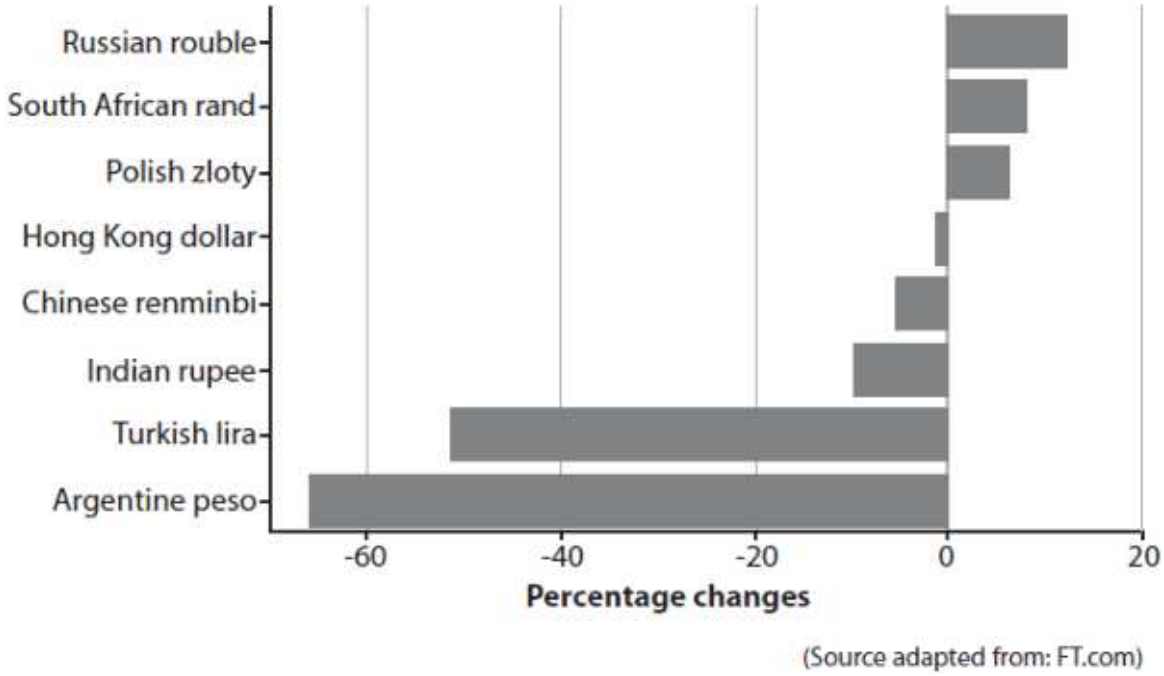


Figure 2: Selected emerging economy exchange rates, percentage change against the US dollar: January 2018 compared to January 2016.



Extract A

Can Turkey's central bank avoid another rate rise?

At an annual rate of 25%, Turkey's inflation is alarming. However, it may have peaked. This may be a turning point for the economically struggling country, whose currency (the Turkish lira) has lost nearly a third of its value against the US dollar in 2018. The central bank may be able to avoid tightening monetary policy further, as a severe economic adjustment is already well under way. Turkey is highly indebted in foreign currency. The Turkish government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks. The financial market faces difficulties in trying to restore foreign investors' confidence.

Consumer prices increased by 2.7% in October 2018, a much lower rate than the 6.3% recorded in September 2018. The lira has stabilised, having risen 16% since the central bank raised interest rates by 6.25 percentage points. However, the government wants lower borrowing costs to fuel credit growth and economic expansion. Timothy Ash at a London investment bank says at this point it's "illogical" to raise interest rates again in Turkey. That's because Turkey's economy is already experiencing a severe slowdown.

In the long term Turkey's economic growth is expected to be above that of other emerging markets such as Brazil, Russia and China. Turkey's private sector is resilient. Between 2018–50 we expect Turkey to grow by an annual average of 3.1%. Brazil is expected to grow by an annual average of 2.1%, Russia by 1.6% and China by 2.8%. GDP growth will nevertheless be well below that recorded in 2004–07 and 2010–15. Average growth in GDP per head will be substantially lower, mainly reflecting the expected rise in the total population.

(Source adapted from: https://ftalphaville.ft.com/2018/11/06/1541508141000/Can-Turkey-s-central-bank-avoid-another-rate-hike-/. 6 Nov 2018 Colby Smith
and one sentence The president wants lower borrowing costs to fuel credit growth and economic expansion from https://www.theguardian.com/world/2018/aug/07/turkey-urged-to-announce-emergency-interest-rate-hike Larry Elliott 7/8/18 and
http://country.eiu.com/article.aspx?articleid=157174199&Country=Turkey&topic=Economy&subtopic=Long-term+outlook&subsubtopic=Summary)

Extract B

Turkey aims to bin the plastic bag

You get a free plastic bag whenever you go to a shop, even if it is just to buy a loaf of bread or a chocolate bar. In Turkey, plastic bags are everywhere, with millions being thrown away, and their use is causing a growing environmental problem.

In Istanbul, the country's biggest city with about 12 million people, around 10 000 tonnes of waste are being collected every day. Plastic bags and other plastic waste make up 950 tonnes, or almost 10%, of the total waste.

The Turkish government said it was looking at ways to discourage the consumption of single-use plastic bags. One possible step currently under review is a ban of the black bags that are said to contain carcinogens. Another is that the state may raise taxes on plastic products, which could lead to supermarkets charging consumers for the bags. In Corlu, a town north-west of Istanbul, a local environmental group distributed 20 000 canvas bags to shoppers in one month. In some parts of Turkey, plastic bags are completely banned, with heavy fines for both firms and consumers who use them.

(Source adapted from: tseibert@thenational.ae
https://www.thenational.ae/world/europe/turkey-aims-to-bin-the-plastic-bag-1.530059 accessed 11/11/18)

Extract C

Istanbul's third airport set to be the busiest in the world

Istanbul's third airport is being constructed over an area of 76.5 million square metres, to the north of Istanbul. When complete, the new airport will have six runways and have an annual passenger capacity of up to 200 million people, making it potentially the world's busiest airport. "This airport is going to be the most important hub between Asia and Europe," said one business leader.

The airport design includes high vaulted ceilings and spacious, modern and efficient design – and its tulip-shaped air traffic control tower won the 2016 International Architecture Award. It uses mobile applications and artificial intelligence for customers, is energy efficient and has a high-tech security system. The site employs 36 000 people and is estimated to cost the equivalent of £10 billion. However, the rush to meet the deadline set by the Turkish government is a major cause of accidents on the construction site, according to the construction workers' union.

(Source adapted from: https://www.lonelyplanet.com/news/2018/08/08/istanbuls-huge-new-airport/ and https://www.voanews.com/a/istanbul-to-unveil-new-airport-seeks-to-be-world-s-biggest/4632308.html)

(a) Explain how the Turkish central bank intervenes in the currency market to prevent 'excessive appreciation or depreciation of the Turkish lira' (Extract A, lines 7–8).

(5)

(b) Examine **two** reasons why the Turkish government may want to avoid a significant fall in the exchange rate of the Turkish lira.

(8)

(c) Discuss the likely success of policies to reduce the consumption of single-use plastic bags in cities such as Istanbul.

(12)

EITHER

(d) Evaluate the likely microeconomic and macroeconomic effects of a rise in interest rates in Turkey.

(25)

OR

(e) Evaluate the microeconomic and macroeconomic impact of large infrastructure projects such as the building of a third airport in Istanbul.

(25)

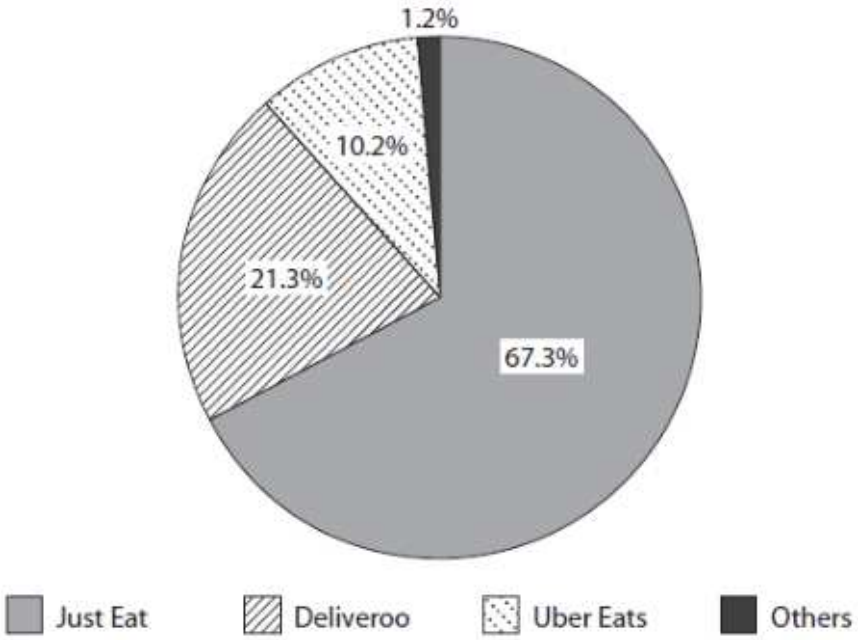
(Total for question = 50 marks)

Q13.

Read Figure 1 and the following extracts (A to C) before answering this question.

The food delivery industry

Figure 1: Market share for third-party food delivery services in the UK, 2019



(Source: adapted from https://onefourzerogroup.com/the-takeaway-takeover/)

Extract A

National Minimum Wage rises are more significant for 23 to 25-year-olds

In 2021, the National Minimum Wage main rate, also known as the National Living Wage, rose by 2.2% to £8.91, following a 6.2% rise in 2020. By reducing the age at which people are eligible for the National Living Wage to 23 in 2021, it is estimated that an additional 7.5% of 23 to 25-year-olds could get a 71p an hour pay rise. This amounts to an 8.7% increase, which may cause further financial worries for employers.

(Source: adapted from https://www.ndna.org.uk/NDNA/News/Latest_news/2020/Minimum_wages_to_rise_by_inflation_in_April.aspx)

Extract B

What is the true cost of the food delivery service?

The food delivery industry has boomed in recent years. Just Eat, Uber Eats and Deliveroo all offer very similar services – third-party food delivery firms that take up to 30% of the price of restaurant meals and deliver them to customers within a certain radius. The average spend per customer is around £15 with a £5 delivery fee, about five times more expensive than cooking at home and the same price as eating in the restaurant. Cash rich, time poor professionals increasingly turn to food delivery.

Food delivery comes with many layers of packaging. In the UK, there are 200 million meals annually with around 1.4 billion individual pieces of plastic for heat retention and protection when travelling, but does it really have to be plastic? People tend to order more food, often high in fat, sugar and salt, and don't even have to get up from their sofa.

But there are concerns that the delivery firms are exploiting employees who have no alternative. There is an issue of low pay and informal contracts. Delivery drivers are classed as 'independent contractors', and therefore not subject to some employment rights including a guaranteed minimum wage, sick pay, pensions or holiday pay. Drivers are paid either a flat hourly rate, or a fee per delivery. Factors such as delivery distance, speed, how busy it is and whether there are multiple drop-offs are all factored into how much a driver is paid. Deliveroo says its wages amount to around £10 per hour, but drivers say that during 2020 their pay has been as low as £1 per hour. Drivers are not paid extra for petrol or to maintain their vehicles. Many drivers are recent immigrants or students, who do not have property or savings to fall back on.

The government could address this with widening minimum pay legislation to contracted workers, by setting codes of practice, or by setting recommended wage targets. Furthermore, there are health and safety issues for workers. Vehicle safety checks, length of shifts and safety equipment are of concern. However, there are still people who take benefit from working flexibility.

(Source: adapted from https://www.theguardian.com/australia-news/2020/oct/25/home-food-delivery-what-is-the-most-ethical-way-to-order-in and https://digitalcommons.molloy.edu/cgi/viewcontent.cgi?article=1043&context=bus_fac)

Extract C

Integration in the third-party food delivery industry

The Competition and Markets Authority (CMA) is watching carefully to prevent any one firm having complete control of the food delivery industry. Just Eat, the market leader, agreed to merge with successful Dutch firm Takeaway.com in 2020, creating a new European leader by revenues. It also bought Grubhub in the US, with 20 million active users. Just Eat uses an aggressive pricing strategy, undercutting delivery fees below the average cost of other firms in the market, that will force them to merge in order to gain some economies of scale.

Amazon, having failed with its own delivery company Amazon Restaurants in 2018, has bought 16% of Deliveroo. The CMA took over a year to agree to the partial integration, on the argument that Deliveroo would close down without external investment. Amazon has unique expertise in marketing, increasing customer share and, most importantly, efficiency in delivering things. Food delivery is often uneconomical because a single household puts in a single order from a single restaurant at any one time. Tech companies such as Amazon can improve the business: once a meal has been ordered, an app often moves that restaurant to the top of the rankings for that neighbourhood, in the hope of getting a second and third delivery.

So why do restaurants turn to these delivery firms? The sheer volume of customers these delivery firms can hold makes it a difficult deal to turn down. But resentment from small business restaurant owners, angry at being wholly dependent on tech companies, is growing. Most restaurants would prefer that customers come in and pick up their orders themselves because they do not have to pay the 30% commission. Restaurant profit margins are small, and the effects of a 20% fall in the external value of the pound since 2016 on food costs are significant, given that over half of their food and drink is sourced outside the UK.

(Source: adapted from https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735 https://www.ft.com/content/edf8a144-a101-4ef8-80e3-7d2f1565d35c and https://www.thisismoney.co.uk/money/markets/article-8138703/Uber-set-sell-takeaway-division-rival-Deliveroo-two-years.html and https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735 and https://www.ft.com/content/bed7c4d8-28c1-11ea-9a4f-963f0ec7e134 and https://www.economist.com/1843/2021/01/26/gulp-the-secret-economics-of-food-delivery)

(a) Using the information provided, explain **one** externality that arises in the food delivery market.

(5)

(b) With reference to Extract B, examine whether the demand for delivered food is price inelastic **and** income elastic.

(8)

(c) With reference to Extract C, discuss the likely effects of increasing integration within the food delivery market.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic effects of a depreciation of the pound. Refer to restaurants or other food delivery services in your answer.

(25)

OR

(e) Evaluate the microeconomic and macroeconomic effects of significant increases in the minimum wage. Refer to restaurants or other food delivery services in your answer.

(25)

(Total for question = 50 marks)

Q14.

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

Read Figures 1, 2, and 3 and extracts A and B before answering this question.

Trade and aid in Rwanda

Figure 1: Aid funding received by Rwanda (per capita, US dollars), 2008 to 2018

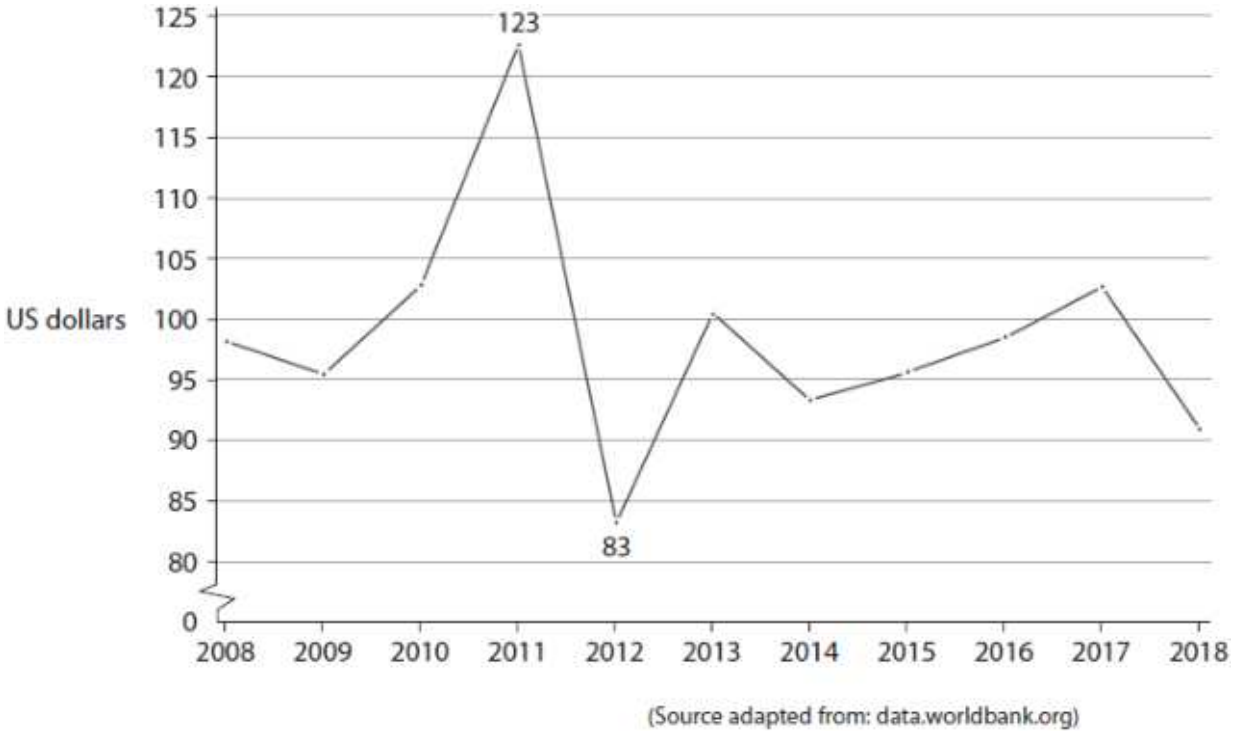
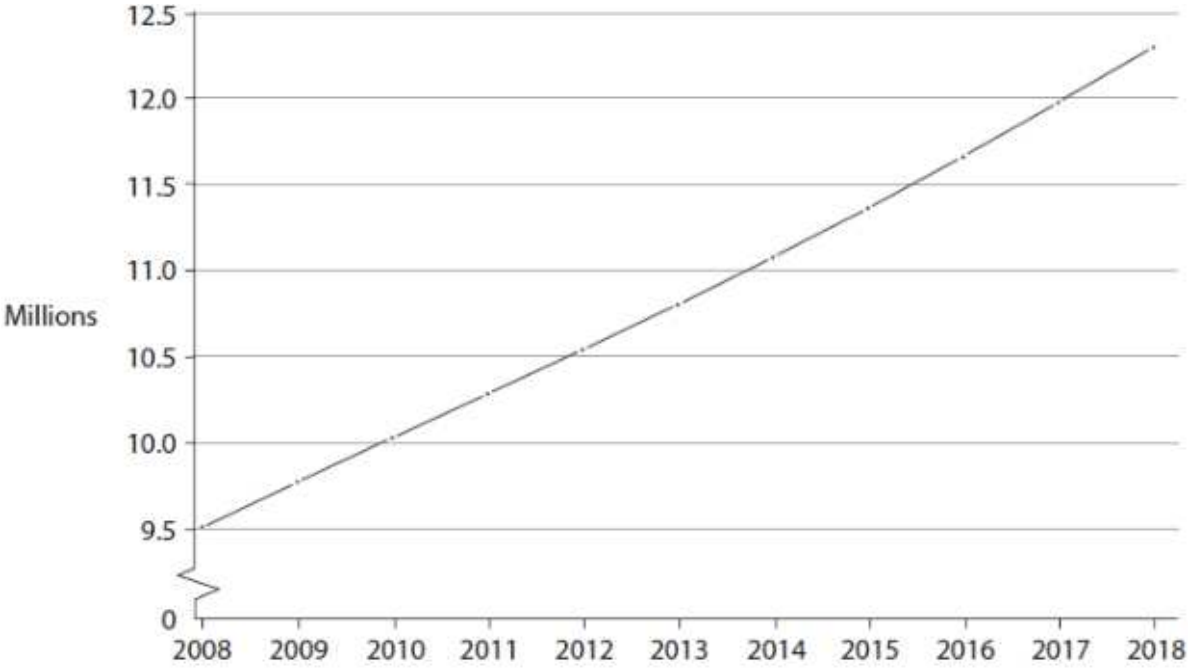
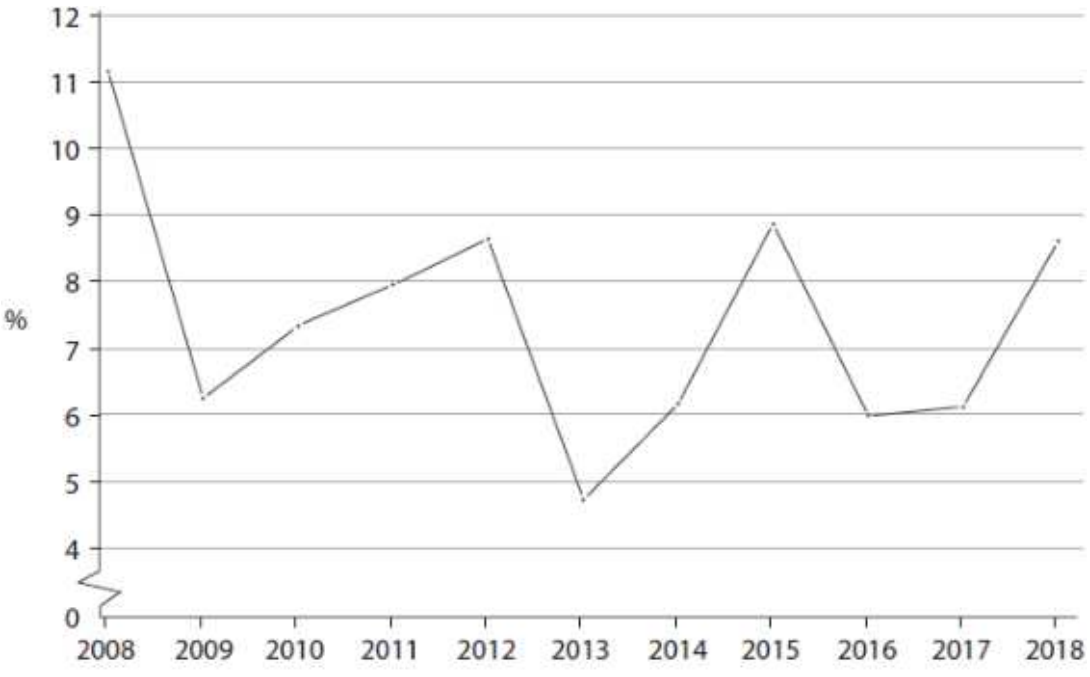


Figure 2: Population of Rwanda (millions), 2008 to 2018



(Source adapted from: https://tradingeconomics.com/rwanda/population)

Figure 3: Rwanda real GDP annual percentage growth rate, 2008 to 2018



(Source adapted from: African Development Bank Statistics accessed April 2020)

Extract A

Rwandan tariffs on imports of used clothing

In a market in Kigali, Rwanda's capital, an auction is under way. Sellers offer crumpled T-shirts and faded jeans; traders argue over the best picks. Everything is second-hand. A Tommy Hilfiger shirt sells for 5 000 Rwandan francs ($5.82); a plain one for a tenth of that. Afterwards, a trader sorts through the purchases he will resell in his home village. The logos hint at their previous lives: Kent State University, a rotary club in Pennsylvania, Number One Dad.

These auctions were once twice as busy, but in 2016 Rwanda's government increased import tariffs on a kilo of used clothes from $0.20 to $2.50. Now many traders struggle to make a profit. The traders are not the only ones who are unhappy. Exporters in the US claim the tariffs are costing jobs there. In March, the US President warned that he would suspend Rwanda's tariff-free access to US markets for its clothing exports after 60 days if it did not remove the tariff.

Globally, about $4 billion of used clothes crossed borders in 2016. The share from China and South Korea is growing, but 70% still come from Europe and North America. Many go to Asia and eastern Europe, but Africa remains the largest market. The trade enables poor people to afford clothes and creates retail jobs. However, governments worry that the trade undercuts their own clothing manufacturers.

Second-hand imports of clothing now dominate African markets. Researchers at the Overseas Development Institute, a British think-tank, estimate that Tanzania imports 540 million used items of clothing and 180 million new ones each year, while producing fewer than 20 million itself. African manufacturing is weak for many reasons, from ineffective privatisations to collapsing infrastructure. But second-hand clothing imports are a major factor: it is estimated that they accounted for half of the fall in employment in the African clothing industry between 1981 and 2000.

For example, a clothing factory in Kigali is operating at only 40% of capacity and employs 600 workers, down from 1 100 in the 1990s. It is hard to compete, says Ritesh Patel, its manager, when a used imported T-shirt sells for the price of a bottle of water. Instead, the company specialises in uniforms for police, soldiers and security guards, which cannot be bought second-hand.

The threatened suspension of tariff-free access to the US market would hurt Rwanda, but not very much. Last year Rwanda sold just $1.5 million of clothing to the US. Nor, with about 12 million people, is Rwanda a big market for US exports.

(Source adapted from: https://www.economist.com/finance-and-economics/2018/05/31/rwanda-refuses-to-remove-tariffs-on-imports-of-used-clothing)

Extract B

Development in Rwanda

Rwanda's strong economic growth has been accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on policies to encourage industrialisation and poverty reduction initiatives have contributed to significant improvements in access to services and human development indicators. Absolute poverty declined from 59% to 39% of the population between 2001 and 2014 but was almost stagnant between 2014 and 2017. The official inequality measure, the Gini index, declined from 0.52 in 2006 to 0.43 in 2017.

(Source adapted from: https://www.worldbank.org/en/country/rwanda/overview)

(a) Using the data in Figures 1 and 2, calculate the change in the level of total aid funding to Rwanda between 2011 and 2012.

(5)

(b) With reference to the information provided, examine **two** likely benefits for the Rwandan economy of the growth in the country's population.

(8)

(c) With reference to the information provided, assess the likely impact on the Rwandan economy of the change in aid received between 2017 and 2018.

(10)

(d) Discuss the likely impact on Rwandan consumers and clothing manufacturers of the increase in the tariff on imports of second-hand clothes. Use an appropriate diagram to support your answer.

(12)

(e) Discuss policies, other than import tariffs, that the Rwandan government could use to develop its manufacturing industries.

(15)

(Total for question = 50 marks)

Q15.

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

Unit labour costs for selected European countries, 2017, base year 2010 = 100.

Country	Unit labour costs
Austria	113
Hungary	120
Estonia	129
France	107

(Source: http://www.oecd-ilibrary.org/economics/data/labour/unit-labour-cost-quarterly-indicators-early-estimates_data-00607-en)

(a) Explain **one** likely reason for Estonia's unit labour costs rising faster than in other European countries.

(2)

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(b) Explain how Estonia's competitiveness could be affected by rising unit labour costs.

(2)

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(c) The increase in Austria's unit labour costs between 2010 and 2017 is:

(1)

- ☒ **A** 3%
- ☒ **B** 11.3%
- ☒ **C** 13%
- ☒ **D** 113%

(Total for question = 5 marks)