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Centre number

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Candidate number

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Surname *StemUp Model Solution*

Forename(s)

Candidate signature

I declare this is my own work.

INTERNATIONAL A-LEVEL ECONOMICS

Unit 4 Economic Development and the Global Economy

Monday 16 June 2025

07:00 GMT

Time allowed: 2 hours

Materials

For this paper you must have:

- the Source Booklet, provided as an insert (enclosed)
- a calculator, which you are expected to use where appropriate.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Sections A, B and C**.
- Answer **EITHER** Question 15 **OR** Question 16 in **Section D**.
- You must answer the questions in the spaces provided. Do **not** write outside the box around each page or on blank pages.
- Do **not** write in the Source Booklet.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 90.
- You may use a bilingual dictionary for this exam.
- You may **not** use an English dictionary.

For Examiner's Use	
Question	Mark
1–10	
11	
12	
13	
14	
15	
16	
TOTAL	



J U N 2 5 E C 0 4 0 1

Section A

Answer **all** questions in the spaces provided.

Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD 

WRONG METHODS    

If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

0 1

A country has a comparative advantage in the production of a good. This means that

[1 mark]

A it can produce more of the good with fewer resources than another country. 

B it can produce more of the good with more resources than another country. 

C the opportunity cost of producing the good is less than in another country. 

D the opportunity cost of producing the good is more than in another country. 

0 2

Which one of the following is usually a function of a country's central bank?

[1 mark]

A Carrying out fiscal policy for the government 

B Issuing shares to finance the government's budget deficit 

C Managing the country's foreign exchange reserves 

D Providing long-term loans to business 



0 3

The Global Multidimensional Poverty Index Report for 2023 stated that 534 million people in Sub-Saharan Africa were living in poverty, which was 47.8% of the world's poor. In South Asia, 389 million people were living in poverty.

It can be concluded that, in 2023, approximately

[1 mark]

A 42.1% of the world's poor were living in South Asia.

☐

B 57.9% of Sub-Saharan Africa's population were living in poverty.

☐

C 923 million people in the world were living in poverty.

☐

D 1117 million people in the world were living in poverty.

☒
0 4

A transnational corporation (TNC) uses components made in Country A to produce its final product in Country B.

The total cost of producing the components in Country A is \$100m and the transfer price for these components is \$150m. The total cost of producing the final product in Country B is \$360m. The TNC's total revenue from selling its final product is \$500 million.

The tax rate on the TNC's profits in Country A is 12% and the tax rate on the TNC's profits in Country B is 20%.

What is the total amount of tax the TNC has to pay?

[1 mark]

A \$8m

☐

B \$28m

☐

C \$34m

☒

D \$46m

☐

Turn over for the next question

Turn over ►



0 5

Which one of the following is most likely to help explain why there are significant fluctuations in the prices of primary products?

[1 mark]

- A** The cross elasticity of demand for primary products is inelastic. ☐
- B** The income elasticity of demand for primary products is inelastic. ☐
- C** The price elasticity of demand for primary products is inelastic. ☒
- D** The price elasticity of supply of primary products is elastic. ☐

0 6

Table 1 shows the birth rates and death rates (per thousand) for a selection of countries in 2000 and 2020.

Table 1

	2000		2020	
	Birth rate	Death rate	Birth rate	Death rate
Algeria	19.5	5.0	22.4	5.4
China	14.0	6.5	7.1	7.2
Italy	9.5	9.8	6.8	12.5
Thailand	13.5	6.0	9.2	7.3

The data in **Table 1** show that

[1 mark]

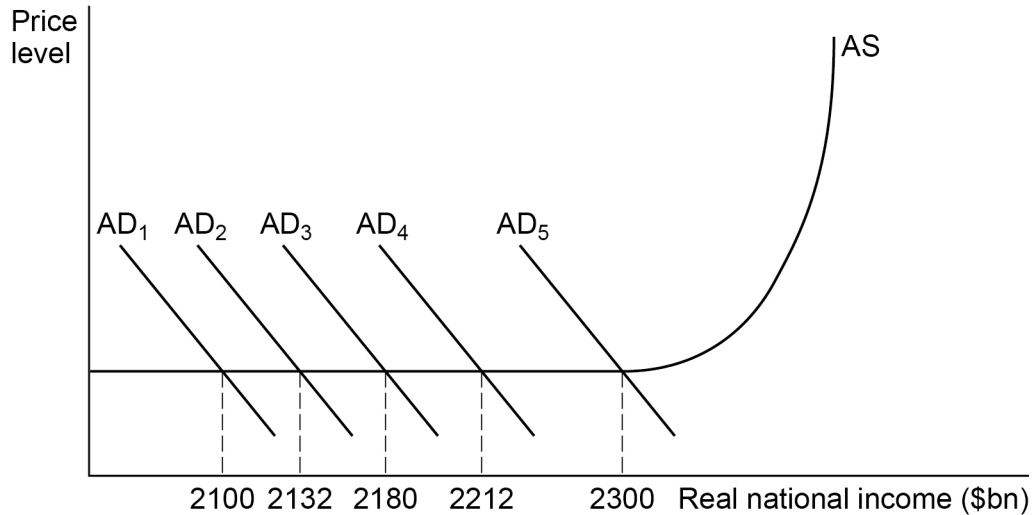
- A** the natural increase in the population of Algeria was higher in 2000 than 2020. ☐
- B** the natural increase in the population of China was 0.1% in 2020. ☐
- C** the natural increase in the population of Italy was higher in 2020 than 2000. ☐
- D** the natural increase in the population of Thailand was 0.75% in 2000. ☒



0 7

Figure 1 shows the aggregate supply (AS) and aggregate demand (AD) curves for an economy. The economy has high unemployment and its initial equilibrium level of real national income is \$2100bn.

Figure 1



To reduce unemployment, the government increases its spending by \$80bn. The marginal propensity to consume for the economy is 0.6.

As a result of this increase in government spending, the level of real national income is expected to rise to

[1 mark]

- A** \$2132bn. ☐
- B** \$2180bn. ☐
- C** \$2212bn. ☐
- D** \$2300bn. ☒

Turn over for the next question

Turn over ►



0 8

Which one of the following is a function of forward markets for commodities?

[1 mark]

- A** Allow the purchase of commodities now for delivery in the future
- B** Make it less likely that moral hazard will lead to market failure
- C** Provide funds for firms that wish to invest in producing commodities
- D** Reduce the risk of speculation and market bubbles

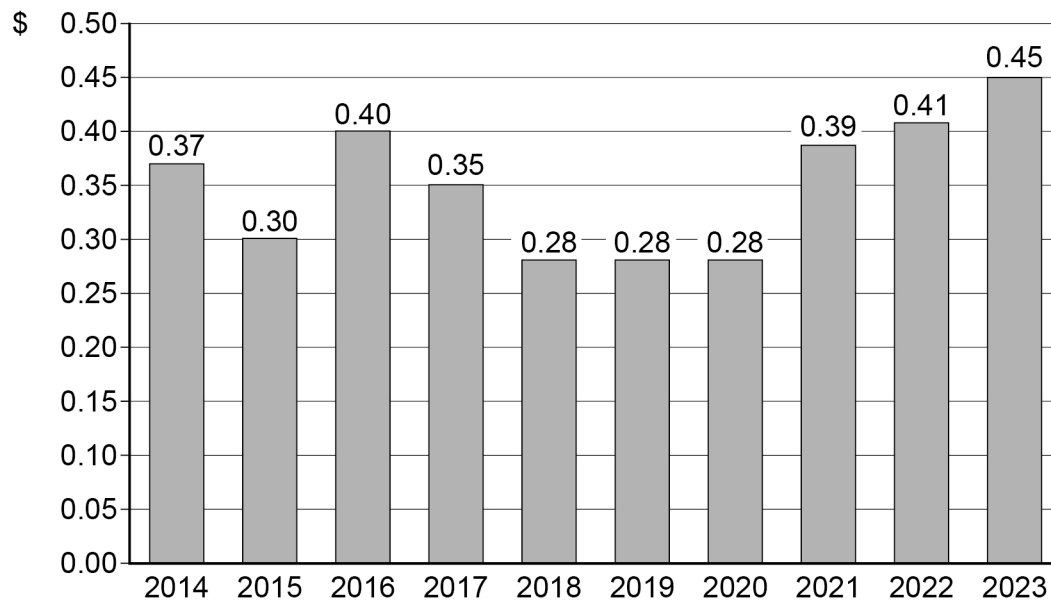
☒☐☐☐

0 9

Figure 2 shows the price of sugar from 2014 to 2023.

Figure 2

Price of sugar (US\$ per kg), 2014 to 2023

According to the data in **Figure 2**, what was the median price of sugar between 2014 and 2023?

[1 mark]

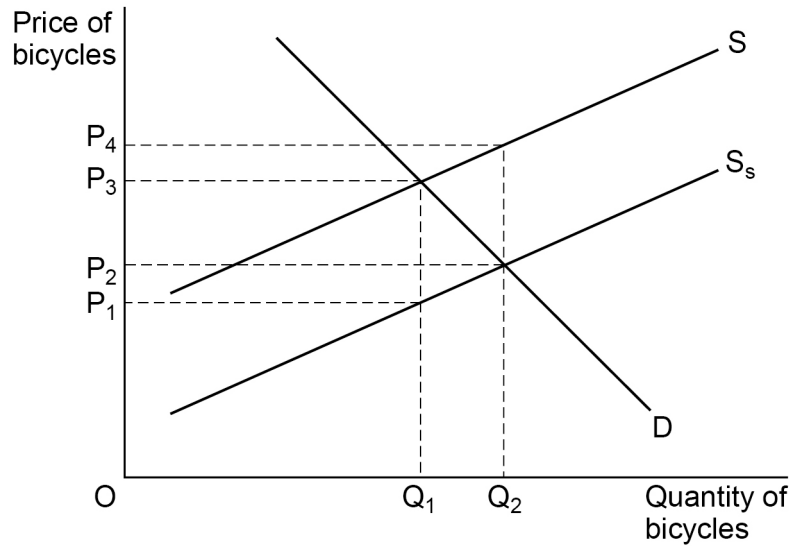
A \$0.28 per kg☐**B** \$0.35 per kg☐**C** \$0.36 per kg☒**D** \$0.38 per kg☐

1 0

The government of an African country decides to subsidise the production of bicycles to support domestic manufacturers and the development of its economy.

Figure 3 shows the initial demand (D) and supply (S) curves for bicycles, and the supply curve after the subsidy has been introduced (S_s).

Figure 3



How much will the government spend to subsidise the manufacturers of bicycles?

[1 mark]

A $(OP_3 - OP_1) \times OQ_1$

☐

B $(OP_3 - OP_2) \times OQ_2$

☐

C $(OP_3 - OP_2) \times (OQ_2 - OQ_1)$

☐

D $(OP_4 - OP_2) \times OQ_2$

☒

10

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Section B

Answer **all** questions in the spaces provided.

1	1
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Economic growth is an important macroeconomic indicator, measured by the percentage change in real national income. Some countries have imposed tariffs on imports to try to increase economic growth.

1	1	.	1
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Explain what is meant by 'change in real national income'.

[2 marks]

The increase or decrease in the value of the total output of goods and services produced by an economy over a period, measured at constant prices, so with the effects of inflation removed.



1 1 . 2

Table 2 shows the change in a country's nominal (money) GDP and an index of the price level in Year 1 and Year 2.

Table 2

	Year 1	Year 2
Nominal GDP (\$bn)	2576	2894
Index of the price level	122	134

Calculate the percentage change in the country's real GDP between Year 1 and Year 2.

Give your answer to **two** decimal places.

You are advised to show your working.

[4 marks]

$$\text{Real GDP in Year 2 at Year 1 prices} = \$2894\text{bn} \times 122/134$$

$$= \$2634.84\text{bn}$$

$$\% \text{ change in real GDP} = (2634.84 - 2576) \div 2576 \times 100$$

$$= 58.84 \div 2576 \times 100 = 2.284\%$$

$$\text{Answer} = 2.28\% \text{ (increase)}$$

Question 11 continues on the next page

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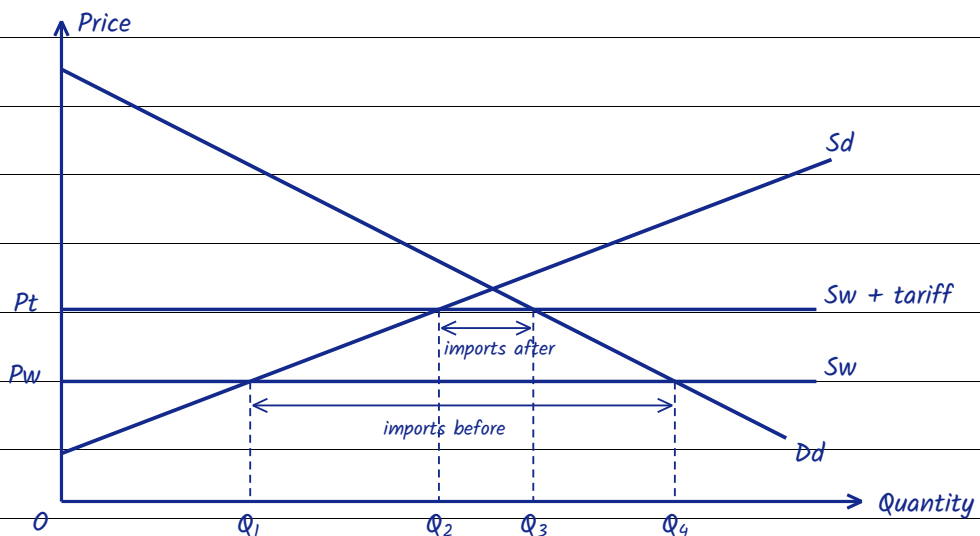


1 1 . 3

Explain, using a diagram, how imposing a tariff on the imports of a product is likely to affect the quantity of the product that is imported.

[4 marks]

Imports are goods bought from abroad. A tariff is a tax on imports, so it raises the price of the imported product in the domestic market from the world price P_w to $P_w + \text{tariff}$, shown as P_t . S_w is the world supply curve and $S_w + \text{tariff}$ the world supply after the tariff; D_d and S_d are domestic demand and supply.



Before the tariff, at P_w , domestic firms supply OQ_1 and consumers buy OQ_4 , so imports are Q_1Q_4 . The higher price causes a contraction in demand to OQ_3 , while domestic producers find it more profitable and extend supply to OQ_2 . Imports fall to Q_2Q_3 , a reduction of $Q_1Q_2 + Q_3Q_4$.



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ANSWER IN THE SPACES PROVIDED**

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Section C

Look at the Source Booklet and answer **all** questions in the spaces provided.

Do **not** write in the Source Booklet.

1 2

Extract A shows manufacturing output as a share of GDP and net trade in goods for Romania.

1 2 . 1

Explain why changes in a country's manufacturing output as a share of GDP are likely to affect its net trade in goods.

[4 marks]

Manufacturing is the production of finished and semi-finished goods in factories, and net trade in goods is the value of exports of goods minus the value of imports of goods. Trade in goods includes primary products, such as metals and food, as well as manufactures and semi-manufactures.

If manufacturing output falls as a share of GDP, the country has fewer manufactured goods to sell abroad, so exports of manufactures are likely to fall. Domestic demand for cars, machinery and consumer goods still has to be met, so more of these goods will be imported from abroad. Exports fall and imports rise, so net trade in goods worsens and a deficit is likely to grow.

On the other hand, a smaller manufacturing sector needs fewer imported raw materials and components. Also, if the decline in manufacturing reduces

Extra space *employment and incomes, spending on imports may fall. These effects could reduce imports and partly offset the deterioration in net trade in goods. A rise in manufacturing as a share of GDP would tend to have the opposite effects.*



1 2 . 2

To what extent do the data suggest that Romania's manufacturing output as a share of GDP affected its net trade in goods between 2012 and 2022?

Use the data in **Extract A** to support your answer.

[4 marks]

The data give some support to the view that a falling manufacturing share worsens net trade in goods. Between 2012 and 2022 manufacturing fell from 21.28% to 19.17% of GDP while the deficit in net trade in goods widened from -\$11 890m to -\$33 923m. Most clearly, between 2014 and 2020 manufacturing fell every year, from 21.51% to 15.86% of GDP, and the deficit increased every year, from -\$8820m to -\$21 676m.

However, there are several anomalies. Between 2012 and 2013 manufacturing fell from 21.28% to 20.22% of GDP but the deficit narrowed from -\$11 890m to -\$8069m. Between 2013 and 2014 manufacturing rose to 21.51% yet the deficit increased to -\$8820m. Between 2020 and 2022 manufacturing rose from 15.86% to 19.17% of GDP but the deficit grew sharply to -\$33 923m.

Extra space This suggests other factors were also important, such as rising world energy and commodity prices in 2021 and 2022, changes in the exchange rate, the growth of Romanian incomes raising demand for imports, and the type of manufactures Romania produces and how much of them are exported.

Overall, the manufacturing share explains part of the trend in net trade in goods, especially from 2014 to 2020, but it is not the only factor, as the period 2020 to 2022 shows.



1 3

Extract B (lines 9–10) states: ‘The growth of trading blocs has affected the geographical and commodity pattern of world trade.’

Explain how being a member of a trading bloc, such as the EU or the CPTPP, is likely to affect a country’s pattern of trade.

[12 marks]

A trading bloc is a group of countries that agree to reduce or remove barriers to trade between themselves. The EU is a customs union and single market, with free trade between members and a common external tariff on imports from non-members, while the CPTPP is a free trade area, in which members cut tariffs on each other's goods but each keeps its own tariffs on non-members. A country's pattern of trade is made up of the geographical pattern, which countries it trades with, and the commodity pattern, which goods and services it exports and imports.

Joining a trading bloc is likely to change the geographical pattern of trade towards other members. Removing tariffs and quotas lowers the price of goods imported from member countries, so consumers and firms buy more from them. Where a high-cost domestic producer is replaced by a lower-cost producer in a partner country, this is trade creation. At the same time, a common external tariff makes goods from non-members relatively more expensive, so imports may switch from a low-cost non-member to a higher-cost member. This is trade diversion, and it means a larger share of the country's imports comes from within the bloc. For example, most of Romania's trade is now with other EU countries such as Germany and Italy. Exports also become more concentrated on members. Firms have tariff-free access to a much larger market, and in a single market common product standards and fewer border checks reduce transaction costs, so it is cheaper to sell to other members than to countries outside the bloc. However, members of a customs union cannot sign their own trade deals, so trade



with some non-members may grow more slowly than it otherwise would. On the other hand, the bloc may negotiate trade agreements with other countries, such as the EU's deals with Japan and Canada, which also changes the geographical pattern.

Membership is also likely to change the commodity pattern of trade. Free trade within the bloc allows each member to specialise according to its comparative advantage. A country with relatively cheap labour may specialise in labour-intensive manufacturing, such as car components, while a high-wage member specialises in high-tech goods and financial services. Access to a larger market allows firms to benefit from economies of scale, lowering average costs and making the country more competitive in those goods, so they form a larger share of its exports. Free movement of capital encourages foreign direct investment, for example car plants, which can create new export industries. Much trade between members is intra-industry trade in similar products, such as cars and parts within integrated supply chains.

Finally, the internal policies of a bloc can affect trade. Subsidies, such as the EU's Common Agricultural Policy, encourage members to produce and export farm products they would otherwise import. The size of these effects depends on the type of bloc, the height of the external tariff and how important members were as trading partners before joining.



1 4

Extract C (lines 4–5) states: ‘Some Romanians think that Romania should leave the EU. However, a large majority wants the country to remain a member.’

Assess the view that being a member of a trading bloc is likely to contribute to the economic development of a high-income country such as Romania.

[25 marks]

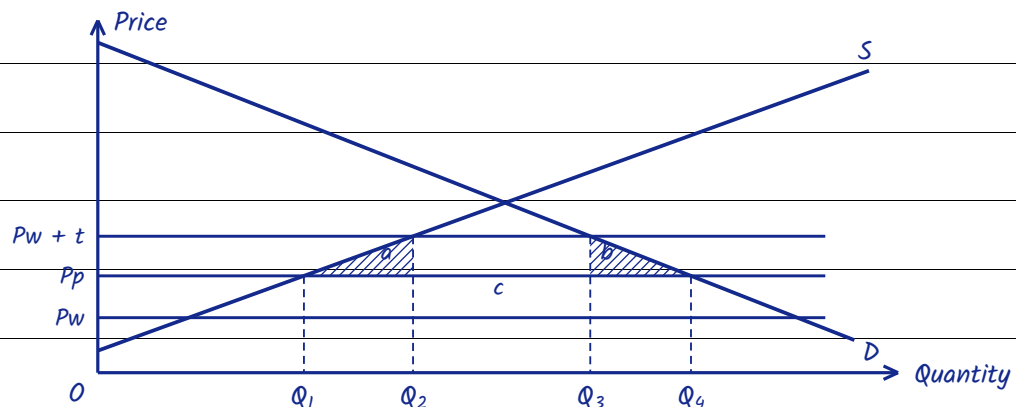
A trading bloc is a group of countries that agree to reduce or remove trade barriers between themselves. The EU is a customs union and single market with free movement of goods, services, capital and labour. Economic development is a broad improvement in living standards and welfare, including higher real income per head, better health and education, less poverty and inequality, and sustainable use of resources. A high-income country, such as Romania, has a high GNI per head by World Bank standards, although Romania's income is still below the EU average. Being part of a bloc creates a large internal market free from tariffs and quotas. Romania joined the EU in 2007, and its firms gained tariff-free access to around 450 million consumers. This leads to trade creation: high-cost domestic production is replaced by lower-cost imports from partners, so prices fall and resources move to industries where Romania has a comparative advantage. In the diagram, removing the tariff on partner goods lowers the price from $P_w + t$ to P_p ; consumption rises from Q_3 to Q_4 and domestic output falls from Q_2 to Q_1 , giving welfare gains shown by triangles a and b.

Larger markets let firms exploit economies of scale, lowering average costs and making them more competitive in world markets. Competition from other members forces Romanian firms to become more efficient and innovative, and gives consumers more choice. Higher productivity raises real wages and living standards, contributing to development.

Membership also encourages inward investment. TNCs from outside the bloc,



such as car and electronics firms, invest in members to sell into the single market without paying the common external tariff. Renault's Dacia plant and Ford's factory in Romania are examples. FDI brings jobs, technology, management skills and tax revenue, raising long-run growth by shifting LRAS to the right.



In addition, the EU transfers structural and cohesion funds to poorer members. As the extract suggests, these support infrastructure development, environmental protection and social programmes, such as roads and training, which directly improve living standards and raise productive potential.

Remittances from Romanians working abroad also raise household incomes. However, there are costs. A customs union may cause trade diversion: if the common external tariff means Romania imports from a higher-cost EU producer instead of a cheaper non-member, consumers pay more and resources are used less efficiently. In the diagram this is shown by area *c*, the extra resource cost of buying imports Q_2Q_3 from the partner at P_p rather than from the world at P_w . Romania also cannot negotiate its own trade deals with fast-growing economies such as China or India.

Free movement of labour can damage development through a brain drain.

Millions of Romanians, including many doctors and engineers, have emigrated to richer EU countries, causing skill shortages and an ageing population in

Turn over ►



Extra space *rural areas. Increased competition may also force less efficient Romanian firms, for example in farming, to close, causing structural unemployment, especially in poorer regions, so regional inequality between Bucharest and rural areas may widen.*

Whether membership contributes to development depends on several factors. It depends on the type of bloc: a free trade area such as the CPTPP brings fewer gains from capital, labour and funding than the EU, but also fewer costs. It depends on whether trade creation outweighs trade diversion, which is more likely when the external tariff is low and partners are efficient producers. It depends on governance: EU funds only help if they are spent well.

Overall, I agree that membership is likely to contribute to Romania's development. Since 2007 FDI, EU funds and access to the single market have raised incomes and infrastructure, which is why a large majority wants to remain. However, the brain drain, regional inequality and the persistent trade deficit shown in Extract A mean the benefits are unevenly shared, so the contribution depends on policies that keep skilled workers and spread the gains.



Section D

Answer **EITHER** Question 15 **OR** Question 16.

Shade the circle below to indicate which optional question you have answered.

Question 1 5 ☐Question 1 6 ☒CORRECT METHOD ☒

WRONG METHODS

**Either**

1 5

Transnational corporations (TNCs), such as Unilever, Nestlé, Samsung and Honda, are major investors in Vietnam, a less economically developed country (LEDC). However, in January 2024, the Vietnamese government increased its corporate tax rate for most TNCs reducing the incentive for them to invest in Vietnam.

Assess the view that, for LEDCs, the benefits of investment by TNCs are greater than the costs.

[25 marks]**or**

1 6

On 30 March 2022, it took 14.496 South African rand to buy one US dollar. Since then, the South African rand exchange rate has depreciated and, on 30 November 2023, it took 18.859 South African rand to buy one US dollar.

Assess how a significant fall in the value of a country's currency on the foreign exchange market is likely to affect the performance of its economy.

[25 marks]

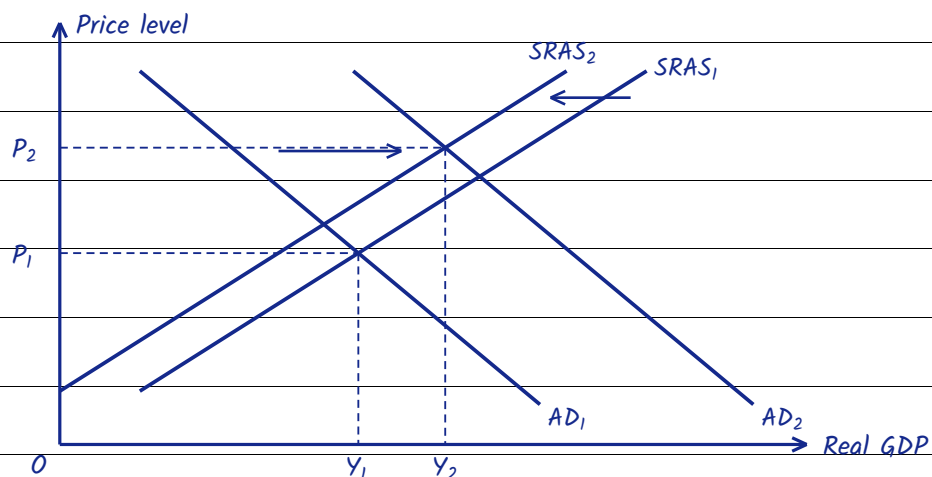
The exchange rate is the price of one currency in terms of another, determined on the foreign exchange market. Under a floating system, as in South Africa, a fall in the value of the currency is a depreciation; under a fixed system it is a devaluation. Between March 2022 and November 2023 the rand fell from R14.496 to R18.859 per US dollar, so the dollar value of one rand fell by about 23%. The performance of an economy is judged by its macroeconomic objectives, economic growth, low unemployment, low and stable inflation and a sustainable current account, and more broadly by economic development. A depreciation makes exports cheaper in foreign currency and imports dearer in domestic currency. A South African product priced at R1449.60 would have cost

Turn over ►

\$100 in March 2022 but only about \$77 in November 2023, while a \$100 import would rise in price from R1449.60 to R1885.90.

If exports become more price competitive, foreign demand for them rises, and domestic consumers switch from imports to domestically produced substitutes.

Net exports ($X - M$) are part of aggregate demand, so AD shifts right from AD_1 to AD_2 . Through the multiplier effect, real GDP rises from Y_1 towards Y_2 , creating jobs in export and import-competing industries such as mining, tourism and car production. This is valuable for South Africa, where unemployment is over 30%. Higher demand may also encourage investment.



The effect on the current account depends on price elasticities. According to the Marshall-Lerner condition, a depreciation improves the current account only if the sum of the price elasticities of demand for exports and imports is greater than one. In the short run, demand is inelastic because contracts are fixed and buyers take time to find alternatives, so the import bill rises in domestic currency and the current account may first worsen before improving, the J-curve effect.

However, a depreciation is likely to cause inflation. Imported raw materials, fuel and components cost more, raising firms' costs, so SRAS shifts left from $SRAS_1$ to $SRAS_2$, causing cost-push inflation. South Africa imports most of its oil, so petrol, transport and food prices rise. At the same time the rise in AD causes



demand-pull inflation, especially if the economy is close to full capacity. As the diagram shows, the price level rises from P_1 to P_2 , and the gain in real GDP is smaller than the AD shift alone would suggest. Higher inflation reduces real incomes, particularly of poor households who spend a large share of income on food and fuel, so poverty and inequality may worsen. Inflation may also cause workers to demand higher wages, creating a wage-price spiral that erodes the competitive advantage.

Indeed, the South African Reserve Bank raised interest rates during 2022 and 2023 to keep inflation within its 3% to 6% target, which reduced consumption and investment and offset some of the growth effect. A depreciation also increases the burden of debts denominated in dollars, for both the government

Extra space and firms, so more income must go on debt interest and less on public services. Hot money outflows and lower confidence among foreign investors may follow if the fall is seen as a sign of weakness.

The overall effect depends on several factors. First, the cause of the fall matters. The rand fell partly because of political uncertainty, electricity shortages (load-shedding) and higher US interest rates. If the depreciation reflects weak supply-side performance, firms may be unable to raise output to meet extra export demand, so the main result is inflation rather than growth. Second, the effect depends on the composition of trade. Many of South Africa's exports are minerals, such as platinum, gold and coal, priced in dollars on world markets, so a weaker rand raises mining firms' rand revenues and profits rather than volumes; demand for them depends more on world incomes and commodity prices. Third, it depends on the degree of spare capacity: with high unemployment, as in South Africa, output can rise without much demand-pull inflation.

Fourth, the size and duration of the fall are important. A sudden large fall

Turn over ►



creates uncertainty and discourages investment, while a gradual depreciation gives firms time to adjust. In the long run, a depreciation does not solve underlying problems of low productivity, poor infrastructure and skills shortages. If inflation in South Africa is higher than in its trading partners, the gain in price competitiveness will be temporary, so the real exchange rate may return to its original level. Non-price factors, such as quality, reliability and delivery times, are also important for exports.

In conclusion, a significant depreciation is likely to boost aggregate demand, output and employment in the short run and may improve the current account in the medium term if the Marshall-Lerner condition holds. However, it also raises inflation, reduces real incomes and increases the cost of foreign debt. For South Africa, where supply constraints such as electricity shortages limit the response of exports, the benefits are likely to be modest and the inflationary costs significant. Its overall effect on economic performance therefore depends mainly on the elasticities of demand, the availability of spare capacity and whether supply-side improvements allow firms to take advantage of the more competitive exchange rate.

END OF QUESTIONS



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2 8



2 5 6 X E C 0 4