

WITH
PRACTICE
TEST

NTK Academic Group

INTERNATIONAL GCSE **9-1**
ECONOMICS

EDEXCEL

Answer key



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Answer Key

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Exercise 1

1	C	6	C
2	D	7	D
3	B	8	B
4	A	9	B
5	D	10	A

(1 mark for each question)

- 11** Resources are finite;
But resources are scarce/limited; (1 mark each)
- 12** Benefit/welfare foregone of the next best alternative; (1 mark)
- 13** The benefit that he would get by continuing his studies at university; (1 mark)
- 14** (a) Shape of PPC illustrates that if a country continues to produce more of a good, the opportunity cost would be increasing;
Example: to produce more and more wheat, greater quantities of cocoa beans would be given up; (1 mark each)
- (b) Both A and B are on the PPC;
The economy’s resources are fully used and both points are efficient; (1 mark each)
- (c) The PPC shows the highest possible output combinations;
Any point beyond the PPC is currently not achievable; (1 mark each)
- (d) $14 - 12 = 2$, so 2000 extra units of wheat;
 $8 - 12 = -4$, so 4000 fewer units of cocoa beans;
Opportunity cost = $4000 \div 2000 = 2$ units of cocoa beans; (1 mark each)
- (e) People immigrate into Country A; (1 mark)

Exercise 2

1	C	4	B
2	A	5	D
3	D	6	C

(1 mark for each question)

- 7** Consumers;
Businesses;
Profit; (1 mark each)
- 8** Consumers may not be good at estimating the benefit gained from consuming a good;
A consumer may be accustomed to buying from a particular firm and will not switch to another firm; (1 mark each)
- 9** Revenue maximisation;
Customer care/service;
Charitable work/corporate social responsibility; (1 mark each)

Exercise 3

1	D	6	A
2	D	7	A
3	A	8	B
4	A	9	C
5	C		

(1 mark for each question)

- 10** Ability and willingness of consumers to buy various quantities of a good at different prices; (1 mark)
- 11** Quantity supplied of a good is larger than the quantity demanded of the same good; (1 mark)
- 12** (a) An increase in an economy's average incomes;
Because housing is a normal good; (1 mark each)
- (b) Stricter building requirement/regulations;
Which would increase house builders' production costs and decrease in supply of housing; (1 mark each)
- 13** (a) Dotted line from point X to price axis with P_e labelled;
Dotted line from point X to quantity axis with Q_e labelled; (1 mark each)
- (b) Computer screen protectors and LCD computer screens are complements;
Cheaper screen protectors will lead an increase in demand for computer screens and demand curve shifts to D_1 ;
Technological improvements will lower production costs;
Leading to an increase in supply and supply curve shifts to S_1 ;
New equilibrium is at point C; (1 mark each)
- 14** (a) Horizontal line at \$3 per kg;
Distance between quantity demanded and quantity supplied labelled as excess demand; (1 mark each)
- (b) Excess demand means that some consumers are not satisfied as they cannot buy tea in the market;
Causing consumers to gradually bid up the price;
When market price starts to increase, quantity demanded starts to fall and quantity supplied starts to rise, eventually eliminating the excess demand and restoring market equilibrium; (1 mark each)

Exercise 4

1	A	5	B
2	D	6	B
3	C	7	C
4	B		

(1 mark for each question)

- 8 (a) The responsiveness of quantity demanded of good to a change in price; (1 mark)
- (b) $PES = \frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}$; (1 mark)
- 9 (a) $PED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} = \frac{-2\%}{+10\%}$;
 -0.2 ; (1 mark each)
- (b) A PED value of -0.2 means that the demand for cigarettes is price inelastic;
 Indirect tax leads to higher production costs and a decrease in supply;
 Supply curve shifts to the left, leading to a decrease in equilibrium quantity;
 Inelastic demand means that percentage change in quantity demanded would be smaller
 than percentage change in price;
 Fall in equilibrium quantity would be relatively small and not effective to discourage smoking;
 (1 mark each)
- 10 (a) $YED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}} = \frac{+3\%}{-12\%}$;
 -0.25 ; (1 mark each)
- (b) A good that has an increase in demand;
 When income rises; (1 mark each)
- (c) Second-hand furniture has a negative value of YED, which means that demand falls when
 income rises;
 It is not a normal good/it is an inferior good; (1 mark each)
- 11 Cocoa beans are primary products, which means they take a longer time to produce than
 clothing;
 Cocoa bean producers cannot easily change output levels and the supply is more price inelastic;
 Clothing is not perishable like cocoa beans, so it is easier to store stocks of clothing than cocoa
 beans;
 Clothing producers can satisfy customers by selling stocks making the supply more price elastic;
 A lack of spare capacity, e.g. existing factories operating at full capacity, can make it difficult for
 a clothing firm to raise output within a short time;
 Supply of clothing may not always be more price elastic than that of cocoa beans;
 (1 mark each)

- 12** Income elasticity of demand (YED) provides an estimate for how much demand will change in response to a change in income;
- e.g. if the economy is performing well, average incomes are likely to rise and lead to an increase in demand for normal goods, especially luxury products;
 - Higher demand leads to higher revenue and possibly higher profits for firms;
 - YED can help firms in making decisions that enable them to make more profits; (1 mark each)

Exercise 5

1	B	4	C
2	A	5	D
3	B		

(1 mark for each question)

- 6** Mixed economy has goods and services produced by the private sector and the public sector;
(1 mark)
- 7** Private sector firms usually seek to maximise their profits;
Public sector firms may seek to improve the quality or stability of its goods and services;
(1 mark each)
- 8** (a) Selling of a government-owned firm;
To the private sector;
(1 mark each)
- (b) Generate revenue for a government;
Increase the level of competition in a market to increase efficiency;
Privatised firms have greater incentive to improve the quality of its goods/services;
(1 mark each)
- 9** Market system relies on the price mechanism of demand and supply;
Which reflects consumers’ preferences;
Planned economic system has production carried out by the state or government-owned firms;
Based on production targets set by the relevant authorities;
(1 mark each)
- 10** Typically, businesses e.g. supermarkets, restaurants;
Belong to the private sector as they are owned by individuals;
Goods such as parks are provided by the public sector;
As they are operated or at least funded by the government;
The relative size and importance of the public sector varies between different countries;
e.g. Sweden has a relatively large public sector and is considered a welfare state;
(1 mark each)
- 11** The government can have a great influence on prices of goods and services that it is responsible for producing;
e.g. public healthcare;
The government has less influence on the pricing of goods and services provided by private businesses;
As the prices are affected by market conditions that reflect demand and supply;
The government can impose different methods of intervention e.g. tobacco tax;
e.g. tobacco tax increases cigarette prices to discourage smoking;
(1 mark each)

- 12** A privatised firm needs to survive competition, so it would try to lower its production costs;
Resources are used more efficiently and more output can be produced;
The firm's actions would not be controlled by the government, so it would lay off workers to cut costs;
Leading to higher unemployment;
Benefits can outweigh harms if the government can impose regulations that target the privatised firm;
e.g. water companies may be restricted from charging prices that are too high to prevent consumer exploitation; (1 mark each)

Exercise 6

1	C	4	C
2	A	5	B
3	C		

(1 mark for each question)

- 6** (a) Side-effects affecting third parties who are not involved in an economic transaction; (1 mark)
- 7** Costs that are imposed on third parties arising from an economic activity; (1 mark)
- 8** Benefits gained by consumers as they consume a good or service; (1 mark)
- 9** Students and workers gain more skills and knowledge that would make the labour force more productive;
Which can increase an economy's total output; (1 mark each)
- 10** (a) Japanese firms pay more in wages to hire more bus drivers;
More tourists in Japan means a higher demand for sightseeing buses; (1 mark each)
- (b) Social costs are equal to the sum of private costs and external costs;
More sightseeing buses lead to more traffic congestion which also affects third parties;
Such effect contribute to external costs, thus social costs would be higher than private costs; (1 mark each)
- 11** Congestion charges increase the costs for motorists that drive into the city centre;
Reducing the number of vehicles in the areas with congestion charges;
Fewer vehicles lead to less air pollution, as evidenced by "...carbon monoxide levels fell 62%...";
Reducing health issues experienced by people living in urban areas of a city;
Roads become less congested;
Reducing travelling time that benefits all road users in the respectively areas; (1 mark each)
- 12** Environmental damage means that the process of mining minerals creates negative side-effects for the nearby environment;
Leading to external costs as third parties would be worse off;
Air pollutants emitted would reduce the quality of air;
Harming the health of the local population and can lead to higher healthcare costs for the country;
Destroying farmlands would reduce the availability of farmlands, which may reduce or threaten the supply of food products;
Leading to higher food prices that would affect everyone in the country; (1 mark each)

Exercise 7

1	C	5	C
2	D	6	A
3	B	7	B
4	C		

(1 mark for each question)

- 8** The most basic and fundamental inputs;
That are used to produce goods and services; (1 mark each)
- 9** (a) Tertiary sector;
(b) Tertiary sector;
(c) Primary sector; (1 mark each)
- 10** Physical land and natural resources used for production;
e.g. cotton used for manufacturing T-shirts; (1 mark each)
- 11** The primary sector's contribution to GDP has decreased from 45% in 2005 to 25% in 2015;
This shows that the primary sector has experienced a decrease in importance over time;
Suggesting that Country Y is a developing country; (1 mark each)
- 12** (a) Manufacturing and construction belong to the secondary sector;
Both industries involve the processing of raw materials into manufactured goods;
e.g. electrical appliances, residential buildings; (1 mark each)
- (b) (i) $50.4 + 73.6 + 43.5 + 23.1 + 2.4 + 6.5$;
 $= 199.5$ million; (1 mark each)
- (ii) $55.7 + 80.2 + 42.6 + 18.5 + 3.0 + 5.5$;
 $= 205.5$ million; (1 mark each)
- (c) Employment in 2012 = 117.1 million;
Employment in 2017 = 122.8 million;
Percentage change = $\frac{122.8 - 117.1}{117.1} \times 100\%$;
 $= 4.8676\dots = 4.87\%$ (1 mark each)

Exercise 8

1	D	4	B
2	C	5	C
3	A	6	D

(1 mark for each question)

- 7** (a) Output per worker per period of time; (1 mark)
- (b) Dividing the production process into different, smaller tasks; (1 mark)
- 8** When a firm practises division of labour, it would usually assign workers to specific tasks to raise productivity;
 This can lead to workers' boredom as they perform repetitive tasks;
 The practice can benefit workers, as higher wages may be paid for the higher productivity;
 Workers spend less time at work leaving more time for leisure;
 Workers' interests may not always be harmed as firms may implement performance-related measures such as bonuses;
 Because firms want to retain workers in order to reduce costs for hiring and training new workers; (1 mark each)
- 9** (a) $\frac{90-80}{80} \times 100\%$;
 = 12.5%; (1 mark each)
- (b) (i) Secondary sector involves manufacturing, meaning that firms can use more machinery;
 Can help reduce production time, thus more output can be produced within a certain time period; (1 mark each)
- (ii) Firms in secondary sector may have more resources to provide on-the-job training to workers;
 Improve workers' skills and knowledge, so they are more productive;
 Compared to workers in primary sector; (1 mark each)
- (c) Labour productivity is measured by output per worker per period of time;
 Secondary sector can use more advanced production processes that reduce the use of resources or energy;
 More output can be produced with the same amount of resources;
 Primary sector involves production of raw materials such as agricultural products;
 Effective use of fertilisers can raise crop yield boosting productivity;
 The data shows that Country A's secondary sector productivity has experienced a higher rate of increase between 2010 and 2018 of over 70%;
 It may illustrate that it is in general more difficult to raise primary sector productivity, e.g. instance growing time of crops cannot be easily shortened;
 There can be other factors e.g. factory workers perform repetitive tasks that can lead to dissatisfaction and boredom;
 May lead to lower productivity; (1 mark each)

Exercise 9

1	C	5	A
2	D	6	D
3	C	7	B
4	B	8	A

(1 mark for each question)

- 9** Total amount of money received by a firm by selling a good or service / calculated by price times quantity; (1 mark)
- 10** Cost that does not change with output level;
e.g. rent paid for an office; (1 mark each)
- 11** Diseconomies of scale means that average costs increase when output level rises;
A large firm with higher output would face higher costs, likely leading to lower profits;
There are other factors that can benefit large firms, e.g. they may have more sources to spend on product development or innovation;
Would lead to higher quality products that are desired by consumers;
Large firms are not always at a disadvantage as diseconomies of scale is only one possible factor affecting firms;
Even if this effect takes place, a large firm with enough market power may be able to pass this on to consumers through higher product prices; (1 mark each)
- 12** (a) (i) Fixed cost = $350 + 150 = \text{€}500$;
Average fixed cost = $\text{€}500 \div 500 = \text{€}1$;
Average total cost = $1 + 4 + 12 = \text{€}17$; (1 mark each)
- (ii) Total revenue = $450 \times 20 = \text{€}9,000$;
Total cost = $17 \times 500 = \text{€}8,500$;
Profit = $9,000 - 8,500 = \text{€}500$; (1 mark each)
- (b) It is a variable cost;
A firm typically spends more money on advertising when its output increases; (1 mark each)

- (c) Expansion can lead to economies of scale if average cost falls;
As bulk buying can lead to “larger discounts from suppliers”;
Help the firm to reduce costs on buying ingredients;
Average cost may rise as communication problems can lead to delays and errors;
Some factors are outside of the firm’s control, e.g. the magnitude of discounts;
Transport costs are higher if products need to be shipped to Asia;
Difficult to determine the overall impact on average cost as various factors are likely to take place at the same time;
There are methods that the firm can use to better control costs, e.g. finding local suppliers in Asia to reduce transport costs;
Standardising its products such that the product characteristics are consistent reduces the need for communication; (1 mark each)
- (d) More workers may be attracted to take up relevant training courses;
Lead to an increase in supply of skilled labour;
Local government may have improved nearby transport network;
Reduce the transport costs for all nearby firms; (1 mark each)

Exercise 10

1	D	6	C
2	C	7	D
3	B	8	C
4	A	9	D
5	C	10	B

(1 mark for each question)

- 11** (a) There is a single or dominant firm in a market; (1 mark)
- (b) A market with a few large firms; (1 mark)
- 12** Legal barrier e.g. patent;
Market costs for advertising;
A product that requires a high level of technology; (1 mark each)
- 13** Lack of finance;
Restrict a firm's ability to buy new equipment to increase production;
The business owner may only aim to serve the local community;
Which would limit the number of potential customers; (1 mark each)
- 14** (a) Firms act together;
To reduce competition and uncertainties between themselves; (1 mark each)
- (b) The supermarkets may have agreements to set higher prices;
To increase their profits;
Consumers suffer as they have to spend more of their income to buy groceries; (1 mark each)
- 15** Mr. Huang's major customers are mostly villagers in the local community;
He may aim to serve his local community;
To provide more tailor-made and personal services;
The number of customers may be rather limited;
Mr. Huang may be the only person responsible for making all business decisions;
These factors restrict the potential of the store becoming large in size; (1 mark each)

- 16** As the Mexican government restricts competition, the two firms are effectively monopolies in their respective markets as each firm's market share is over 70%;
- The firms should have high output levels that can contribute to economies of scale and lower average costs;
 - Telecommunications companies need lots of infrastructure e.g. antenna;
 - Having one main firm in the industry can reduce costs arising from duplicate infrastructure;
 - Due to lack of competition, consumers cannot easily switch to other service providers;
 - The firms can charge high fees and provide low-quality services;
 - So harms are likely to outweigh gains from consumers' perspective;
 - The government can pass laws requiring the firms to share the telecommunications infrastructure with competitors;
 - Which would avoid inefficiency of duplication while at the same time increase competition;
- (1 mark each)

Exercise 11

1	B	6	C
2	D	7	B
3	A	8	C
4	C	9	D
5	D		

(1 mark for each question)

- 10** An organisation made up of workers that aims to promote the interests of its members; (1 mark)
- 11** (a) The collection of skills, knowledge and experience of the workforce;
Which affects labour productivity / quality of labour; (1 mark each)
- (b) Average age of a population;
Increase over time; (1 mark each)
- 12** Increase in demand for smartphones due to higher income;
Lead to higher output of smartphones, requiring more manufacturing workers;
If workers become more productive then an average worker produces more smartphones;
Smartphone manufacturers become more willing to hire these workers; (1 mark each)
- 13** Labour demand for smartphone manufacturing workers is relatively higher;
As many consumers can afford and need smartphones, but fewer consumers need law-related services;
Manufacturing workers require less knowledge and fewer qualifications compared to lawyers;
The supply of manufacturing workers should be higher than supply of lawyers;
Labour demand is an insignificant factor to explain the wage differentials compared to labour supply and other factors;
Salaries for lawyers are usually higher than wages for manufacturing workers; (1 mark each)
- 14** (a) Bargain for higher wages;
Seek to improve working conditions for its members; (1 mark each)
- (b) The trade unions benefitted their members as they managed to obtain a 2.2% pay rise;
And better working conditions for part-time workers;
During a time when the Turkish economy was not performing well as it was in a recession;
Some workers suffered as they lost their jobs;
Overall impact on workers was small as the unions only contained 9% of total workers;
It is difficult to judge whether workers were better off or not overall, as there were both positive and negative effects;
If the Turkish economy did not improve over the short term it would likely limit the bargaining power of the unions;
Higher overall wages in Turkey could lead to higher prices of goods and services;
Which would raise living costs and offset the benefits of the bargained higher wages; (1 mark each)

- 15** (a) 50 million \times 70%;
= 35 million; (1 mark each)
- (b) The female population may be receiving more years of education on average;
Making it easier for females to find jobs, increasing the female participation rate over the
time period; (1 mark each)
- (c) New labour supply curve to the right of the original labour supply curve;
New equilibrium wage rate labelled below the original equilibrium wage;
New equilibrium quantity of labour labelled higher than the original equilibrium quantity;
(1 mark each)

Exercise 12

1	A	6	B
2	B	7	B
3	D	8	C
4	C	9	D
5	B		

(1 mark for each question)

- 10** (a) Government-imposed rules or requirements;
That affect the behaviour of producers; (1 mark each)
- (b) A lowest legal wage;
That an employer has to pay a worker; (1 mark each)
- 11** If a government restricts anti-competitive practices, the level of competition in the industry would increase;
Which can force manufacturers to improve the quality and variety of cars;
Enhancing and protecting consumer interests; (1 mark each)
- 12** (a) The minimum wage increased three times from May 2011 to May 2017;
Each time increasing by \$2 or \$2.5;
The percentage increase in minimum wage had been falling after May 2013; (1 mark each)
- (b) Ensure a minimum level of living standard;
Reduce income inequalities; (1 mark each)
- (c) Increase in minimum wage shown by two horizontal curves/lines;
Increase in wage rate labelled and shown;
Fall in quantity of labour demanded labelled and shown; (1 mark each)
- (d) A minimum wage means that workers can be paid more, raising the income;
Firms may suffer from higher costs of hiring workers;
Workers may not always benefit because those who already receive higher wages than the minimum wage are not affected;
Firms may react by laying off workers, causing employment to rise;
Impact on firms is more limited if wages take up a small proportion of overall costs;
Workers that benefit from minimum wage may be motivated to work harder and become more productive, which also benefits their employers; (1 marks)

- 13** Carbon emissions are given off by energy-using industries due to the use of fossil fuels;
Such emissions are considered polluting as they can contribute to negative environmental effects e.g. global warming;
Carbon allowances are a type of pollution permits;
The total number of permits is controlled by the government;
Each permit allows a specific amount of a pollutant or emission;
Thus the government can control the total amount of the corresponding emission;
As the allowances create an additional cost for products that give off carbon emissions, these producers should have a financial motivation to reduce emissions;
Which in turn reduces the negative impact and external costs affecting the environment;
Allowances may not be effective to reduce emissions if their price is too low;
This may arise as a fixed supply cannot offset a declining demand;
e.g. emissions trading scheme experienced in a financial crisis;
The price of carbon needs to be sufficiently high for a sustained time period to encourage producers to switch to clean and renewable energy;
Which would decrease dependence on fossil fuels and polluting emissions over the long term;
(1 mark each)

Exercise 13

1	B	6	B
2	B	7	B
3	C	8	B
4	C	9	C
5	B	10	C

(1 mark for each question)

- 11** (a) Decrease;
In the rate of inflation; (1 mark each)
- (b) Increase over time;
In the real GDP; (1 mark each)
- (c) Working-age people without jobs;
But actively seeking for work; (1 mark each)
- (d) Part of a country's record of transactions with other countries;
Record trade in goods and services; (1 marks each)
- (e) Different workers/people in an economy;
That receive different levels of income; (1 mark each)
- 12** The real value/purchasing power;
Of their future repayments will fall; (1 mark each)
- 13** Unemployed workers suffer from a loss of income;
So their living standards will fall;
Higher unemployment means that more people are entitled to collect unemployment benefits;
Government spending on paying benefits would increase; (1 mark each)
- 14** (a) Air pollution;
Noise pollution; (1 mark each)
- (b) Pollution permits give the owner the right to release a given amount of pollution;
The number of permits is controlled by the government;
As permits have price, they create a financial incentive for firms to reduce pollution; (1 mark each)
- 15** Interest rate increased from about 2.25% to 3% in 2018;
Which would increase the rate of return on savings;
Making it more attractive to save money, decreasing consumer spending;
Fall in consumption leads to a decrease in aggregate demand;
Which would lead to a lower inflation rate as shown by the table; (1 mark each)

- 16** (a) Current account balance is approximately equal to export value minus import value;
It changed from about \$1.1 billion surplus in 2012;
To about \$7 billion surplus in 2015;
So it had improved; (1 mark each)
- (b) India's currency may have fallen in value/depreciated;
So India's exports become cheaper to foreign consumer, increasing its exports;
(1 mark each)
- 17** Investment in education means that there are more education opportunities available in the country;
So more people can enrol in schools and universities to learn knowledge and skills;
Which allow them to seek higher-paid jobs after they graduate;
And can help to reduce income inequality;
A progressive income tax means higher-income earners pay more tax and are left with less after-tax income;
This would reduce the income difference between low-income and high-income earners;
Which reduces income inequality;
If a tax is too progressive it may discourage high-income earners from working hard;
And can reduce the labour force's productivity, leading to lower output and lower overall incomes;
Investment in dictation creates a financial burden on the government which needs to be funded from tax revenue;
Both measures have drawbacks, arguably both are needed to help reduce income inequality;
(1 mark each)

Exercise 14

1	A	5	B
2	B	6	B
3	B	7	D
4	A		

(1 mark for each question)

- 8** (a) Changing government spending and/or taxation;
To influence the level of aggregate demand / to achieve price stability; (1 mark each)
- (b) Central bank changes the level of interest rate;
To influence the level of aggregate demand / to achieve price stability; (1 mark each)
- (c) Policies that aim to increase an economy's productive capacity;
Which will lead to an increase in aggregate supply / can promote long-term economic growth; (1 mark each)
- (d) The rate of return on savings / cost of borrowing money;
Expressed as a percentage; (1 mark each)
- 9** A fiscal deficit means that government spending is higher than tax revenue;
Which will increase a government's debt level;
Main opportunity cost of debt is interest payments that need to be paid;
Which will decrease a government's ability to improve the economy via spending; (1 mark each)
- 10** *Policy 1:*
Firms' after-tax profits will be lower;
Which may reduce their willingness to invest and slow down the accumulation of capital goods;
Policy 2:
There will be fewer education institutions and opportunities available;
Which may reduce the skills and productivity of the workforce; (1 mark each)
- 11** (a) Sustained decrease over time;
In the general price level; (1 mark each)
- (b) Expansionary monetary policy; (1 mark)
- (c) Reducing the interest rate lowers the rate of return on savings;
Saving money becomes less attractive;
Consumers should be encouraged to increase spending;
Cost of borrowing money falls, which increases firms' investment;
Increase in consumption and investment leads to an increase in aggregate demand;
Which can give rise to demand-pull inflation, solving the deflation problem;
More output can be produced without causing upward pressure on prices;
If there is low confidence in the economy, consumers and firms are unwilling to spend more in the first place; (1 mark each)

- 12** (a) Absolute poverty means that households cannot afford to buy necessities e.g. food;
Reducing absolute poverty can raise average living standards;
And reduce health problems of low-income households; (1 mark each)
- (b) The government could increase spending on education and training;
To provide more opportunities for workers to gain knowledge and skills;
Workers with more knowledge and qualifications can take up higher-skilled jobs;
That tend to be higher-paid, raising incomes;
A more skilled labour force should be more productive, contributing to higher output and
higher average incomes;
May also enable the growth of industries that require skilled labour e.g. manufacturing;
The policy could create a heavy burden for the government;
Which may lead to less spending on other areas e.g. healthcare;
Households in absolute poverty may not be able to afford to send their children to schools,
so they may not gain much from the policy; (1 mark each)

Exercise 15

1	A	5	B
2	B	6	B
3	B	7	D
4	A		

(1 mark for each question)

- 8** (a) Between 2007 and 2009, price level was falling due to negative inflation rate;
 Inflation rate was positive between 2010 and 2012, so price level was increasing;
 (1 mark each)
- (b) Expansionary fiscal policy;
 As unemployment rate steadily declined from over 3% in 2006 to 1.5% in 2014;
 (1 mark each)
- (c) Expansionary fiscal policy aims to stimulate economic activities which can be done through an increase in government spending;
 Creating jobs and reducing unemployment;
 Can also be achieved by lowering taxes, which would increase spending by consumers and firms;
 The policy leads to an increase in aggregate demand, so price level is likely to increase, thus the objective of low inflation is not achieved;
 Domestic products become more expensive, which may reduce domestic country’s exports and worsen the current account balance;
 A higher output level tends to create more pollution, harming the environment;
 If the higher government spending can be directed towards areas such as education or technology, labour productivity should increase over the long term;
 Increasing the economy’s productive capacity, which can help reduce inflation pressure;
 The government can also reduce taxes to promote the renewable energy sector to reduce the use of polluting sources of energy;
 (1 mark each)
- (d) The government can carry out deregulation, which leads to a reduction of regulations and requirements imposed on producers;
 This leads to an increase in competition, so firms need to cut costs to remain competitive;
 Which can lead to lower product prices and reduce inflation pressure;
 Firms may lay off workers as a quick method to reduce costs;
 So economy may suffer higher unemployment in the short term;
 (1 mark each)

Exercise 16

1	D	5	D
2	B	6	B
3	D	7	C
4	D	8	B

(1 mark for each question)

- 9** (a) Increase in interdependence and integration;
Between different economies; (1 mark each)
- (b) A firm that has business activities and operations;
In multiple countries; (1 mark each)
- (c) Long-term investments in productive assets;
Made by a firm in a foreign country; (1 mark each)
- 10** Decrease in trade barriers e.g. tariffs;
Goods and services become less expensive to help increase trade between countries;
Technologies e.g. the Internet lead to lower communication costs;
Cheaper for firms to coordinate operations between different countries; (1 mark each)
- 11** (a) Wages and other types of production costs are usually lower in developing countries;
Allow MNCs to earn higher levels of profit;
Figure 1 shows that Ghana’s GDP per capital increased between 2010 and 2018, meaning that average income increased;
Ghana’s consumers have greater ability to buy goods produced by MNCs; (1 mark each)
- (b) A host country is a country that receives FDI, which usually sets up production facilities e.g. factories, increasing the quantity of physical capital available;
Create jobs for local workers;
Raise incomes for local people;
Improve living standards;
MNCs can bring skills and technologies into a host country;
Help local workforce to become more productive over time;
MNCs usually have to pay profit tax to the host country’s government;
Increase the government’s ability to spend on areas such as healthcare;
Production activities may generate pollution;
Harm the environment and the people’s health;
MNCs may send their profits back to their home countries;
Reduce the funding available for improving host country’s existing capital goods or workers over the long term; (1 mar each)

Exercise 17

1	D	6	B
2	B	7	D
3	C	8	B
4	C	9	A
5	D		

(1 mark for each question)

- 10** (a) A tax;
Imposed on imports; (1 mark each)
- (b) Industries that are not well established;
At relatively early stages of development; (1 mark each)
- (c) A group of countries joined together;
To reduce/remove trade barriers between themselves; (1 mark each)
- 11** Tariff is a tax on imports that foreign producers/firms have to pay;
Make imports more expensive;
Domestic consumers buy fewer imports, reducing the quantity of imports;
If the imports are necessities/lack substitutes e.g. oil;
Demand is likely to be price inelastic;
Higher price would only lead to a smaller proportionate decrease in quantity demanded, making tariff ineffective in reducing imports; (1 mark each)
- 12** Trade protection policies should lead to fewer and more expensive imports so domestic firms face less competition;
Demand for domestic firms' products may increase, which helps to protect domestic jobs;
Trade protection can take the form of quality standards, which can be important for products like food that affect consumers' health;
Tariffs' costs can be passed along to consumers, so consumers suffer from higher prices;
Can raise domestic firms' costs of production and increase inflation pressure;
Domestic firms may become less efficient with higher costs and a lack of competition;
The extract shows that trade retaliation may be carried out by foreign countries, reducing domestic country's exports and aggregate demand;
If exports fall by a larger value than imports, there would be a negative impact on economic growth;
Domestic country would be worse off as average incomes fall; (1 mark each)

Exercise 18

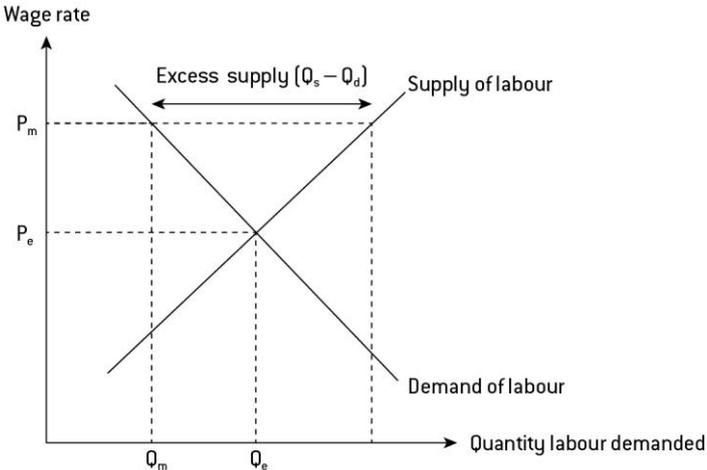
1	C	5	A
2	B	6	C
3	D	7	B
4	C		

(1 mark for each question)

- 8** (a) The price of a currency;
Expressed in terms of another currency; (1 mark each)
- (b) Buying and selling of a currency;
In the hope of making a profit; (1 mark each)
- 9** Currency depreciation means that the country's exports become cheaper so exports should increase;
Imports become more expensive in terms of domestic currency so imports should decrease;
If exports rise and imports fall then the current account should improve;
Depreciation affects the prices of domestic and foreign goods, and its impacts on export and import values depend on the price elasticities of demand;
If the demand for exports is price elastic, cheaper exports lead to a greater percentage increase in quantity demanded of exports;
Increasing exports' value and improving the current account; (1 mark each)

Practice Paper 1

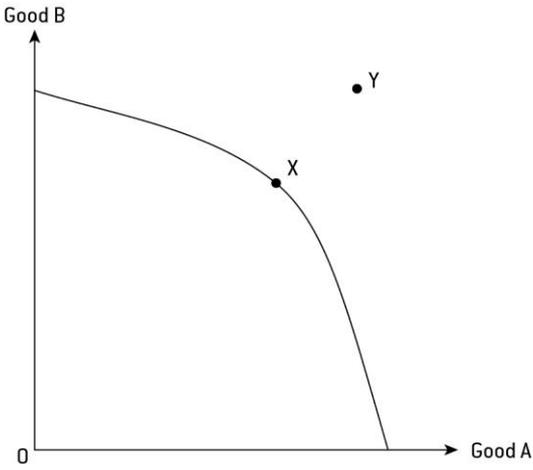
Question number	Answer	Mark
1(a)	AO1 1 mark A Access to skilled labour	(1)
1(b)	AO1 1mark B £250	(1)
1(c)	AO1 2 marks Award 1 mark for reference to policy/law imposed by government and 1 mark for reference to 'above market equilibrium wage' / wages of the poor being increased. The law imposed by the government sets the wage rate above market equilibrium wage to increase the poor's well-being.	(2)
1(d)	AO1 1 mark Award 1 mark for reference to effective use of resources. It is a situation where resources are used effectively.	(1)
1(e)	AO1 1 mark Award 1 mark for reference to the cost not varying with output. It is a cost that does not change when output changes.	(1)
1(f)	AO2 2 marks Award 1 mark for calculating the total variable cost and 1 mark for calculating the average variable cost. $200 + 100 + 200 + 200 = \text{£}700$ (1) $700 / 1000 = \text{£}0.7$ (average variable cost) (1)	(2)

Question number	Answer	Mark
<p>1(g)</p>	<p style="text-align: center;">AO2 3 mark</p> <p>Award 1 mark for excess supply at the higher price labelled. Award 1 mark for higher wage labelled. Award 1 mark for lower quantity labelled.</p> 	(3)
<p>1(h)</p>	<p style="text-align: center;">AO2 3 marks</p> <p>Award 1 mark for identifying a relevant disadvantage and 1 further mark for developing the disadvantage. Award 1 mark for the response being in the context of a labour-intensive industry.</p> <ul style="list-style-type: none"> • The cost of production will experience drastic increase (1) as labour is the major input in the country (1). Firms may shut down or lay off workers to prevent loss (1) <p>Accept any other appropriate responses.</p>	(3)

Question number	Indicative content
1(i)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Merger control –government regulation to prevent the mergers that will reduce the competition level in the economy. • This will reduce the number of mergers in the economy. • The average firm size will be smaller. • The welfare of the consumer depends greatly on the price and quality of the product. • Highly efficient means a smaller firm size will limit the benefit gained from economies of scale. • The production cost will be higher. • Hence there is a higher price. • Firms also lose technical economies. • It is more difficult to carry out innovation. <p>(See level descriptors at the end.)</p>

Question number	Answer	Mark
2(a)	AO1 1 mark B Downward sloping	(1)
2(b)	AO1 1 mark C Remains unchanged	(1)
2(c)	AO1 1 mark Award 1 mark for correct answer. Consumers aim to maximise their benefits.	(1)
2(d)(i)	AO1 1 mark Award 1 mark for correct formula in words/as an equation. % change in quantity demanded / % change in income	(1)
2(d)(ii)	AO2 2 marks $-10 / 100 = -0.1$ Award 2 marks if YED is correctly calculated, even if no calculations are shown. Award 1 mark if students show calculation and put 0.1 without the minus sign. Award 1 mark if students do not show calculation but identify that it is negatively income elastic. Do not award marks for the formula.	(2)
2(e)	AO1 2 marks Award 1 mark for reference to restriction on the amount of pollution that can be emitted and award 1 mark for reference to the tradable nature. It is a certain amount of pollution that the owner/a firm can emit (1) and firms can trade/buy permits to produce a higher output level (1).	(2)

Question number	Answer	Mark
2(f)	<p style="text-align: center;">AO2 3 marks</p> <p>Award 1 mark for identifying an advantage of pollution permit, 1 further mark for developing the advantage and 1 mark for the response being in the context of energy consumption.</p> <ul style="list-style-type: none"> • It gives financial incentives to firms (1) by selling the permit to other firms if they reduce the consumption of polluting energy (1) and substitute them with energy-saving or cleaner technology (1). Then profit can be increased. 	(3)
Question number	Indicative content	
2(g)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks) / AO4 (3 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Trade union – organisation of workers to improve their pay and work conditions. • Trade unions can represent the workers and conduct collective bargaining. • The threat of industrial actions may create pressures on firms since the shutdown of the supply line may damage the firms’ reputation and the long term profit. • It is an incentive for firms to raise wages and improve working conditions. • However, if it is easy to substitute labour with capitals the bargaining power is weak. • Machines will be relatively cheaper when wage increases. • In the long run, the cost of production may be lower if the firms choose a capital-intensive production method. • Workers may lost their jobs. <p>AO4</p> <ul style="list-style-type: none"> • It depends on the type of industries. • It is impossible to substitute labour with capitals for some industries e.g. tertiary industries. • The bargaining power of the trade union may be larger. • It also depends on the economic status. • During recession, firms would keep the cost of production low and they may shut down if there is a higher wage. • The percentage of workers who are members is important. • It affects the ability to carry industrial actions. <p>(See level descriptors at the end.)</p>	

Question number	Answer	Mark
3(a)	<p style="text-align: center;">AO1 1 mark</p> <p>C Reduction in income tax</p>	(1)
3(b)	<p style="text-align: center;">AO1 1 mark</p> <p>A Producers care more about the quality of services rather than the profit.</p>	(1)
3(c)	<p style="text-align: center;">AO2 3 marks</p> <p>Award 1 mark for drawing a production possibility curve (PPC) diagram with correctly labelled axes. Award 1 mark for drawing point X on the PPC. Award 1 mark for drawing point Y beyond the PPC.</p>  <p>Any alternative groups of goods can be counted as correct labelling.</p>	(3)

Question number	Answer	Mark
3(d)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks)</p> <ul style="list-style-type: none"> • Public goods are goods that are non-rivalrous and non-excludable. • Non-excludable means firms cannot exclude people from consuming a good/service without for the good/service. • Citizens that live in the country will be protected since the whole country is protected. • It is impossible to only protect those who pay for the service or to charge the service when the protection is needed. • Non-rivalrous means that one’s consumption will not reduce the availability of others to consume. • The number of citizens in the country will not affect the availability of the protection. • The ability to defend the boarder is basically independent of the number of citizens. • There is a free rider problem since the citizens will have no incentive to pay for national defence since they can enjoy the benefit for free. • Market of public goods is usually absent because it is not possible for producers to charge public goods, causing the under-allocation of resources. 	(6)

Question number	Indicative content
3(e)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks) / AO4 (3 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Privatisation – the government sells an organisation in the public sector to the private sector. • Government can earn revenue from the privatisation. • The revenue may be spent on infrastructure/education/healthcare services where these goods/services are underprovided in the market. • The level of competition will increase. • The allocation of resources will be more efficient. • The improved firms' efficiency and productivity will increase the total output. • The revenue from tax in future will increase. • The prices of goods/services will fall and the standard of living will increase. • The innovation of product would be fastened. <p>AO4</p> <ul style="list-style-type: none"> • It depends on the net monetary return of the privatisation. • The cost of privatisation can be very high. • There are costs when the government tries to advertise the sales and evaluate the value of the assets. • Also, the price of the sales may be too low if the buyers are not interested, especially for the 'zombie companies'. • Selling undervalued assets may create financial burden in the long term. • It depends on the level of competition after the privatisation. • The firm may become a monopoly if other firms have very limited market share. • The price maker would have no incentive to lower the price and transfer the benefit of the higher efficiency to customers. • If the efficiency of economy improves, the benefit would outweigh the cost since there is a strong growth and a higher tax revenue. • Privatisation may result in a larger number of firms. The loss of economies of scale may reduce the total efficiency and increase the cost of production. <p>(See level descriptors at the end.)</p>

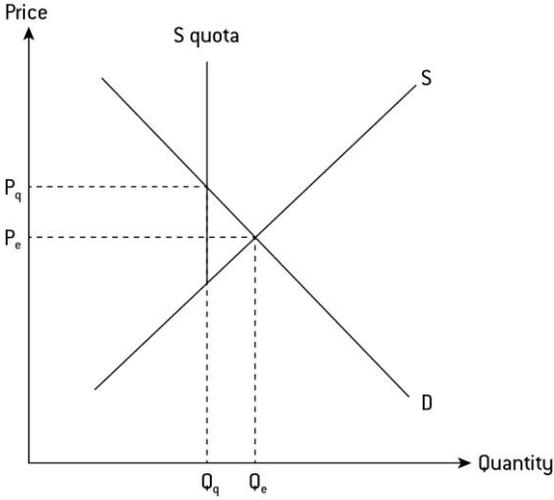
Question number	Answer	Mark
4(a)	<p style="text-align: center;">AO2 2 mark</p> $\frac{(100-110)}{110} \div \frac{11-12}{12} = 1.1$ <p>Award 2 marks if PES is correctly calculated, even if no calculation is shown.</p> <p>Award 1 mark if candidate does not show calculation but identifies that it is a price elastic supply.</p> <p>Do not award marks for the formula.</p>	(2)
Question number	Indicative content	
4(b)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Price elasticity of demand – the responsiveness of the quantity demanded to a change in price. • The wheat producer can increase the price to increase the total revenue, given the relative change in quantity demanded is smaller than the change in price, in other words, is price inelastic demand. • Wheat as a food a necessity of living. • It is an essential ingredient for foods and the main source of carbohydrates. • The change in price is unlike to discourage people’s consumption in a large extent. • However, the price elasticity of demand may not be significant since it keeps changing over times. • In the long term, the price elasticity of demand for wheat may become elastic. Increasing the price hurts the revenue on the long term. <p>(See level descriptors at the end.)</p>	

Question number	Indicative content
4(c)	<p style="text-align: center;">AO2 (4 marks) / AO3 (4 marks) / AO4 (4 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Division of labour is the breaking down of a job into smaller tasks. • Workers care about their wages, working enjoyment, skills, and employment opportunities. • Division of labour can increase the labour productivity since it enables a larger degree of use of machine and a higher efficiency. • Fewer mistakes are made and the lower cost allows firms to increase the labour wage. • Productivity is a component of the demand for labour. • A higher demand for labour will reward the workers with a higher wage and create more employment opportunities. • However, tasks will become monotonous. • Workers will be demotivated. • Workers may be replaced by machines, which are more efficient. • It increases the risk of unemployment due to the limited skill set and the occupational immobility. • It also makes labour feel bored and hence there is a lower motivation. • The higher wage may not be able to compensate for the decreased enjoyment. • Firms care about the profit and cost. • Firms can have a lower training cost as labour now specialise in a small variety of tasks. • The use of machines can reduce mistakes made and costs can be saved. • The higher productivity can reduce the total employment of labour, lowering the labour cost. • It saves time in moving around job stations. • Divisions of labour can increase the total output. • Firms can be exposed to larger markets and it allows further development.

Question number	Indicative content
	<p>AO4</p> <ul style="list-style-type: none"> • The significance of the demotivation depends on the degree of specialisation. • Some job rotations to reduce the monotony are necessary. • The benefit given to workers depends on the willingness of firms. • The total employment may reduce as the division of labour allows a more capital-intensive production. • Government should ensure the competitiveness of the labour market to ensure that the wages will increase when the productivity of labour increases. • Government should introduce training programmes to improve the occupation mobility of workers. • Firms can employ motivation schemes e.g. bonus system to reward workers who are more productive. • At the same time, productivities can be ensured despite the labour demotivation. • However, the size of the market may be too small and prevent the adoption of division of labour, which requires mass production. <p>(See level descriptors at the end.)</p>

Practice Paper 2

Question number	Answer	Mark
1(a)	<p style="text-align: center;">AO1 1 mark</p> <p>D Voluntary</p>	(1)
1(b)	<p style="text-align: center;">AO1 1 mark</p> <p>D A direct impact on poverty</p>	(1)
1(c)	<p style="text-align: center;">AO1 2 marks</p> <p>Award 1 mark for reference to increased integration of economies and 1 mark for reference to increased interdependence of economies.</p> <p>It is the increased integration and interdependence of economies.</p>	(2)
1(d)	<p style="text-align: center;">AO1 2 marks</p> <p>Award 1 mark for reference to the impact and 1 mark for development of the impact.</p> <p>An increase in the availability of imports enriches the choices of goods.</p>	(2)
1(e)	<p style="text-align: center;">AO2 2 marks</p> <p>Award 1 mark for showing the calculation (visible exports – visible imports) and 1 mark for the correct answer.</p> <p>$\\$200 - \\$400 (1) = \text{HK}\\$-200$ (billions) (1)</p> <p>Award 2 marks if total profit is accurately calculated, even if balance of trade not explicitly calculated.</p>	(2)

Question number	Answer	Mark
<p>1(f)</p>	<p style="text-align: center;">AO2 3 marks</p> <p>Award 1 mark for kinked supply labelled. Award 1 mark for higher equilibrium price labelled. Award 1 mark for lower equilibrium quantity labelled.</p> 	<p>(3)</p>
<p>1(g)</p>	<p style="text-align: center;">AO2 3 marks</p> <p>Award 1 mark for identifying a relevant disadvantage and 2 marks for developing the explanation.</p> <ul style="list-style-type: none"> • One problem is an increasing indebtedness. A fiscal deficit means governments may borrow to finance the deficit. The interest payment may lower the ability of the government to spend. <p>Accept any other appropriate responses.</p>	<p>(3)</p>

Question number	Indicative content
1(h)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Monetary policy is the control of the interest rate and the amount of funds available to lend to manipulate the private sector’s spending in order to affect the economy. • Central banks can increase the interest rate to increase the cost of borrowing. • Households and firms will be less willing to borrowing for consumption and investment. • Households would also have a stronger incentive to save and delay/cancel unnecessary consumption. • Hence, lowering the spending in the economy can reduce the level of demand-pull inflation. • A higher interest rate will lead an appreciation of currency. • Lowering the prices of imported inputs will also slow down cost-push inflation. <p>(See level descriptors at the end.)</p>

Question number	Answer	Mark
2(a)	AO1 1 mark A Increase tax revenue	(1)
2(b)	AO1 1 mark A The price level is increasing	(1)
2(c)	AO1 1 mark Award 1 mark for one correct answer. <ul style="list-style-type: none"> • Regulation • Fines • Pollution permits Accept any other appropriate responses.	(1)
2(d)	AO1 2 marks Award 1 mark for reference to not actively seeking employment and 1 mark for reference to the reason why workers are not actively seeking jobs. It is the unemployment when workers are not actively seeking employment due to the higher unemployment benefit or high income tax.	(2)
2(e)	AO2 3 marks Award 1 mark for identifying a cause of appreciation and 2 marks for developing the explanation. <ul style="list-style-type: none"> • The increase in the domestic interest rate. When the domestic interest rate increases, the returns from savings in the domestic economy increase. It attracts foreign capital to deposit in the domestic economy. The demand for domestic currency will increase, leading to an appreciation. Accept any other appropriate causes.	(3)

Question number	Answer	Mark
2(f)	<p style="text-align: center;">AO2 3 mark</p> <p>Award 1 mark for explaining quantitative easing, award 1 further mark for explaining interest rate reduction in terms of growth stimulation and 1 mark for developing the difference.</p> <p>Asset purchasing increases the amount of funds available to lend in the private sector by purchasing assets from the private sector. Interest rate reduction reduces the cost of borrowing and return from saving by lowering the base rate. Asset purchasing facilitates the demand for funding for private sectors and encourages their spending while interest rate reduction creates financial incentives for private sectors to spend.</p>	(3)

Question number	Indicative content
2(g)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks) / AO4 (3 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • A trade bloc is a group of countries that have made a free trade area/reduced trade barriers between members. • Lowering the trade barrier reduces prices and increases the variety of the goods and services. Consumers can purchase more and better goods and services to improve their living standard. • The total production may also increase, leading to a larger consumption possibility. • The larger access to the members' market would increase the total output. The employment level will increase and hence the income. It helps reduce the absolute poverty. (Trade creation) <p>AO4</p> <ul style="list-style-type: none"> • The imports in the countries will increase. Firms may shut down and workers may become unemployed. • The lower level of economic activities would reduce tax revenue of the government. The ability to carry out welfare projects e.g. improving health services, education programmes will be limited and this lowers the standard of living. • Consumers may be abused by the regional monopoly. The benefits from the price reduction are limited. • Countries joining the trading blocs may need to submit the membership fee, which also lowers the ability to carry out development objectives. • Countries may be required to set up trade barriers towards non-members. It would reduce the existing level of imports, which may be more efficient for the economic growth in the member countries. (Trade diversion) • The likelihood depends on the competitiveness of the domestic products, trade created or trade diverted, and the amount of the membership fee. • For Country B, the competitiveness is low and there are limited resources to export. It is likely that the overall growth will be lowered and there is stronger pressure on the current account. <p>(See level descriptors at the end.)</p>

Question number	Answer	Mark
3(a)	AO1 1 mark B Decrease in price level	(1)
3(b)	AO1 1 mark C Reduce the uncertainty in the economy	(1)
3(c)	AO2 3 marks Award 1 mark for explaining absolute poverty, award 1 further mark for explaining relative poverty and 1 mark for developing the difference. Relative poverty is the situation that people have inadequate access to goods and services relative to the social norm. Absolute poverty is situation that people fail to access the basic necessities for living. Absolute poverty can be eliminated if, for example, the government provides social safety nets to the poor. Relative poverty is hard to eliminate unless everyone has similar income level, which is unlikely.	(3)
3(d)	AO2 (3 marks) / AO3 (3 marks) <ul style="list-style-type: none"> • Free trade means a government does not set any protectionist measure to protect domestic companies against the competition from foreign firms. • Free trade can lower the price of imports, including imported inputs. • Lowering the cost of production creates an incentive for firms to produce more, fostering economic growth. • Free trade enables more efficient allocation of resources by specialisation. • A higher level of competition brought by foreign firms can improve the efficiency of the economy. • The increase in productive capacity leads to a (potential) growth of the economy. • However, competition may lead to shutdown of domestic firms and cause unemployment. • It lowers the income level and the total demand for domestic products. The production will decrease and hence economic growth will slow down. 	(6)

Question number	Indicative content
3(e)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks) / AO4 (3 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Fuel is a necessity for economic growth, which usually involves the consumption of energy. • Min fuels used nowadays are polluting fuels. Carbon dioxide and other pollutants emitted create air pollution. • To reduce air pollution, government should reduce the consumption of energy or switch to cleaner energies, for example, solar energy, which is more expensive. • Regulations are rules and limits on what firms can do. • Regulations require extra investments to reduce the total emission of pollutants. • It will increase the cost of the production and restrict economic activities. Economic growth will slow down. • The reduction of the use of polluting energies will create unemployment in the manufacturing industry and fuel production sector. • This lowers the total income level of the economy and reduces the total demand in the economy. The production and growth will slow down. • The manufacturing industry also creates water and noise pollution during the production process, which are undesirable for the environment. • Treatments to reduce discharges during the production and consumption may increase the price of products and discourage spending. • A lower total demand may lower output and slow down growth due to job losses. • Transportation activities should also be reduced to lower the total energy consumption. Some industries will hence face a lower demand or even shutdown.

Question number	Indicative content
3(e)	<p>AO4</p> <ul style="list-style-type: none"> • Environment protection will encourage the establishment of new industries and businesses. • The demand for jobs may be higher and the total income level may not be affected. • Protecting the environment would boost the national image, which can improve tourism of the country. In the long term, the total demand would increase and the current account will be improved. • Less pollution will improve the health of workers and human capitals. Foreign talents may also immigrate to the country. The general labour productivity will increase, leading to economic growth. • More efficient public transport would also reduce pollution without slowing down the economic growth. • Reducing congestion can increase the economic efficiency and productivity. • Some measures to protect the environment are entirely irrelevant to economic growth e.g. provision of parks. • It depends on the measures taken to protect the environment. • If the regulations and fines are too harsh, the short-term negative growth would be significant. • It also depends on the buffer given by the government to ensure the switch of the use of energies is smooth and the cost of switching is small. <p>(See level descriptors at the end.)</p>

Question number	Answer	Mark
4(a)	<p style="text-align: center;">AO2 2 mark</p> <p>Award 1 mark for calculating the difference in CPI. Award 1 mark for calculating the percentage change between 2014 and 2015.</p> <p>$100 - 98 = 2$ (1) $2 \div 98 = 2.1\%$ (1)</p> <p>Award 2 marks if percentage change incorrectly calculated, even if the percentage change is not explicitly calculated.</p>	(2)
Question number	Indicative content	
4(b)	<p style="text-align: center;">AO2 (3 marks) / AO3 (3 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Current account deficit implies that value of all imports is larger than the value of all exports over a period of time. • Provided that the level of skills and technology are low. The demand for developing countries' exports is low because of the low quality of exported goods. • The demand for imports produced by developed countries is high due to the high quality products. • Low productivity will increase the cost of production of exports from developing countries. Higher product prices reduce export competitiveness. • Higher productivity and economies of scale enjoyed by MNCs make imports more competitive with a lower price. • There is a strong demand for imported capitals for developing countries to match the demand stemming from a rapid economic growth. • The income elasticity of demand for developing countries' exports is smaller than income elasticity of demand for their imports. The growth in the demand for export is slower than the growth in the demand for imports. • The increase in the value of exports is smaller than the increase in the value of imports over time and global economic growth. <p>(See level descriptors at the end.)</p>	

Question number	Indicative content
4(c)	<p style="text-align: center;">AO2 (4 marks) / AO3 (4 marks) / AO4 (4 marks)</p> <p>AO2 and AO3</p> <ul style="list-style-type: none"> • Fiscal policy is the use of government spending and taxation to affect the economy. • Expansionary fiscal policy increases the total demand of the economy. More job opportunities are created and hence there is less unemployment to alleviate the problem of poverty. • Policies that can reduce income inequality include increasing the progressiveness of taxation, redistribution of income through benefit payments, e.g. unemployment benefits, social pension, and investment in education and healthcare. • The increase in progressiveness of taxation will reduce the tax burden on the poor. The after-tax/disposable income will increase. • For the rich, the after-tax income will reduce due to the larger tax burden. The income gap between the poor and the rich is reduced. • The tax revenue earned from the increased progressiveness of taxation can finance other policies aiming at improving the income inequality. • Redistributive transfers include social benefits, security allowance and unemployment benefits. • The after-transfer income of the poor and the unemployed population can be increased, lowering absolute poverty. • Investment in education and healthcare can improve the human capital of the poor. Higher productivity increases the access to employment and hence increases income. • Education and healthcare are merit goods that are underprovided in the market. Government intervention is necessary.

Question number	Indicative content
4(c)	<p>AO4</p> <ul style="list-style-type: none"> • Expansionary fiscal policy may benefit the rich more. For example, lowering business taxes will reduce the burden of the rich and intensify the problem of income inequality. • It depends on policy tools and sources of economic growth. • A more progressive taxation may create disincentives of working. Economic growth may slow down and unemployment will increase, lowering the income of the poor and more people may fall into absolute poverty and hence worsening the income inequality. • The size of the tax revenue may reduce due to the disincentive effect. It lowers the ability of the government to provide subsidies and investment projects. • Progressive taxes may discourage talents immigrating into the country. It hinders economic growth. The cost to improve the income equality may be too large. • Reducing the tax burden of the poor may be a better solution since it creates less disincentive effects and there is only a small reduction in the total tax revenue. • The real benefit of transfers depends on whether the government adjusts the amount of payments to inflation. • The unemployment benefit may create earning traps which worsens the problem of relative poverty and income inequality. • The unemployment benefit may create voluntary unemployment and intensify frictional unemployment due to disincentives to work, dragging down economic growth in the long term. • There is an opportunity cost of government spending. Unemployment benefits which have limited effects on economic growth should be replaced by those policies which can promote economic growth and improve income equalities at the same time e.g. investment in education and healthcare. • Government should limit the size of benefits and the duration of benefits that can be claimed in order to maintain the working incentive and prevent public reliance on the pension system. • The investment is likely to be inefficient due to bureaucracy and administrative constraints. • The benefits of education and healthcare are difficult to measure, especially when the benefits are only presented in the future. Government failure may result if the cost of policies is too high. • It depends on the ability of the government to select right programmes and determine the right amount of investments. The mixture of private and public provision may be a better solution with cost shared and improved efficiency. <p>(See level descriptors at the end.)</p>

Level Descriptors

6 mark questions

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	<ul style="list-style-type: none"> • Demonstrates basic knowledge and understanding by developing relevant points. Limited application of economic terms, concepts, theories and calculations (AO2). • Information presented will lack selectivity and organisation. Interpretation of economic information will be limited, with a lack of analysis of issues (AO3).
Level 2	3–4	<ul style="list-style-type: none"> • Demonstrates partial knowledge and understanding by developing relevant points. Partial application of economic terms, concepts, theories and calculations (AO2). • Information presented will demonstrate some selectivity and organisation. Interpretation of economic information will be good, with some analysis of issues (AO3).
Level 3	5–6	<ul style="list-style-type: none"> • Demonstrates clear knowledge and understanding by developing relevant points. Appropriate application of economic terms, concepts, theories and calculations (AO2). • Information presented will demonstrate excellent selectivity and organisation. Interpretation of economic information will be excellent, with a thorough analysis of issues. (AO3).

9 mark questions

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	<ul style="list-style-type: none"> • Demonstrates basic knowledge and understanding by developing relevant points. Limited application of economic terms, concepts, theories and calculations (AO2). • Information presented will lack selectivity and organisation. Interpretation of economic information will be limited, with a lack of analysis of issues (AO3). • Only offers one viewpoint, meaning there is an unbalanced and incomplete evaluation, showing limited understanding and awareness (AO4)
Level 2	4–6	<ul style="list-style-type: none"> • Demonstrates partial knowledge and understanding by developing relevant points. Partial application of economic terms, concepts, theories and calculations (AO2). • Information presented will demonstrate some selectivity and organisation. Interpretation of economic information will be good, with some analysis of issues (AO3). • Offers more than one viewpoint but the argument may lack balance, leading to an evaluation that may not demonstrate full understanding and awareness (AO4).
Level 3	7–9	<ul style="list-style-type: none"> • Demonstrates clear knowledge and understanding by developing relevant points. Appropriate application of economic terms, concepts, theories and calculations (AO2). • Information presented will demonstrate excellent selectivity and organisation. Interpretation of economic information will be excellent, with a thorough analysis of issues. (AO3). • Offers more than one viewpoint. The argument is well balanced and coherent, leading to an evaluation that demonstrates full understanding and awareness (AO4).

12 mark questions

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–4	<ul style="list-style-type: none"> • Demonstrates isolated elements of relevant knowledge and understanding; may lack development of relevant points. Limited application of economic terms, concepts, theories and calculations (AO2). • Information presented will lack selectivity and organisation. Chain of reasoning may be attempted. Interpretation of economic information will be limited, with a lack of analysis of issues (AO3). • Only offers one viewpoint, meaning there is an unbalanced and incomplete evaluation, showing limited understanding and awareness. A judgement or conclusion is unlikely to be attempted (AO4).
Level 2	5–8	<ul style="list-style-type: none"> • Demonstrates partial selectivity and some accurate knowledge and understanding by developing some relevant points. Partial application of economic terms, concepts, theories and calculations (AO2). • Information presented will demonstrate some selectivity and organisation. Chain of reasoning will be present but may be limited. Interpretation of economic information will be good, with some analysis of issues (AO3). • Offers more than one viewpoint but the argument may lack balance, leading to an evaluation that may not demonstrate full understanding and awareness. A judgement or conclusion is attempted, but may not be fully supported (AO4).
Level 3	9–12	<ul style="list-style-type: none"> • Demonstrates specific and accurate knowledge and understanding by developing relevant points. Appropriate application of economic terms, concepts, theories and calculations (AO2). • Information presented will demonstrate excellent selectivity and organisation. Chain of reasoning will be coherent and logical. Interpretation of economic information will be excellent, with a thorough analysis of issues. (AO3). • Offers more than one viewpoint. The argument is well balanced and coherent, leading to an evaluation that demonstrates full understanding and awareness. A supported judgement or conclusion is present (AO4).