PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



MARK SCHEME

UNIT 4: BALANCE OF PAYMENTS, EXCHANGE RATES AND INTERNATIONAL COMPETITIVENESS

SCORE	PERCENTAGE
/256	%

STEMUP

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Mark Scheme

Q1.

Question	With reference to Figure 3 and Extract A, analyse **two** factors, other than changes in interest rates, that may have led to a depreciation of the Turkish lira. **Answer**	**Mark**
	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 marks for identifying two factors and up to two marks for linked explanations showing the factors that may have led to a depreciation of the Turkish lira, e.g.: • If Turkey's inflation rate is higher **(1K)** than its trading partners, the demand for the lira will decrease, hence reducing the value of the lira **(1AN)** • Large current account deficit **(1K)** implies that the supply of the lira will be high relative to the demand/less demand for lira due to lower value of exports, hence value of lira would fall **(1AN)** • Increase in capital flight **(1K)** may result in the lira being sold to buy dollar assets; increasing the supply of the lira in the foreign exchange markets, causing value of the lira to fall **(1AN)**	

	• Weak state of the economy **(1K)** would lower the confidence of speculators and foreign investors thereby reducing the demand for the lira, causing its value to fall **(1AN)** **Application** Up to 2 marks for application to the factors: • Figure 3 shows that between 2018 and 2020, the exchange rate depreciated by nearly 100% **(1+1)** • The Turkish currency depreciated from around $1 = 4 lira **(1)** to $1 = 8 lira **(1)** • Central Bank was concerned about the weakness of the lira and a high rate of inflation **(1)** • Economists warned that that the risk of a financial crisis in Turkey was growing **(1)** • Demand and supply diagram showing a fall in exchange rate **(1)**	**(6)**

Q2.

Question Number	With reference to Figure 1, Figure 2 and Extract A, analyse **two** reasons why 'Many EU countries experienced strong economic growth after 2012' (Extract A, lines 2-3). Answer	Mark
	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** Up to 2 marks for knowledge of two reasons for economic recovery and one mark for linked expansion of each reason (2+2), e.g.: • Increase in investment **(1)** will increase the capital stock of the economy and increase the potential output shifting LRAS to the right **(1)** • Increase in consumption/consumer spending **(1)**, which is the biggest component of AD, will cause AD to rise **(1)** • Increase in net exports **(1)**, an injection into the circular flow, will increase (X-M) as a component of AD, will cause AD to rise **(1)** **Application** Up to 2 marks for application to the reasons for economic recovery (1+1): • Figure 1: Economic growth increasing since 2012 **(1)** • Figure 2: data showing an increase in FDI (% of GDP) between 2014 and 2016 **(1)** • Extract A: In 2018, household expenditure rose by 2%/ EU benefited from expansion in global trade **(1)**	**(6)**

Q3.

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 A** ***B*** *is not correct because this relates to a current account surplus* ***C*** *is not correct because this relates to the public finances* ***D*** *is not correct because primary income is a component of the current account*	**(1)**

Q4.

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 C** ***A*** *is not correct because this does not relate to the current account of the balance of the payments* ***B*** *is not correct because this relates to a fiscal/budget deficit* ***D*** *is not correct because this does not relate to the current account of the balance of the payments*	**(1)**

Q5.

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 D** ***A*** *is not correct because the trade balance relates to the current account* ***B*** *is not correct because the trade balance relates to the current account* ***C*** *is not correct because the value of imports is less than the value of exports*	**(1)**

Q6.

Question	In 2022 Indonesia's current account surplus was 1% of its GDP. With reference to line 26 of Extract A, calculate Indonesia's GDP in 2022. You are advised to show your working. **Answer**	Mark
	Application 2 Quantitative skills assessed: **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. Up to 2 marks for calculations: • $13.2 billion x 100 **(1)** • $1 320 billion / $1,320,000,000,000 **(1)** **NB** Award 2 marks for correct answer (1 320 billion / 1.32 trillion) **NB** Award only 1 mark for $1 320 / 1 320% / 1.32 billion	**(2)**

Q7.

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 C** ***A*** *is not correct because this could have caused an appreciation in the exchange rate of the euro against the US dollar* ***B*** *is not correct because this could have caused an appreciation in the exchange rate of the euro against the US dollar* ***D*** *is not correct because this could have caused an appreciation in the exchange rate of the euro against the US dollar*	**(1)**

Q8.

Question	In 2019 the current account deficit on the balance of payments in Turkey was US$47.4 billion and in Argentina it was US$31.3 billion. Evaluate the disadvantages of a current account deficit to a developing country of your choice. **Indicative content**
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • Understanding of current account deficit • All current account deficits need to be financed and if they are substantial this can become a significant problem; it may cause reduction in reserves and need to borrow from IMF • The lack of international competitiveness may indicate lower economic growth and increasing unemployment • Trade in goods deficit might be quite difficult to finance; it may require higher interest rates or sale of assets • Might cause a depreciation in the country's exchange rate, with possible inflationary pressures and increased debt burden if held in foreign currency • Net leakage from circular flow of income could cause a fall in AD, leading to fall in output, employment and income via the multiplier effect • Deficit may imply more reliance on consumer spending and becoming highly uncompetitive: structural weakness and uncompetitive manufacturing sector • Danger of increased use of protectionist policies by countries with trade deficits, which could distort comparative advantage • The financial crisis led to a downturn in economies of deficit countries - foreign financing used to pay for deficits fell due to lack of confidence **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country in their answer**

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
	• Current account deficit may be financed by the inflows in the capital and financial account of the balance of payments • The deficit may be a relatively small percentage of GDP and therefore is likely to be manageable • May be desirable if trade imbalances are caused by the imports of capital goods which would increase the country's productive capacity/potential output in the long run • Exchange rate might change to bring about a correction of the balance of payment deficit on the current account • Might only be a short-term problem; SR vs LR considerations • May not be a problem if the country holds large reserves of foreign currency

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.

Q9.

Question	Evaluate policies that can be used to prevent a country's exchange rate from depreciating. Refer to a developed country of your choice in your answer. **Indicative content**
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of government intervention in the currency markets Possible policies might include: • Sale of foreign currency/dollar (or gold) reserves on the foreign exchange market in order to decrease the supply of the yen • Purchase of domestic currency/yen in order to decrease the supply of the yen and increase the external value of the currency • Reduction in the money supply in the Japanese economy through reduced asset purchases (ending quantitative easing) • Increase in the (relative) interest rates in Japan: this will result in greater hot money flows and increase the demand for the yen • Pegging currency against a more stable currency, e.g. dollar, will fix the exchange rate and prevent further depreciations • Other policies to encourage inflow of FDI and/or portfolio investment into Japan; will increase demand for the yen • Other policies to restrict outflow of funds from Japan (e.g. through remittances, repatriation of profits, capital flight etc.); will reduce the supply of yen • Policies to reduce demand for foreign currencies e.g. protectionism **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer**

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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

- Prioritisation/comparison of the effectiveness of different policies
- Significance of the causes discussed: a combination of factors is likely to have a larger impact on the exchange rate – "fell by 35%"
- Use of monetary policies may cause conflicts with other macroeconomic objectives/policies
- Ability of the government to sell its reserves/dollar depends on the value of reserves/dollar held, and its international value
- Problems of currency stabilisation: depletion of foreign exchange reserves/ foreign currency gap – "cost the Japanese Government $20.8 billion"
- Possible political/ethical issues surrounding the selling of reserves
- Relative interest rate is more important than interest rate in determining hot money flows

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	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.

Q10.

Question	In 2021 Singapore's surplus on its current account of the balance of payments was over $60 billion. Evaluate possible causes of a current account surplus. Refer to a developed country of your choice in your answer. **Indicative content**
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application and Analysis (12 marks) – indicative content • Understanding of current account surplus • Higher productivity – more educated/skilled workforce, reducing unit costs and therefore more competitive in terms of labour costs • Fall in the external value/depreciation of a country's currency – makes exports relatively cheap and imports relatively more expensive • Relatively low inflation rates – Singapore's rate of inflation is relatively lower than most developed countries • Increase in demand for goods and services from the rest of the world • Falling real wages/incomes in Singapore, reducing demand for imports • Lower regulation/bureaucracy in Singapore, reducing costs of production • Protectionist policies designed to reduce country's dependence on imports • Reputation for producing high quality and highly reliable goods/services • Previous investment in modern technology, e.g. on machinery/equipment • Rise in price of key commodity exported, e.g. Singapore and petroleum • Firms in Singapore benefiting from external economies of scale • Abundance of raw materials – highly demanded by other countries, e.g. Saudi Arabia and oil • Increase in the world price of commodities; more relevant to countries in which commodities are a high proportion of exports **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer**

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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
	• Short-run versus long-run considerations: reasons why surplus may not be maintained over the longer term • Significance of causes of current account surplus change over time • Prioritisation of causes: e.g. rising petroleum prices may be the most important • Inadequacies of data: the data provided is only for one year; it is likely that the surplus may not be maintained over a longer time period • Hard to identify if Singapore's surplus is relatively small or large: perhaps surplus as a percentage of GDP would be more significant • Different combinations of causes affect different countries • Depends on which component of current account is causing the surplus

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.

Q11.

Question Number	Between January and August 2018, Turkey's currency, the lira, depreciated by nearly 40% against the US dollar. Evaluate the economic effects of a depreciation of a country's currency. Refer to a country of your choice in your answer. Indicative content
	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, Analysis (12 marks) – indicative content Understanding of currency depreciation • An improvement in the current account position of the balance of payments as exports would become relatively cheaper and imports become relatively more expensive, improving Turkey's international price competitiveness • Increase in net exports due to greater injections and lower leakages, thereby increasing aggregate demand: leading to economic growth and higher living standards in Turkey • Reduction in unemployment/increase in employment as there will be greater demand for labour (derived demand) due to economic growth and increased tourism in Turkey • Inflationary pressures are likely to increase as aggregate demand increases. The depreciation may cause an increase in the cost of imported raw materials and finished goods leading to cost-push inflation. • More inward FDI flows into Turkey and less outward FDI flows from Turkey, thereby improving the financial account position of the balance of payments **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country in their answer** **N.B. Award positive effects as KAA and negative as evaluation (or vice versa)**

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 • Impact on the current account depends on PED for imports and exports and if the Marshall-Lerner condition is met (reference to J-curve effect). The fall in external value of the currency will not improve non-price competitiveness • Aggregate demand may not increase as the effect of increase in net exports can be offset by other components, such as consumption or investment. The impact on economic growth depends on the size of the multiplier • Impact on the reduction in unemployment is likely to be limited if there is underemployment in Turkey • Inflationary pressures may not increase if firms in Turkey cut profit margins or if productivity rises. Rising inflation also depends on the extent to which the higher costs are passed on to consumers • Other factors affect FDI decisions, e.g. tax, confidence. Firms can repatriate profits, interest and dividends – this represents an outflow from the primary income component of the current account • Economic impact will largely depend on extent of the depreciation of the currency and whether it is short or long term depreciation • Turkish Lira depreciated 40% which is a large depreciation which will have a large impact on the Turkish economy

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.

Q12.

Question	Between September 2021 and September 2022 the US dollar appreciated by nearly 18% against the euro. Evaluate the likely economic effects of an appreciation of a country's currency on its economy. Refer to a developed country of your choice in your answer. **Indicative content**
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application, Analysis (12 marks) – indicative content Understanding of currency appreciation Economic effects include: • Less inward FDI flows into the USA and more outward FDI flows from the USA, thereby worsening the financial account position of the balance of payments • A worsening in the current account position of the balance of payments as exports would become relatively expensive and imports become relatively cheap, worsening USA's international price competitiveness • Decrease in net exports due to lower injections and higher leakages, thereby decreasing aggregate demand: leading to lower economic growth and living standards in the USA • Increase in unemployment/decrease in employment as there will be lower demand for labour (derived demand) due to less economic growth and less tourism in the USA • Inflationary pressures are likely to decrease as aggregate demand decreases. The appreciation may cause a decrease in the cost of imported raw materials and finished goods, leading to less cost-push inflation • Improvement in the USA's terms of trade • Fall in debt burden for the US Government and for USA-based banks with external debts **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer** **N.B. Award positive effects as KAA and negative effects as evaluation (or vice versa)**

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.
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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 • Impact on the current account depends on PED for imports and exports and if the Marshall-Lerner condition is met (reference to J-curve effect); the rise in external value of the currency will not improve non-price competitiveness • Aggregate demand may not decrease as the effect of the decrease in net trade can be offset by other components, e.g. consumption or investment; the impact on economic growth depends on the size of the multiplier • Inflationary pressures may not decrease if firms in the USA increase profit margins or if productivity falls; falling inflation also depends on the extent to which the lower costs are passed on to consumers • Other factors affect FDI decisions, e.g. tax, confidence, interest rates, etc • Lower inflationary pressures would increase the real value of debt • Economic impact will largely depend on extent of the appreciation of the US dollar and whether it is short-term or long-term appreciation • The US dollar appreciated 18% over a year which is a large appreciation and may have a considerable impact on the US economy

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	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.

Q13.

Question Number	Indicative content
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application, Analysis (12 marks) – indicative content • Understanding/explanation of current account deficit • Identification of the components of the current account Causes of a current account deficit may include: • Overvalued currency that may have contributed to the loss of international competitiveness as exports become relatively more expensive and imports becomes relatively cheaper • Relatively low productivity has meant that goods and services are not competitive as export prices would be high due to higher cost per unit of producing goods and services • Low levels of investment in human capital (lack of investment in education and training), which reduces skill levels relative to trading partners and restricts countries from selling high value exports • Relocation/offshoring of manufacturing industries to countries with low relative unit labour costs and weak regulations as countries are unable to compete with goods produced by relatively low wage far-east countries • Economic growth leads to high marginal propensity to import as people have more disposable income to consume. This increases imports of goods • Economies may have experienced a relatively high inflation rate, which makes exports less competitive and imports more competitive • Slowdown in other countries/trading partners will reduce their demand for imports and therefore they will buy less of a country's exports • Deterioration in other elements of the current account (current transfers and investment income) • An increase in protectionism/trade barriers by trading partners **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country in their answer**

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 • Different factors are important for different countries: for example, UK has a negative current account balance due to its low productivity whereas India is one of the fastest growing nations in the world • Significance of factors in short run and long run: may be short-term only as when economic growth falls, current account deficits could decrease again • Some companies are returning back/reshoring as labour and transportation costs have been increasing in far-east countries. Likely to improve current account performance in the future • If inflation is similarly high or higher in countries where the imported goods originate from, there is no significant change in price competitiveness • Depends on the marginal propensity to import of a country. If the marginal propensity to import is high, then the rise in income due to economic growth will have a larger effect on the current account deficit, since it indicates that imports will vary closely with changes in income • The data provided is for one year only – may not be significant compared to previous years. There is inadequate data to draw conclusions

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.

Q14.

Question	With reference to the third paragraph of Extract A, examine **two** measures that the Government of Greece could take to increase the country's international competitiveness. **Answer**	Mark
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 marks for identifying two measures and up to 2 marks for linked explanations, e.g.: • Greater investment in infrastructure **(1K)** e.g. through improved transport links and communications will encourage more trade and lead to increase efficiency **(1AN)** • Greater investment in human capital **(1K)** e.g. education and training will improve skills (reduce skills gap) and productivity, which will lower cost per unit **(1AN)** • Greater investment in healthcare **(1K)** would create a more productive workforce. This would increase GDP and allow for improvements in the quality of output **(1AN)**	

	Application Up to 2 marks for application to Extract A, e.g.: • The European Central Bank (ECB) advised the Greek Government to make *capital* investments **(1)** • Greece's international competitiveness was significantly lower compared to the other members of the eurozone **(1)** • Its competitiveness rank was 47 out of 63 countries with similar economic prospects **(1)** **Evaluation** Up to 2 marks for evaluative comments: • Increase in budget deficit/national debt **(1)** and hence resulting in crowding out (resource or financial)/use of data **(1)** • Opportunity costs of government spending e.g. more expenditure on infrastructure/human capital/healthcare may mean less for the business sector, especially in the short-run **(1+1)** • Time lags/implementation lags may mean measures take a long time to come into effect **(1)** but these might not be financially sustainable for Greece in the long-run **(1)** • If government investments lead to demand-pull inflation due to greater injections **(1)** it could reduce price competitiveness **(1)** • Magnitude of these investments must be significant **(1)** to have a considerable impact on Greece's economy **(1)** • Spending likely to increase the possibilities of government failure **(1)** as the costs of these measures may outweigh the benefits **(1)** • The Government of Greece may have limited scope in introducing some of these measures **(1)** as the IMF sets conditions for its loans in relation to government spending **(1)**	**(8)**

Q15.

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 C** ***A*** *is not correct because devaluation happens in a fixed exchange rate* ***B*** *is not correct because revaluation happens in a fixed exchange rate* ***D*** *is not correct because there is a decrease in the exchange rate*	**(1)**

Q16.

Question	With reference to Figure 2 and first paragraph of Extract A, examine **two** likely effects of the depreciation of the rupee against the US dollar **Answer**	**Mark**
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 marks for identifying two effects and up to 2 marks for linked explanations, e.g.: • Improvement in Pakistan's current account position of the balance of payments / worsening of Pakistan's terms of trade **(1K)** as its exports become relatively cheaper/its imports become relatively more expensive **(1AN)** • Higher economic growth/lower unemployment in Pakistan **(1K)** due to rise in net exports and AD (can show diagrammatically) **(1AN)** • Inflationary pressures are likely to increase **(1K)** as a result of an increase in aggregate demand/increase in cost of imports leading to a decrease in SRAS (can be shown diagrammatically) **(1AN)** • More inward FDI flows into Pakistan and less outward FDI flows from Pakistan **(1K)** hence improving its financial account **(1AN)**	

	Application Up to 2 marks for application to Figure 2 or Extract A, e.g.: • The value of rupee against the dollar depreciated from Rs 175 per dollar to Rs 205 per dollar **(1)** • Between January and June 2022 the rupee depreciated by around 17%/Rs 30 against the US dollar **(1+1)** • This was mainly as a result of rising global inflation rates / the strong appreciation of the dollar **(1)** **Evaluation** Up to 2 marks for evaluative comments: • Impact on current account depends on PED for imports and exports **(1)** and if Marshall-Lerner condition is met (J-curve reference) **(1)** • Aggregate demand may not increase as the effect of increase in net exports can be offset by a decrease in other components **(1+1)** • Firms can repatriate profits, interest and dividends **(1)**: this is an outflow from the primary income component of current account **(1)** • Time period/SR vs LR considerations **(1)**: exchange rate is volatile and is expected to "increase in the third quarter of 2022" **(1)** • Magnitude of depreciation is relatively large (17%) **(1)** hence the impact on Pakistan's economy is likely to be very significant **(1)**	**(8)**

Q17.

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** ***A*** *is not correct because the central bank would sell US dollars* ***C*** *is not correct because this would further depreciate the yen against the US dollar* ***D*** *is not correct because the central bank would buy Japanese yen*	**(1)**

Q18.

Question Number	Quantitative skills assessed	Answer	Mark
	QS4 Construct and interpret a range of standard graphical forms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is incorrect as AD is likely to shift to the left as a result of falling net exports* ***C*** *is incorrect as SRAS is likely to shift to the right as a result of the falling costs of imports for firms* ***D*** *is incorrect as SRAS is likely to shift to the right as a result of the falling costs of imports for firms/AD likely to shift to the left as a result of falling net exports*	**(1)**

Q19.

Question	In 2022 Pakistan's currency, the rupee, fell by 27% against the US dollar. Evaluate factors that might cause a depreciation of the exchange rate of one currency against another currency. Refer to a developing country of your choice in your answer. **Indicative content**
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of the depreciation of an exchange rate Factors include: • Relative inflation rates: reference to purchasing power parity theory – e.g. if inflation in Pakistan is relatively higher than elsewhere, then Pakistan's exports will become less competitive, and there will be a fall in demand for rupee. Hence, higher inflation rates will lead to a depreciation of the rupee • Relative interest rates – e.g. if Pakistan's interest rate falls relative to other countries, it will become less attractive to deposit money in Pakistan. There will be less hot money flows and the demand for the rupee will fall, and the currency would depreciate • Speculation – e.g. if speculators believe the rupee will fall in the future, they will demand less of the currency now. This fall in demand will cause its value to fall. Therefore, the currency would depreciate • Balance of payments: current account balance – e.g. if there is a persistent current account deficit, it would lead to a greater supply of currency relative to demand leading to a fall in exchange rate and the rupee will depreciate • Relative strength of the economy: debt crisis – e.g. if markets feared that Pakistan's Government may default on its debt, then investors would sell their bonds causing a fall in the value of the rupee exchange rate • Developing countries tend to rely on exports of primary products that are often volatile in price, and this can have an impact on the exchange rate – e.g. if prices of commodities fall, the exchange rate of exporting countries will depreciate (reference to "commodity currencies") • Macroeconomic management – e.g. quantitative easing/asset purchases has caused a depreciation in the value of some currencies such as Chile, Poland • Allow analysis based on government/central bank manipulation of exchange rate through the buying and selling of the currency • Political instability/capital flight/reduction in FDI might result in depreciation • The strength of the US economy has led to the appreciation of the US dollar against many other currencies **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country in their answer**

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
	• Discussion of the most significant factor, e.g. speculation; confidence about the future state of the economy • Significance of factors in changes over time/short-run and long-run • Combination of factors will have a greater impact on exchange rate • Different factors will be important for different developing countries • Impact depends on the magnitude of the change in exchange rate/factors • Current account is relatively minor because other capital flows are much more significant – discussion of financial account position • Comparison with developed countries, e.g. in Japan's case, the national debt of over 230% has not prevented an appreciation of its currency • The underlying strength of the economy is more important than short-term macroeconomic management

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.

Q20.

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** ***A*** *is not correct because this is associated with a floating exchange rate* ***C*** *is not correct because this is associated with a floating exchange rate* ***D*** *is not correct because this is when the value of the currency increases in a fixed exchange rate system*	**(1)**

Q21.

Question	In 2020 New Zealand's productivity rate was 40% lower than the average productivity of many other advanced economies. Evaluate factors that influence a country's international competitiveness. Refer to a developed country of your choice in your answer. **Indicative content**
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application and Analysis (12 marks) – indicative content • Understanding of international competitiveness • The significance of productivity: ○ Productivity is the output per worker per hour worked; link may be made to the quality of human capital ○ Relatively low productivity increases cost per unit and raises export prices ○ Relatively low productivity reduces exports and hence makes them less internationally competitive • Exchange rate – affects both import and export prices; e.g. an appreciation/ revaluation of the currency will make imports relatively cheaper and exports relatively more expensive; hence imports will become more internationally competitive and exports will become less internationally competitive • Relative wage and non-wage costs – higher the unit labour costs, greater will be the cost per unit and this would reduce the international competitiveness: high in advanced economies • Regulations – e.g. environmental; health and safety increase the cost of doing business hence raising prices of exports and reducing the country's international competitiveness: high in advanced economies • The quality of infrastructure – poor infrastructure reduces efficiency and adds to cost per unit; this increases the export prices making domestic goods/services less internationally competitive • Non-price factors: better quality, design, reliability, and after-sales service will increase international competitiveness • Relative inflation rates – affect relative price of exports; if inflation rates are high, export prices rise, and they become less internationally competitive • Relative tax rates, e.g. corporation tax rate, employers' national insurance tax rates – if high, it would increase average costs, reduce incentives and competitiveness of exports **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to**

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

- Significance of the most important factor, e.g. productivity is likely to be very important for New Zealand as its productivity is 40% lower than many other advanced economies
- Productivity may not be significant if wage costs are low; it is also difficult to measure productivity, especially for the service sector which contributes the most to advanced economies
- The exchange rate is particularly important for goods and services which are homogeneous and/or price elastic; forward contracts may limit significance of short-term changes in the exchange rate
- The competitiveness of a country's goods is unlikely to be the same as the competitiveness of its services
- High wage and non-wage costs might be offset by very high productivity in some countries, e.g. Norway, Denmark
- Regulations may not be a significant factor as most advanced economies have nearly the same level/standard of regulations in place
- Poor quality of infrastructure may be addressed by a TNC which, for e.g., builds roads to improve transport links
- A high rate of inflation may be offset by exchange rate depreciation
- Corporation tax may have more significant implications for foreign FDI

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.

Q22.

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 C** ***A*** *is not correct because this will increase India's international competitiveness* ***B*** *is not correct because this will increase India's international competitiveness* ***D*** *is not correct because this will increase India's international competitiveness*	**(1)**

Q23.

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 A** ***B*** *is not correct because there will be a fall in both unit labour costs and export prices* ***C*** *is not correct because there will be a fall in both unit labour costs and export prices* ***D*** *is not correct because there will be a fall in both unit labour costs and export prices*	**(1)**

Q24.

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 D** ***A*** *is not correct because this is likely to decrease a country's exchange rate* ***B*** *is not correct because this is likely to decrease a country's exchange rate* ***C*** *is not correct because this is likely to decrease a country's exchange rate*	**(1)**

Q25.

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 D** ***A*** *is not correct because there will be a rise in both unit labour costs and export prices* ***B*** *is not correct because there will be a rise in both unit labour costs and export prices* ***C*** *is not correct because there will be a rise in both unit labour costs and export prices*	**(1)**

Q26.

Question Number	Quantitative skills assessed	Answer	Mark
	QS5: Calculate and interpret index numbers. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because the price of Afghanistan's imports have fallen relative to the price of its exports* ***B*** *is not correct because the average price of Afghanistan's exports have increased relative to the average price of its imports* ***D*** *is not correct because there will be no impact on the financial account of the balance of payments*	**(1)**

Q27.

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 C** ***A*** *is not correct because import prices rise and export prices fall* ***B*** *is not correct because this relates to the fiscal position and not balance of payments* ***D*** *is not correct because this is due to a fall in interest rates*	**(1)**

Q28.

Question	Analyse the likely impact of an increase in the base interest rate on 'Zambia's balance of trade with South Africa' (Extract A, line 15). **Answer**	Mark
	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Application** Up to 2 marks for application: • Bank of Zambia raised the base interest rate by 1.75 percentage points / to 11.5% **(1)** • Change in the interest rate affected Zambia's exchange rate **(1)** • Over 55% of Zambia's imports are from South Africa **(1)** **First Approach** **Knowledge and analysis** Up to 2 marks for knowledge and up to 2 marks for analysis: • Appreciation of the kwacha/ increase in the exchange rate **(1K)** • due to an increase in the demand for kwacha **(1AN)** • leading to exports becoming relatively more expensive/ value of exports will decrease **(1AN)** • and thus decrease in demand for exports **(1AN)** **OR** • Appreciation of the kwacha/ increase in the exchange rate **(1K)** • due to an increase in the demand for kwacha **(1AN)** • leading to imports becoming relatively less expensive/ value of imports will increase **(1AN)** • and thus increase in demand for imports **(1AN)** • Balance of trade with South Africa is likely to worsen **(1K)**	

	Alternative approach **Knowledge and analysis** Up to 2 marks for knowledge and up to 2 marks for linked analysis: • Increase in interest rate will increase the cost of borrowing/ reward for saving **(1K)** • which is likely to reduce consumption on imports **(1AN)** • due to lower marginal propensity to import **(1AN)** • and thus decrease in demand for imports **(1AN)** • Balance of trade with South Africa is likely to improve **(1K)**	**(6)**

Q29.

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 D** ***A*** *is not correct because the Lorenz curve relates to inequality not to GDP per capita* ***B*** *is not correct because the Lorenz curve does not illustrate changes in income tax* ***C*** *is not correct because the Gini coefficient of Country A is smaller than it is for Country B*	**(1)**

Q30.

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** ***A*** *is not correct because stricter regulation of the product markets will reduce South Korea's international competitiveness* ***C*** *is not correct because more restrictions on free trade will reduce South Korea's international competitiveness* ***D*** *is not correct because a reduction in spending on education and training will reduce South Korea's international competitiveness*	**(1)**

Q31.

Question Number	Quantitative skills assessed	Answer	Mark
	QS1: Calculate, use and understand ratios and fractions. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because export prices of UK goods and services would be higher than the average export prices of its trading partners* ***C*** *is not correct because unit labour costs in the UK would be higher than the average of its trading partners* ***D*** *is not correct because the UK would experience an improvement in its terms of trade*	**(1)**

Q32.

Question	With reference to Figure 3, analyse the likely impact of the change in the average monthly earnings of manufacturing employees on Vietnam's international competitiveness. **Answer**	Mark
	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 knowledge mark for understanding the term 'international competitiveness', e.g.: • Ability of a country to produce and sell its goods/services at a price/quality that is attractive in international markets / Ability of a country to compete in international markets / Attractiveness of goods/services in the global markets **(1)** *AND* 1 knowledge mark for identifying the impact: • Could reduce Vietnam's international competitiveness **(1)** **Analysis** Up to 2 analysis marks for linked development (1+1), e.g.: • Increase in average monthly earnings is likely to increase unit labour costs/cost of production **(1)** causing an increase in the price of Vietnam's exports **(1)** • Increase in average monthly earnings is likely to increase export prices **(1)** and this may reduce demand for Vietnam's exports **(1)** • Increase in average monthly earnings is likely to cause a rise in domestic prices **(1)** resulting in an increase in imports **(1)** • Firm's supernormal profits fall **(1)** resulting in less funds for investment in innovation/improving quality **(1)** **Application** Up to 2 marks for use of Figure 3, e.g., • Vietnam's average monthly earnings increased **(1)** from around $180 in 2012 to around $300 in 2020 **(1)** • Between 2012 and 2020 Vietnam's average monthly earnings increased **(1)** by around $120 **(1)**	**(6)**

Q33.

Question	With reference to the information provided and your own knowledge, discuss measures, **apart** from promoting FDI, that the Government of Vietnam could use to increase the country's international competitiveness. **Indicative content**
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (8 marks) – indicative content** Measures include: • Developments to the infrastructure through improved access to energy, transport links and communications will lead to increased efficiency and reduce firms' cost per unit. This policy will address the "weak physical infrastructure, especially electricity network" • Privatisation/deregulation/trade liberalisation will increase competition in domestic markets making firms more efficient as the barriers to entry to markets will be lower. This would reduce cost per unit, and consequently, the market price. This policy will address "the costs of bureaucracy for firms are high" • Greater levels of / more targeted spending on education and training. This investment in human capital will improve skills (or reduce skills gap) and hence productivity levels, that will lower cost per unit. This policy will address "a shortage of skilled labour" • Incentives for exporters through tax breaks, reduction in corporation tax, subsidies, etc. This would allow them to undertake more investment as a result of lower costs and reduce export prices • Supporting entrepreneurship through greater access to business finance, e.g. incentives for business innovation, reduction in levels of bureaucracy • Credit any other measures that may be used to increase the country's international competitiveness

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. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. 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 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples that 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 (6 marks) – indicative content • Opportunity cost of government spending – e.g. more expenditure on subsidies/education/infrastructure may mean less for the business sector, especially in the short-run • If government investment/spending leads to demand-pull inflation due to greater injections, it could reduce Vietnam's price competitiveness • Unit labour costs are already relatively low, hence Vietnam may not lose its international competitiveness – "The country has an abundant supply of labour that will be cheap for a long time" • "The country's infrastructure was improving and becoming more modern" resulting in less need for infrastructure spending • Monopoly power (less competition) helps generate dynamic efficiency and benefits of economies of scale may be lost if monopolies are broken up • Levels of investment would depend on confidence in the future state of the economy; incentives may be insufficient/ineffective where confidence is low • Distinction between SR and LR; are these measures financially sustainable in the long-run? Time lags and implementation lags may mean measures take a long time to come into effect • Spending likely to increase the possibilities of government failure as the costs of these measures may outweigh the benefits that could be gained • Measures taken have to be considered in the context of a dynamic global economy where other countries are also increasing their international competitiveness • Government of Vietnam should take out a combination of measures to achieve an increase in the country's international competitiveness

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q34.

Question	Evaluate the likely effects of a decrease in productivity on a country of your choice. **Indicative content**
	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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** Understanding of productivity • The trade in goods and services balance: a fall in productivity might result in loss in competitiveness of the country's goods and services due to higher cost per unit and export prices; leading to a deterioration in trade balance • Economic growth: if net exports fall, AD may fall leading to a decrease in real output/increase in unemployment • Rate of inflation: a fall in productivity could cause a leftward shift in LRAS resulting in an increase in the average price level • Real wages: falling profits for firms and falling real wages for workers • FDI flows: may deter inward FDI which, in turn, can have adverse effects on growth and employment • Income distribution: it could become more unequal if workers' wages are related to productivity while those of managers are not • Tax revenues: may increase too slowly to maintain the current level of public services • Tax burden: may have to be increased to finance/maintain government spending **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country(s) in their answer**

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

- Deterioration in the trade balances may be offset by an improvement in the other components of the balance of payments
- Fall in economic growth may be offset by an increase in other components of AD / much will depend on changes in productivity in other countries
- A decrease in AD could offset any inflationary pressures
- Effects on real wages depends on the magnitude of the fall in productivity, e.g. 9% fall over 12 years is relatively small
- Effects on FDI flows may vary because of the differences in the fall in productivity in different sectors
- Effect on income distribution could be offset by other factors, for e.g. increases in means-tested benefits
- Difficulty in measuring productivity e.g. especially for the service sector
- Time period: the fall in productivity may only be in the short-run
- Effect depends on the main cause of/reason for the fall in productivity
- Effect depends on whether there has been a fall in absolute productivity or relative productivity

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.

Q35.

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 C** ***A*** *is not correct because the Central Bank of India would sell the US dollar* ***B*** *is not correct because this would cause a depreciation in the Indian rupee against the US dollar* ***D*** *is not correct because the Central Bank of India would buy the Indian rupee*	**(1)**

Q36.

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 C** ***A*** *is not correct because the central bank would sell the Canadian dollar and buy the UK pound sterling* ***B*** *is not correct because the central bank would sell the Canadian dollar and buy the UK pound sterling* ***D*** *is not correct because the central bank would sell the Canadian dollar and buy the UK pound sterling*	**(1)**

Q37.

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 C** ***A*** *is not correct because this will reduce Denmark's international competitiveness* ***B*** *is not correct because this will reduce Denmark's international competitiveness* ***D*** *is not correct because this will reduce Denmark's international competitiveness*	**(1)**