

PEARSON EDEXCEL IAL ECONOMICS • YEC11

ECONOMICS



EXAM QUESTION PACK

UNIT 2: NATIONAL INCOME

SCORE

/107

PERCENTAGE

%

STEMUP

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Q1.

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

Which **one** of the following is likely to cause a decrease in the value of a country's multiplier?

- ☐ **A** A decrease in the marginal propensity to tax
- ☐ **B** A decrease in the marginal propensity to save
- ☐ **C** An increase in the marginal propensity to import
- ☐ **D** An increase in the marginal propensity to consume

(Total for question = 1 mark)

Q2.

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering this question.

With reference to Figure 2, analyse **one** macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.

(Total for question = 6 marks)

Q3.

In April 2020 it was estimated that an increase in government spending of RM30 billion in Malaysia would eventually result in an increase in the country's national income of RM150 billion.

Based on this information, calculate the marginal propensity to consume (MPC) in Malaysia. Show your workings.

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(Total for question = 4 marks)

Q4.

In 2022 it was estimated that an increase in government spending of \$25 billion in an economy would eventually result in an increase in the country's national income of \$100 billion.

Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.

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(Total for question = 4 marks)

Q5.

It was estimated that an increase in investment of \$150 million in an economy would eventually result in an increase in the country's national income of \$1 500 million.

Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.

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(Total for question = 4 marks)

Q6.

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 ☐.

It is estimated that the marginal propensity to consume in Germany is 0.4.

Which **one** of the following represents the value of the multiplier in Germany?

- ☐ **A** 0.5
- ☐ **B** 0.6
- ☐ **C** 1.7
- ☐ **D** 2.5

(Total for question = 1 mark)

Q7.

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 ☐.

Which **one** of the following is a withdrawal from the circular flow of income?

- ☐ **A** Investment
- ☒ **B** Consumption
- ☐ **C** Savings
- ☐ **D** Exports

(Total for question = 1 mark)

Q8.

In January 2016 the world price of oil was \$29.78 per barrel. By May 2019 this had increased to \$66.83 per barrel. Saudi Arabia is a net exporter of oil.

Draw a diagram showing the change in AD for Saudi Arabia's economy following the increase in the price of oil. Show the effect on the price level and real output.

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(Total for question = 4 marks)

Q9.

Between January 2014 and September 2020 the price of natural gas fell from \$5.60 per cubic foot to \$1.66 per cubic foot. Natural gas is an important source of energy for Japanese producers.

Draw a SRAS and AD diagram to show the effect of the decrease in the price of natural gas on the price level and real output for Japan.

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(Total for question = 4 marks)

Q10.

Between May 2020 and March 2022 the global oil price increased from \$39 a barrel to \$106 a barrel.

Evaluate the view that very high global oil prices will always harm a country's macroeconomy.

(Total for question = 20 marks)

Q11.

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 ☐.

The value of a country's multiplier decreases from 1.7 to 0.9.

Which **one** of the following is a likely cause of a decrease in the value of a country's multiplier?

- ☐ **A** A decrease in the marginal propensity to tax
- ☐ **B** A decrease in the marginal propensity to save
- ☐ **C** An increase in the marginal propensity to consume
- ☐ **D** An increase in the marginal propensity to import

(Total for question = 1 mark)

Q12.

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 ☐.

South Africa's annual government expenditure as a proportion of GDP increased from 31.4% to 34.6% between 2012 and 2019.

Which **one** of the following is most likely to have contributed to this increase in government expenditure as a proportion of GDP?

- ☐ **A** Lower welfare payments
- ☐ **B** A lower exchange rate
- ☐ **C** Less economic activity
- ☐ **D** Increased business confidence

(Total for question = 1 mark)

Q13.

Turkey's central bank increased its base interest rate from 12.75% in April 2018 to 24% in September 2018.

Draw a LRAS and AD diagram to show the possible long-run impact of this significant increase in the base interest rate on AD, the price level **and** real output for Turkey.

[illegible]

Q14.

The Romanian economy

Figure 1 Year-on-year real GDP growth by quarter, 2016-2017

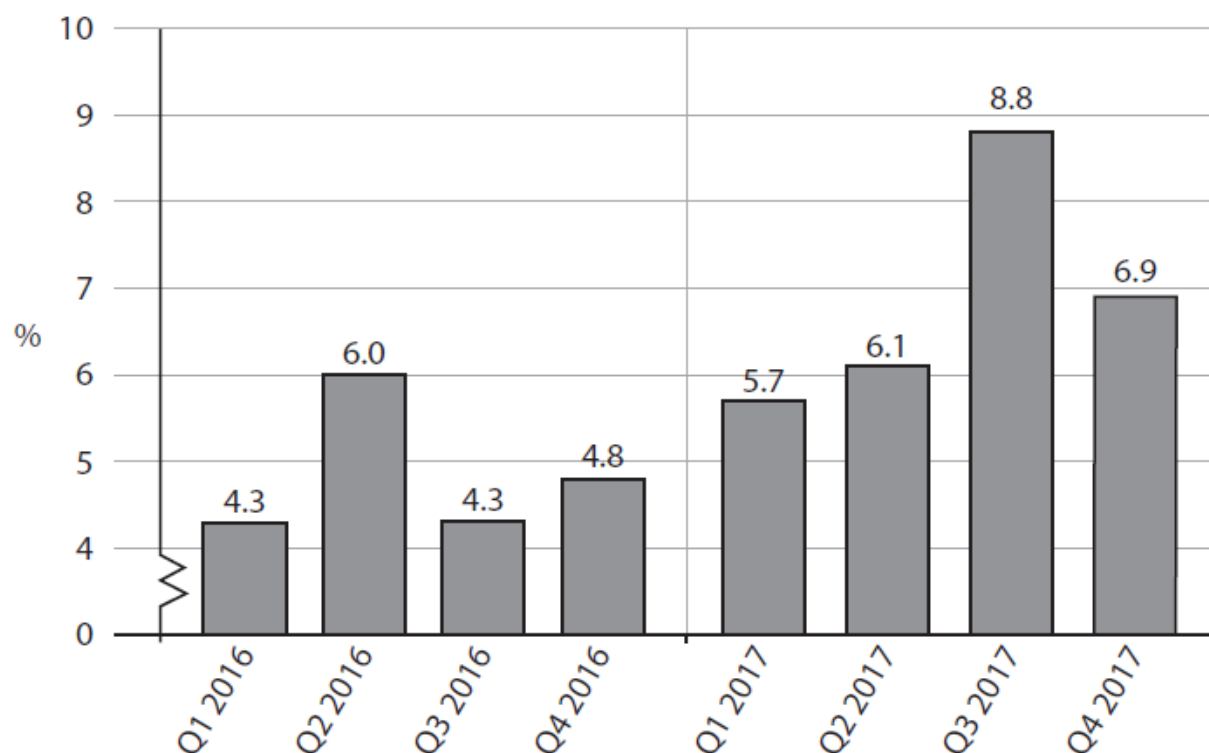
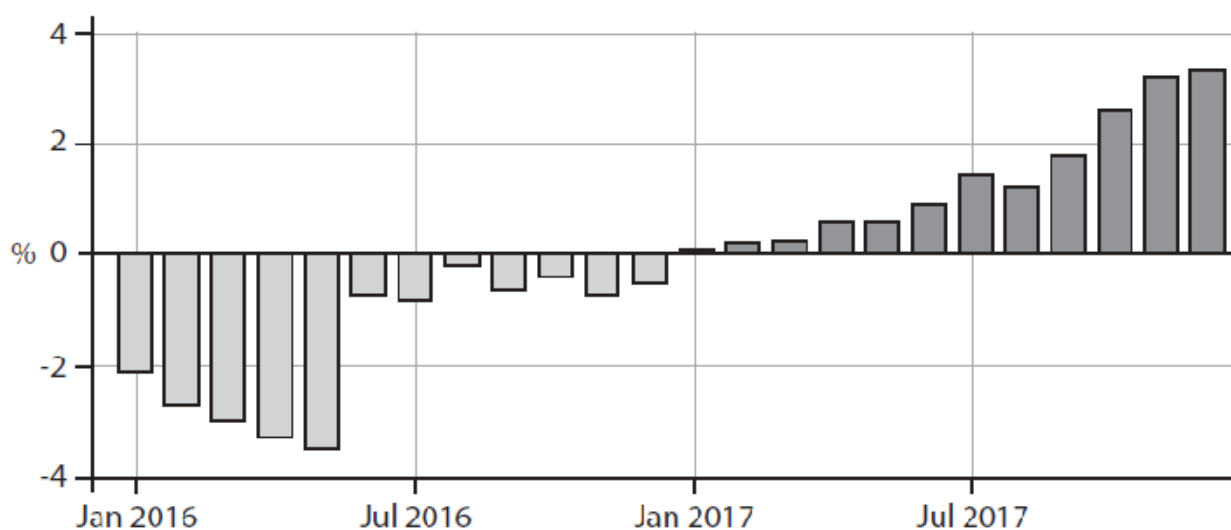


Figure 2 The rate of inflation, as measured by the consumer price index, 2016-2017



Extract A Romania's economic growth

For many years Romania had been viewed as a poor country by European standards, experiencing low wages and a slow rate of economic growth. However, since 2015, Romania's rate of economic growth outperformed other European countries. This growth was stimulated by a number of factors including the Government's expansionary fiscal policy, increased household consumption and high levels of investment in new technology for manufacturing industries. 5

In 2015 the Government cut VAT from 24% to 20%. It planned to double the minimum wage over a four-year period. It also increased the salaries of public sector employees. However, wage levels are still low compared to other European countries leading to high levels of migration out of the country. This resulted in labour shortages as businesses found it hard to fill vacancies. The unemployment rate fell to 4.6% in 2017. 10

Romania has one of the fastest broadband internet speeds in the world, behind Singapore, Hong Kong, South Korea and Iceland. It also has a very well-educated workforce, with excellent language, maths and science skills. The technology sector is expanding fast in the country, and many large foreign firms such as Siemens and Ford have set up factories in Bucharest, the Romanian capital. This has increased production in the country and generated strong growth in exports. 15

Extract B Inflationary pressures

As disposable incomes have risen, consumption has also increased significantly reaching a ten-year peak in 2017. The rate of inflation has risen throughout 2017. This was partly caused by a 3.8% increase in food prices and by a 4.1% price increase in non-food products. 5

The central bank responded to this inflationary pressure by increasing its base interest rate for the first time in 10 years from 1.75% to 2%. Mugur Isarescu, the Governor of the central bank, suggested that the Romanian Government's fiscal policies are to blame for the higher rate of inflation. The fiscal deficit rose to 3% of GDP in 2016. The Government defended its position, believing that reductions in tax rates and increased government spending on infrastructure will lead to long-term economic growth. 10

With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax.

(Total for question = 6 marks)

Q15.

It is estimated that the marginal propensity to consume for Spain is 0.72. In January 2018 the Spanish Government announced an €18 billion investment on national defence.

Calculate the final increase in GDP resulting from this €18 billion investment.
Show your workings.

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(Total for question = 4 marks)

Q16.

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 ☐.

Which **one** of the following is an injection into the circular flow of income?

- ☐ **A** Savings
- ☐ **B** Exports

- ☐ **C** Imports
- ☐ **D** Taxation

(Total for question = 1 mark)

Q17.

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 ☐.

From Quarter 1 2020 to Quarter 2 2020, government expenditure in Russia increased by 25 billion roubles.

Ceteris paribus, what was the most likely effect of this increase?

- ☐ **A** Aggregate demand decreased
- ☐ **B** Withdrawals from the circular flow increased
- ☐ **C** Aggregate supply decreased
- ☐ **D** Injections into the circular flow increased

(Total for question = 1 mark)

Q18.

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 ☐.

Which **one** of the following is an injection into the circular flow of income?

- ☐ **A** Investment
- ☐ **B** Savings
- ☐ **C** Imports

- ☐ **D** Consumption

(Total for question = 1 mark)

Q19.

An economy has the following injections into, and withdrawals from, its circular flow of income in one year.

Injections (\$bn)		Withdrawals (\$bn)	
Government spending	500	Taxation	400
Investment	150	Saving	200
Exports	450	Imports	550

Which **one** of the following can be concluded from the data?

- ☐ **A** The economy has a government budget surplus
- ☐ **B** There is a net withdrawal out of the economy
- ☐ **C** The economy has a balance of trade surplus
- ☐ **D** There is a net injection into the economy

(Total for question = 1 mark)

Q20.

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering this question.

With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.

(Total for question = 8 marks)

Q21.

Study Figure 1, Extract A and Extract B in the Source Booklet before answering this question.

Analyse **one** likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income.

Illustrate your answer with a circular flow diagram.

(Total for question = 6 marks)

Q22.

Study Figure 1, Figure 2, Figure 3 and Extract A in the Source Booklet before answering this question.

With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

(Total for question = 6 marks)

Q23.

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 ☐.

The Government of Saudi Arabia estimates that, in 2022, its spending will be \$255 billion and its tax revenue will be \$279 billion.

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

☒ **A** There will be a net withdrawal from the circular flow of income

- ☐ **B** There will be a net injection into the circular flow of income
- ☐ **C** There will be a balance of trade deficit
- ☐ **D** There will be a balance of trade surplus

(Total for question = 1 mark)

Q24.

The UK Government is spending £56 billion on building HS2, a high-speed railway network.

Which **one** of the following is also an injection into the circular flow of income?

- ☐ **A** Increased spending on imports
- ☐ **B** Increased spending on exports
- ☐ **C** Increased levels of saving
- ☐ **D** Increased income tax receipts

(Total for question = 1 mark)

Q25.

For the year ending June 2020, there were 153 900 immigrants arriving in New Zealand and 74 200 emigrants leaving New Zealand.

Draw a LRAS **and** AD diagram to show the effect of this net migration on the price level and real output for New Zealand.

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(Total for question = 4 marks)

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 ☒.

Ceteris paribus, what would be the final increase in GDP following this injection?

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☐ **C** ¥2 bn

☐ **D** ¥3 bn

(Total for question = 1 mark)

Q27.

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 ☐.

The value of Burundi's multiplier is estimated to be approximately 0.1.

Ceteris paribus, which **one** of the following would cause an increase in the value of a country's multiplier?

☐ **A** An increase in the marginal propensity to save

☐ **B** An increase in the marginal propensity to import

☐ **C** A decrease in the marginal propensity to tax

☐ **D** A decrease in the marginal propensity to consume

(Total for question = 1 mark)

Q28.

The table shows marginal propensities to withdraw for an economy.

Marginal propensity to save (MPS)	0.4
Marginal propensity to tax (MPT)	0.3
Marginal propensity to import (MPM)	0.1

With reference to the table, calculate the value of the multiplier for this economy. Show your workings.

(Total for question = 4 marks)

(Total for question = 6 marks)

Mark Scheme

Q1.

Question	Quantitative skills assessed	Answer	Mark
	QS1: Calculate, use and understand ratios and fractions	The only correct answer is C <i>A is not correct because this will increase the value of the multiplier</i> <i>B is not correct because this will increase the value of the multiplier</i> <i>D is not correct because this will increase the value of the multiplier</i>	(1)

Q2.

Question Number	With reference to Figure 2, analyse one macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.	
	Answer	Mark
	Knowledge 2, Application 2, Analysis 2 QS2 Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge and analysis 1 mark for definition of current account deficit • Current account balance looks at the inflow and outflow of goods, services, investment incomes and transfer payments (1)/ the components of the current account are trade in goods, trade in services, investment income and net transfers (1) • A deficit on the current account usually implies that the value of imports is greater than the value of exports (1) Up to 3 marks for explaining one effect of the change in the current account balance e.g.	

	Deficit reducing: - Deficit in the current account is decreasing, showing greater level of export/lower level of import in 2018 compared to recent years (1) so less leakage from the circular flow of income (1) - Improved current account balance likely to indicate greater international competitiveness (1) leading to continued improvement (1) Deficit remaining: - Net withdrawal from the circular flow (1) meaning more withdrawals than injections (1) will have a negative multiplier effect (1) - The deficit will tend to reduce net trade (1) and so reduce AD (1) leading to a fall in price level and real output (1) - Deficit may mean a loss of jobs (1) as exports are falling/imports are rising (1) increasing unemployment/creating a negative output gap (1) Application Up to 2 marks for reference to Figure 2 - The current account balance is a deficit (1) - The size of the deficit as a proportion of GDP has reduced (1) OR - The deficit was -6.7% of GDP in 2016 and -5.3 of GDP in 2018 (1)	(6)
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Q3.

Question	Based on this information, calculate the marginal propensity to consume (MPC) in Malaysia. Show your workings.	Mark
	Knowledge 1, Application 3 Quantitative Skill assessed QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for knowledge of multiplier formula - Multiplier = $1/(1-MPC)$ or $1/MPW$ OR 1 mark for understanding of marginal propensity to consume (MPC) $MPC = \Delta C / \Delta Y$ - MPC is the proportion of one additional unit of income which is spent by households Application Calculation that the multiplier ratio = $RM150bn / RM30bn = 5$ (1) Calculation that $(1-MPC)$ or $MPW = 0.2$ (1) Calculation that the $MPC = 0.8$ (1) NB If the correct answer is given (0.8), award full marks regardless of working. NB If the answer is given as 0.8 billion/RM 0.8/RM 0.8 billion, award only 3 marks.	(4)

Q4.

Question	In 2022 it was estimated that an increase in government spending of \$25 billion in an economy would eventually result in an increase in the country's national income of \$100 billion. Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.	Mark
	Knowledge 1, Application 3 Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for knowledge of multiplier formula - Multiplier = $1/(1-MPC)$ or $1/MPW$ OR 1 mark for understanding of marginal propensity to consume (MPC) $MPC = \Delta C / \Delta Y$ - MPC is the proportion of one additional unit of income that is spent by households Application Calculate that the multiplier ratio = $\\$100bn / \\$25bn = 4$ (1) Calculate that $(1-MPC)$ or $MPW = 0.25$ (1) Calculate that the $MPC = 0.75$ (1) NB If the correct answer is given (0.75 OR $\frac{3}{4}$), award full marks regardless of working NB If the answer is given as 0.75 billion/\$0.75/\$0.75 billion, award only 3 marks	(4)

Q5.

Question	It was estimated that an increase in investment of \$150 million in an economy would eventually result in an increase in the country's national income of \$1 500 million. Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.	Mark
	Knowledge 1, Application 3 Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for knowledge of multiplier formula - Multiplier = $1/(1-MPC)$ or $1/MPW$ OR 1 mark for understanding of marginal propensity to consume (MPC) $MPC = \Delta C / \Delta Y$ - MPC is the proportion of one additional unit of income that is spent by households Application Calculate that the multiplier ratio = $\\$1\,500mn / \\$150mn = 10$ (1) Calculate that $(1-MPC)$ or MPW = 0.1 OR $1/10$ (1) Calculate that the MPC = 0.9 (1) NB If the correct answer is given (0.9), award full marks regardless of working NB If the answer is given as 0.9 million/\$0.9/\$0.9 million, award only 3 marks	(4)

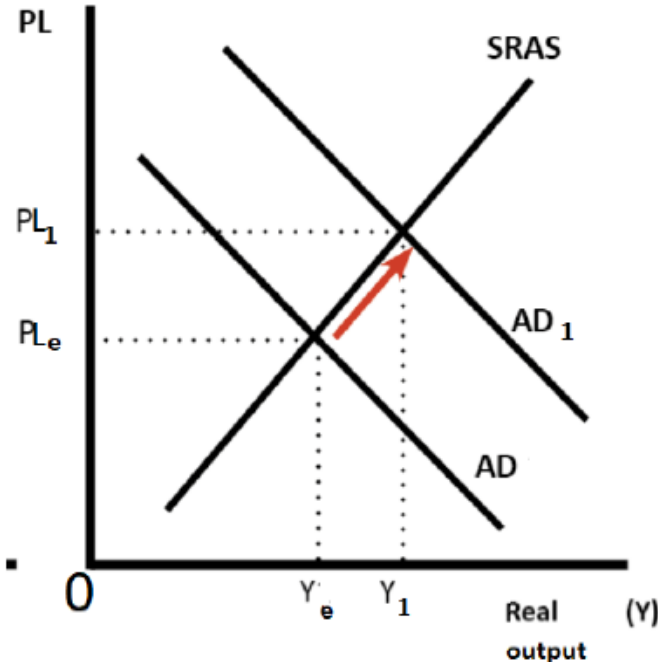
Q6.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct as this is not calculated using the correct formula</i> <i>B is not correct as this is calculated using the formula $(1-0.4)$</i> <i>D is not correct as this is calculated using the formula $(1/0.4)$</i>	(1)

Q7.

Question	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms	The only correct answer is C <i>A is not correct because this is an injection into the circular flow of income</i> <i>B is not correct because this is not a withdrawal</i> <i>D is not correct because this is an injection into the circular flow of income</i>	(1)

Q8.

Question Number	In January 2016 the world price of oil was \$29.78 per barrel. By May 2019 this had increased to \$66.83 per barrel. Saudi Arabia is a net exporter of oil. Draw a diagram showing the change in AD for Saudi Arabia's economy following the increase in the price of oil. Show the effect on the price level and real output. Answer	Mark
	Knowledge 1, Application 3 Quantitative skills assessed: QS4 Construct and interpret a range of standard graphical forms 	

	Knowledge 1 mark for drawing original SRAS and AD curves with correctly labelled axis and initial equilibrium Application 1 mark for rightward shift in AD 1 mark for new equilibrium with increased price level, 1 mark for new equilibrium with increased real output	(4)
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Q9.

Question	Draw a SRAS and AD diagram to show the effect of the decrease in the price of natural gas on the price level and real output for Japan.	Mark
	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms	

	Knowledge Correctly labelled original SRAS/AD curves (1) Application Up to 3 marks for the following information included on the diagram: • Drawing SRAS shifted to the right (1) • New equilibrium showing correct lower price level (1) (not rewarded if 'price' is used on axis) • New equilibrium showing correct higher real output/ income/GDP (1) (not rewarded if 'quantity' is used on axis) NB: also allow a SRAS/AD diagram showing both an increase in SRAS and an increase in AD as follows: • Drawing SRAS and AD shifted to the right (1) • New equilibrium showing correct price level (1) (not rewarded if 'price' is used on axis)	(4)
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	• New equilibrium showing correct higher real output/ income/GDP (1) (not rewarded if 'quantity' is used on axis) NB: if only AD curve is shifted then maximum of 2 marks	
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Q10.

Question	Evaluate the view that very high global oil prices will always harm a country's macroeconomy.
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

Knowledge, Application and Analysis (12 marks) – indicative content

Rising oil prices are harmful to an economy because:

- For economies that are net importers of oil, this will lead to an increase in the value of their imports, *ceteris paribus*. This will:
 - Increase a trade/current account deficit, not meeting one of the government's macroeconomic objectives
 - Increase downward pressure on/decrease AD in the economy (may be shown diagrammatically), thus leading to a decrease in real GDP and average incomes, and an increase in unemployment
 - Negative multiplier effects and further reduction in AD/real GDP
 - A decrease in average incomes and an increase in unemployment are likely to worsen the government's budget balance
- Costs of production for firms will increase, leading to a fall/leftward shift in SRAS (may be shown diagrammatically). *Ceteris paribus*, this will:
 - Increase cost-push inflationary pressures in the economy, thus not achieving the macroeconomic objective of a low and stable rate of inflation
 - Decrease real GDP and average incomes in the economy
 - Decrease in average incomes and an increase in unemployment are likely to worsen the government's budget balance
- For economies that are net exporters of oil, this may discourage them to diversify their economies and increase their reliance on oil – they have less incentive to create/adopt renewable energy to protect the environment

NB: Candidates may argue either way for KAA and the reverse for Evaluation

NB: Award a maximum of level 3 if no reference to specific country(s)

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

Rising oil prices may not be harmful to an economy because:

- For economies that are net exporters of oil, this will lead to an increase in the value of their exports, ceteris paribus. This will:
 - Decrease a trade/current account deficit, meeting one of the government's macroeconomic objectives
 - Put an upward pressure on AD in the economy (may be shown diagrammatically), leading to more economic growth, upward pressure on average incomes, and a reduction in unemployment
 - Positive multiplier effects
 - An increase in average incomes and a decrease in unemployment are likely to improve the government's budget balance

General evaluation points:

- Effects depend on how much oil prices rise by and how long they stay high
- Effects of a change in AD on real GDP depend on the level of spare capacity in the economy; the size of the multiplier ratio; and whether a Classical or Keynesian LRAS curve is used
- There is likely to be a time lag before effects are felt
- An increase in inflation may not be beneficial if an economy's inflation rate is above its target rate of inflation
- Effects on costs of production/SRAS depend on the structure of the economy /adoption of green production methods etc.
- Different effects on different economies, e.g., economies that are more specialised in oil production will be affected more significantly/economies that are more dependent on oil will be affected more significantly
- Countries that are heavily dependent on oil imports will have an incentive to invest in renewable energy so benefitting the environment

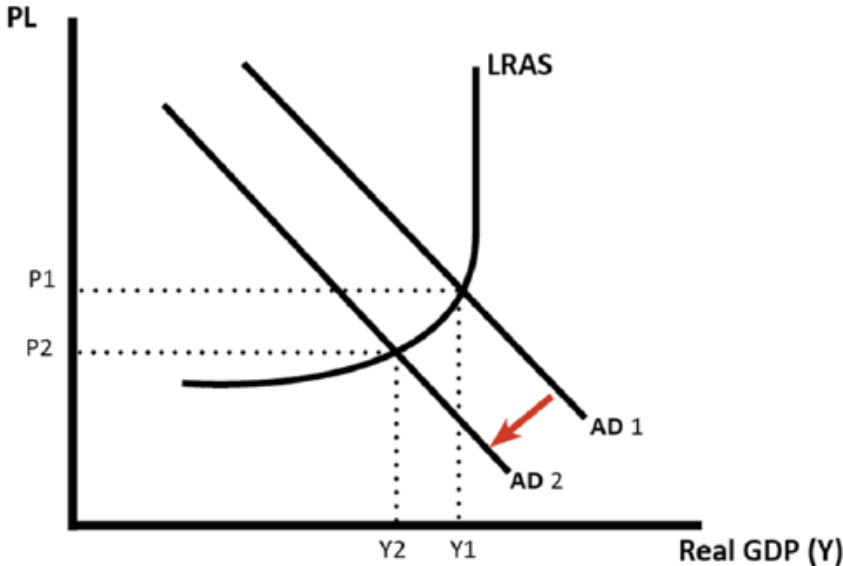
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct as a decrease in the MPT will increase the value of the multiplier</i> <i>B is not correct as a decrease in the MPS will increase value of the multiplier</i> <i>C is not correct as an increase in the MPC will increase the value of the multiplier</i>	(1)

Q12.

Question Number	Quantitative skills assessed	Answer	Mark
		The only correct answer is C <i>A is not correct because lower welfare payments would reduce government expenditure</i> <i>B is not correct because a lower exchange rate is unlikely to have a direct influence on government expenditure</i> <i>D is not correct because increased business confidence will be likely to lead to higher rates of economic growth reducing the proportion of GDP made up by government expenditure</i>	(1)

Q13.

Question	Draw a LRAS and AD diagram to show the possible long-run impact of this significant increase in the base interest rate on AD, the price level and real output for Turkey. Answer Knowledge 1, Application 3 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Correct labelling of the axes e.g. price level and real output/GDP (1) Application Up to 3 marks for the following information included on the diagram • Drawing the original AD/LRAS curve (1) • Drawing a new AD curve to the left/decreased (1) • For the correct final equilibrium price level and output (1)	Mark
		(4)

Q14.

Question	With reference to Extract A, analyse one macroeconomic effect of the reduction in indirect tax.	Mark
	Knowledge 2, Application 2, Analysis 2 QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge Award 1 for understanding of indirect tax, e.g: • A tax levied by the government on goods and services that can be passed onto the consumer OR • An expenditure tax OR • Examples VAT, excise duty or another relevant example (1) Award 1 for one relevant macroeconomic effect identified, e.g: • Reducing tax leads to a fall in prices (1) • Falling prices increases demand for domestic goods (1) • SRAS shifts to the right due to reduced cost of production (1) • Correct shift of SRAS on diagram (1) Analysis Up to 2 marks for explaining the macroeconomic effect of lower VAT, e.g.: • Reducing tax leads to a fall in prices- incomes have a greater purchasing power (1) increased consumption (1) • Falling prices increases demand for domestic goods- so output of firms increases (1) resulting in a reduction in unemployment (1) • Higher consumption due to lower prices (1) shift along the AD (1) • Use of a diagram to analyse the impact on real output and price level (1) Application Up to 2 marks for reference to the data. • VAT has fallen (1) from 24% to 20% (1)	(6)

Q15.

Question	Calculate the final increase in GDP resulting from this €18 billion investment. Show your workings.	Mark
	Answer	
	Knowledge 1, Application 3 Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions Knowledge 1 mark for correct multiplier formula, e.g. Multiplier = $1/(1-MPC)$ (1) Application Up to 3 marks for use of data in calculation, e.g.: Multiplier = $1/0.28 = 3.57$ (1) €18 billion $\times 3.57$ (1) = €64.286 billion (1) NB: If correct answer (€64.286 billion) is given, award full marks regardless of working. Also accept accurate answer to 0dp, 1dp, 2dp, 4dp If billion is missing, award 3 marks	(4)

Q16.

Question Number	Quantitative skills assessed	Answer	Mark
		The only correct answer is B <i>A is not correct because savings is a withdrawal</i> <i>C is not correct because imports is a withdrawal</i> <i>D is not correct because taxation is a withdrawal</i>	(1)

Q17.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is D <i>A is not correct because AD would increase</i> <i>B is not correct because government spending is an injection into CFI</i> <i>C is not correct because AS is likely to increase</i>	(1)

Q18.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct as this is a withdrawal</i> <i>C is not correct as this is a withdrawal</i> <i>D is not correct as this is neither an injection nor a withdrawal</i>	(1)

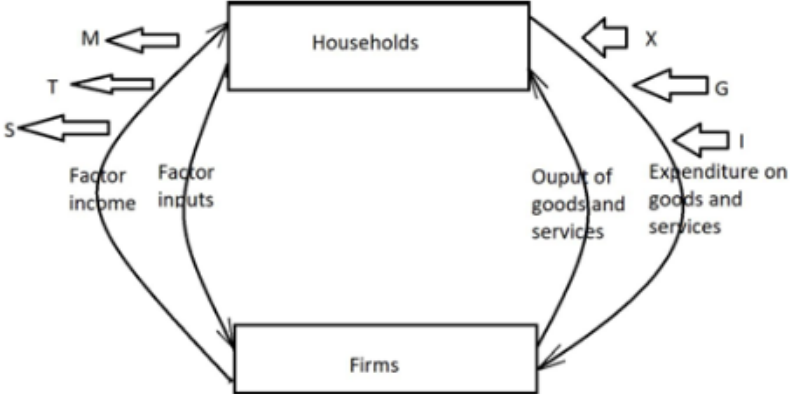
Q19.

Question Number	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is B <i>A is not correct because there is a budget deficit of \$100bn</i> <i>C is not correct because the data relate to the budget and not to exports and imports</i> <i>D is not correct because there is a budget deficit which implies that there is a net withdrawal out of the economy</i>	(1)

Q20.

Question	With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.	Mark
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge and analysis 1 knowledge mark for understanding of a policy and 1 analysis mark for linked development of each policy, e.g.: - Increased government spending (1K) is likely to result in greater injections into China's circular flow of income (1AN) - Reduced taxes for businesses (1K) is likely to result in a decrease in withdrawals from China's circular flow of income (1AN) - Increased investment by businesses (1K) is likely to result in greater injections into China's circular flow of income (1AN) Application Up to 2 marks for reference to Extract A, e.g.: - Increased spending on infrastructure by \$75 billion (1) - Providing 100% tax breaks on research and development spending (1) Evaluation Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: - The magnitude of infrastructure spending/tax breaks is relatively large (1) so the impact on injections/withdrawals is likely to be very significant (1) - Impact on injections/withdrawals will also depend on the other injections/withdrawals (1) investment and exports/savings and imports (1) - Time lags associated with fiscal policy (1) indicate that the impact on net injections may only be felt in the long-run (18-24 months) (1)	(8)

Q21.

Question	Analyse one likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income. Illustrate your answer with a circular flow diagram.	Mark
	Knowledge 2, Application 2, Analysis 2 Quantitative Skill Assessed QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge and Analysis 1 knowledge mark and up to 2 marks for linked analysis of one likely effect, e.g.: - Exports increase (1K) which means the size of the injection rises (1AN) increasing the money flowing around the circular flow of income (1AN) 1 knowledge mark for diagram showing flows between households and firms OR identifying injections and withdrawals  Application Up to 2 marks for reference to Extract A, e.g., - The contribution of tourism to GDP is included in net trade figures / and returned to more than two-thirds of pre-global health crisis levels (1) - The number of tourists was expected to grow in the second half of 2023 / after China ended restrictions on group tours to a number of countries including Japan (1)	(6)

Q22.

Question	With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.	Mark
	Knowledge 2, Application 2, Analysis 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge and analysis 1 mark for understanding of circular flow of income, e.g. - Explanation of how money flows into and out of the economy (this may be shown diagrammatically) (1K) OR 1 knowledge mark for understanding of a policy and 1 analysis mark for linked development of each policy, e.g.: - Reduced government expenditure (1K) is likely to result in <i>lower</i> injections into Brazil's circular flow of income (1AN) - Increased taxes (1K) are likely to result in <i>greater</i> withdrawals from Brazil's circular flow of income (1AN) Application Up to 2 marks for reference to Extract A: - Increase in tax revenues by <i>R\$190 billion</i> (1) - Reduction in government expenditure by <i>R\$50 billion</i> (1)	(6)

Q23.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is A <i>B is not correct because withdrawals will be greater than injections</i> <i>C is not correct because the data relates to the government's budget</i> <i>D is not correct because the data relates to the government's budget</i>	(1)

Q24.

Question	Quantitative skills assessed	Answer	Mark
		B	(1)

Q25.

Question	Draw a LRAS and AD diagram to show the effect of this net migration on the price level and real output for New Zealand.	Mark
	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms	

	Knowledge Correctly drawn original LRAS/AD diagram with correctly labelled LRAS/AD curves and axes (1) Application Up to 3 marks for the following information included on the diagram: • Drawing LRAS shifted to the right (1) • New equilibrium showing correct lower price level (1) (not rewarded if 'price' is used on axis) • New equilibrium showing correct higher real output/income/GDP/Y (1) (not rewarded if 'quantity' is used on axis) NB also allow LRAS/AD diagram showing both an increase in LRAS and an increase in AD as follows • Drawing LRAS and AD shifting to the right (1) • New equilibrium showing correct price level (1) (not rewarded if 'price' is used on axis) • New equilibrium showing correct higher real output/income/GDP/Y (1) (not rewarded if 'quantity' is used on axis) NB if only AD curve is shifted then maximum of 2 marks	(4)
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Q26.

Question Number	Quantitative skills assessed	Answer	Mark
	QS1: Calculate, use and understand ratios and fractions	The only correct answer is D <i>A is not correct because the value of the multiplier ratio is 2</i> <i>B is not correct because the value of the multiplier ratio is 2</i> <i>C is not correct because the value of the multiplier ratio is 2</i>	(1)

Q27.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The only correct answer is C <i>A is not correct because this will decrease the value of the multiplier</i> <i>B is not correct because this will decrease the value of the multiplier</i> <i>D is not correct because this will decrease the value of the multiplier</i>	(1)

Q28.

Question	With reference to the table, calculate the value of the multiplier for this economy. Show your workings.	Mark
	Knowledge 1, Application 3 Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions QS9: Interpret, apply and analyse information in written, graphical and tabular forms Knowledge 1 mark for knowledge of multiplier formula Multiplier = $1/\text{MPW}$, where $\text{MPW} = \text{MPS} + \text{MPT} + \text{MPM}$ (1) or $1/(1-\text{MPC})$ Application Calculate that $\text{MPW} = 0.4 + 0.3 + 0.1 = 0.8$ (1) Calculate that multiplier = $1/0.8$ (1) = 1.25 (1) NB If the correct answer is given (1.25), award full marks regardless of working NB If the answer is given as \$1.25/1.25%, award only 3 marks	(4)

Q29.

Question	With reference to Extract A, analyse the likely effect of France's trade balance in April 2020 on its circular flow of income.	Mark
	Knowledge 2, Application 2, Analysis 2 Quantitative Skill Assessed QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms Knowledge 1 mark for understanding of 'circular flow of income', e.g., - a model showing how money flows between households and firms in an economy/ - diagrammatic representation of the circular flow of income (1) 1 mark for understanding of 'trade balance', e.g., - the value of a country's exports minus the value of its imports/ $(X-M)$ (1) Analysis Up to 2 marks for explaining the impact on the circular flow, e.g., - There will be a <u>net</u> withdrawal (1) from France's circular flow <i>Ceteris paribus</i>, the flow of money in the circular flow would have decreased (1) <i>Ceteris paribus</i>, there would have been a negative multiplier effect (1) - Less injections / less withdrawals from France's circular flow (1) Application Up to 2 marks for use of the data or reference to context, e.g., - France was running a negative trade balance/trade deficit (1) of €5 billion (1) in April 2020 - Exports fell at a quicker rate than imports (1) increasing the size of the trade deficit (1) - Value of exports from France fell by 32.4% / to €23.7 billion (1) - Value of imports into France fell by 25% / to €28.7 billion (1)	(6)