

Question 29 (Answer: B)

- The current account records trade in goods and services, primary income and secondary income.
- So exported food, and income earned abroad and sent home, both belong there.
- A purchase of foreign assets or shares is a *financial* account item, not a current account one.

Question 29 (Answer: D)

- Cutting income tax raises disposable income, so consumption rises.
- Part of that extra spending goes on imported goods, so imports rise.
- Exports depend on foreign incomes and on competitiveness, so they are unchanged.

Question 30 (Answer: A)

- World supply of oil falls, so the world price rises.
- Demand is price inelastic, so the quantity sold falls proportionately less than the price rises.
- So total export revenue *increases* – which is exactly why producers restrict supply.

Question 18 (Answer: C)

- In equilibrium, total injections equal total withdrawals.
- Withdrawals are saving, taxation and imports; injections are investment, government spending and exports.
- So work out the missing figure by setting the two totals equal – 900 of income has to be fully accounted for.

Question 20 (Answer: D)

- The income method adds up all incomes earned from producing output: wages, rent, interest and profit.
- A transfer payment is not earned from production, so it is excluded.
- Income from abroad is added separately to get *national* rather than domestic income.

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 4(b) and 5(b)**.

Level	Description
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.
0	No creditable response.

Question	Answer
1(c)	Consider whether a buffer stock system controlled by the government of Ivory Coast would be likely to prevent fluctuations in the price of cocoa beans. • A buffer stock system combines both maximum price and minimum price controls / is designed to minimise price fluctuations / price falls (1) • If the price falls below a certain fixed point / minimum price the government will purchase and store cocoa beans therefore reducing supply/controlling demand to raise the price of cocoa beans (1). If the price rises beyond a certain point / maximum price, this buffer stock is released thus increasing supply and reducing the price of cocoa beans (1). Guidance • A response that only refers to governments buying stocks of cocoa beans in times of a surplus and selling them in times of a shortage to minimise price fluctuations is worth 1 additional mark maximum for analysis. Reserve 1 mark for valid evaluation e.g., • Cocoa beans may be difficult/expensive to store / perishable/ may be an illegal market set up so it may not prevent fluctuations in the price of cocoa beans / the government do not have the budget to buy any surplus. (1) Guidance • The eval mark can be awarded even without any analysis marks being given PROVIDED there is a reasonable understanding that a buffer stock scheme only works when stocks can be held/released.

Question	Answer
1(d)	Assess the extent to which the use of a minimum pricing policy would be the best way to ensure 'cocoa bean farmers get paid a living wage'. Up to 3 marks for an explanation / analysis of the reasons why the use of a minimum pricing policy would be the best way to ensure cocoa bean farmers get paid a living wage e.g.: • It ensures that farmers receive a guaranteed price above the equilibrium market price enabling them to receive a higher income • It encourages farmers to maintain / increase production as there is more financial security again leading to a living wage • It reduces the instability caused by fluctuations in the global price of cocoa beans leading to a more stable income for farmers. Up to 3 marks for an explanation / analysis of the reasons why the use of a minimum pricing policy may not be the best way to ensure cocoa bean farmers get paid a living wage e.g.: • It may not be set at an appropriate level / may not be enforceable e.g., due to the costs of enforcement • It may lead to a surplus due to increased supply and reduced demand for e.g. chocolate products meaning this surplus may fail to be sold • Budget constraints for the government may make it impossible for them to buy the surplus and this makes the scheme collapse • May make farmers complacent therefore failing to invest and in the LR incomes fall. Guidance: • Allow any reasonable point for either perspective, BUT it must be linked how it affects farmer's incomes. • Candidates may choose to compare the advantages and disadvantages of an alternative method e.g., transfer payments / subsidies to farmers. Provided this is clear that a comparison to a minimum pricing policy has been attempted, this approach can also gain full marks. • Do not allow answers that refer to minimum wages as the policy or as an alternative. Note: 4 marks maximum for analysis • Evaluation that clearly assesses both sides (1) and comes to a justified conclusion whether it is the best way (1).

Question	Answer
1(e)	Assess the advantages and disadvantages of the government of Ivory Coast continuing to specialise in the production and export of cocoa beans. Up to 3 marks for an explanation / analysis of the advantages of the government of Ivory Coast continuing to specialise in the production and export of cocoa beans e.g.: • It allows producers to benefit from comparative advantage and become even more efficient, which will reduce costs and prices further and increase output • It allows producers to further benefit from the increasing worldwide demand for cocoa beans and increase sales • This can encourage / lead to economic growth as exports increase. Up to 3 marks for an explanation / analysis of the disadvantages of the government of Ivory Coast continuing to specialise in the production and export of cocoa beans e.g.: • Dependence on cocoa beans may make the economy vulnerable to global reductions in demand / crop failures • It may mean less land is available for other essential food crops leading to an overreliance on imports • A lack of diversification may hinder economic growth and also make the economy more at risk of external shocks • It may exhaust the supply of cocoa beans and other natural resources leading to unemployment in Ivory Coast. Note: 4 marks maximum for analysis • Evaluation that clearly assesses both sides (1) and comes to a justified conclusion. (1)

Question	Answer
2(b)	Assess the view that a business should be more concerned about the income elasticity of demand for its product than its cross elasticity of demand when incomes are falling. Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. Indicative content Responses may include: AO1 Knowledge and understanding and AO2 Analysis - Analysis of the advantages and disadvantages of using income elasticity of demand. For example, it lets the business know whether it produces inferior or normal goods and therefore what to produce more of when incomes are falling but businesses may not be so flexible. Alternatively, the predictions may be incorrect or the same measurement may not be applicable to all households. - Analysis of the advantages and disadvantages of using cross elasticity of demand. For example, for substitutes, it allows businesses to track the actions of competitors when incomes are falling. For complements, businesses can try to ensure they are aware of the impact on their own products depending on the impact on the complement. However, data may be out of date and make it unreliable. Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. Guidance: Answers that do not refer to falling incomes cannot gain more than a mid-Level 2 mark. AO3 Evaluation That clearly analyses both sides of the question and comes to a valid conclusion. Accept all valid responses. A one-sided response cannot gain any marks for evaluation.

Question	Answer
2(b)	AO1 Knowledge and understanding and AO2 Analysis
	AO3 Evaluation

Question	Answer
OR	
3(a)	With the help of a diagram, explain the difference between a movement along a production possibility curve (PPC) and a shift of this curve and consider whether a decision to produce more of one product will always incur an equal opportunity cost. Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. AO1 Knowledge and Understanding (max 3 marks) For a fully accurately labelled diagram showing 2 products (not X and Y, P and Q etc.) (1) and an explanation that a movement means a decision to produce more of one product than another (1) and an explanation that a shift means that more (or less) of both products can be produced due to a change in productive capacity (1). Also accept a diagram showing an accurate shift in the PPC along with an explanation that this results from increased/decreased resources in the economy (1). AO2 Analysis (max 3 marks) For analysis that clearly explains what is meant by opportunity cost (1) and fully explains what is meant by increasing opportunity cost in terms of rate of which one product is given up for another product (1) and by a constant opportunity cost in terms of the rate of which one product is given up for another product (1) AO3 Evaluation (max 2 marks) For evaluation that explains that whether the opportunity cost is equal will depend on the ease of transferring production resources from one product to another (1) and reaches a justified conclusion (1) AO1 Knowledge and understanding AO2 Analysis AO3 Evaluation

Question	Answer
3(b)	Assess the extent to which it is always necessary to increase the size of the labour factor of production in order to cause an outward shift of the production possibility curve. Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. Indicative content Responses may include: AO1 Knowledge and understanding and AO2 Analysis Responses should be aware that the question is focused on factors of production that cause an outward shift of the PPC i.e., an overall increase in potential output. Points to consider in the discussion may include: - - the ease of increasing the labour force through e.g., increasing the retirement age, attracting more people into the labour force etc. - the quality of the labour force including the importance of education and training - the importance of at least one other factor of production e.g., enterprise, capital and /or land The analysis should focus on the necessity of increasing the size of the labour force to increase potential output and compare this with the advantages and disadvantages of increasing at least one other factor of production. For example: - An increase in the size of the labour force provides more workers therefore increasing the number of goods and services that can be produced - This will increase total output if other factors of production are maintained - This will lead to an increase in economic growth and an outward shift in the production possibility curve However: - An increase in the labour force may not be possible - Other factors of production may be more important, for example, enterprise, capital and /or land - It may be more advantageous to develop the productivity of the existing labour force through training, better technology etc. - This depends however on the receptiveness of the workforce along with the availability of enterprise skills, capital and land. Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Question	Answer
3(b)	Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. AO3 Evaluation That clearly analyses both sides of the question and comes to a valid conclusion. Accept all valid responses. A one-sided response cannot gain any marks for evaluation.
	AO1 Knowledge and understanding and AO2 Analysis
	AO3 Evaluation

4(a)	Explain three components of the current account of the balance of payments and consider the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account. Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. AO1 Knowledge and Understanding (max 3 marks) Knowledge and basic understanding of 3 components of the current account. The component must be identified by name together with a brief explanation by name i.e., 3 from • Trade in goods – the value of physical goods e.g., computers • Trade in services – the value of invisible goods e.g., insurance/tourism • Primary income – e.g., the dividend income earned from overseas investments • Secondary income – e.g., the income from overseas aid or worker remittances sent back to their own country. (3 × 1) AO2 Analysis (max 3 marks) A depreciation in the exchange rate will make exports appear cheaper and/or imports more expensive (1), this should increase export revenue and/or reduce import expenditure and lead to a surplus (1). Also other components of the current account may influence whether the current account goes into surplus or not (1). N.B. if the impact of other sections of the current account are not considered, maximum mark of 2. AO3 Evaluation (max 2 marks) Of an overall assessment of the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account – for example, reference may be made to the relevance of PED values and also the value of other sections of the current account. Reserve 1 mark for a valid conclusion.
	AO1 Knowledge and understanding
	AO2 Analysis
	AO3 Evaluation

4(b)	Assess the extent to which the use of supply-side policy would be the best way to reduce a deficit on the current account of the balance of payments. Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. Indicative content Responses may include: AO1 Knowledge and understanding and AO2 Analysis An analysis of the advantages and disadvantages of using supply-side policy to reduce a deficit e.g., - It is likely to be more effective in the long run and less costly to the economy. - it may reduce the possibility of retaliation by other countries BUT - it will have an opportunity cost and is not likely to be a short-term solution. Examples of supply side policy may include: - Investment in education and training to improve worker productivity and entrepreneurship which may reduce costs and lead to increased competitiveness of domestic goods, therefore increasing exports and reducing imports - Export subsidies and subsidies for domestic industries competing against imported goods - Policies to reduce red tape and bureaucracy to encourage competition to reduce costs - Investment in infrastructure to reduce costs of production However: - They take time and can be costly, which is unlikely to reduce a deficit in the short term - Other policies such as contractionary fiscal and monetary policy may work more quickly together with protectionist policies e.g., tariffs and currency depreciation. These policies should be analysed in terms of their strengths and weaknesses in reducing a current account deficit. Guidance: Answers that do not refer to the policies in terms of reducing a current account deficit cannot gain more than a mid-Level 2 mark. Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
------	---

4(b)	AO3 Evaluation That clearly analyses both sides of the question and comes to a valid conclusion. Accept all valid responses. A one-sided response cannot gain any marks for evaluation.
	AO1 Knowledge and understanding and AO2 Analysis
	AO3 Evaluation

5(a)	Explain two reasons why an economy may have a deficit on the current account of its balance of payments and consider whether its government is likely to be concerned about this deficit. Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. AO1 Knowledge and Understanding (max 3 marks) The current account records trade in goods and services, primary income, and secondary income between countries/A current account deficit occurs when the value of imports of goods or services, primary and secondary income exceeds the value of exports (1). Two marks for an accurate explanation of two reasons—e.g., low international competitiveness, (1) - if the country experiences strong domestic growth. (1) AO2 Analysis (max 3 marks) An explanation of why the government is likely to be concerned at about this deficit. For example, a current account deficit could lead to downward pressure on the exchange rate, making imports more expensive and potentially causing inflation (1). Persistent deficits may reduce confidence among foreign investors, limiting inflows of capital needed to finance growth (1). However, the government may not be concerned if the deficit is temporary or caused by for example, high investment imports that may boost future productive capacity (1) A max of 2 marks for either perspective. AO3 Evaluation (max 2 marks) An assessment of the extent that the government is likely to be concerned. For example, the level of concern will depend on the size, duration and cause of the deficit and how it is financed (1).
	AO1 Knowledge and understanding
	AO2 Analysis
	AO3 Evaluation

5(b)	Assess whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. Indicative content Responses may include: AO1 Knowledge and understanding and AO2 Analysis Possible reasons why protectionist policies are the best way to reduce a deficit on the current account of the balance of payments. • They may reduce the value of imports, which helps to lower the current account deficit by limiting the outflow of money from the economy. • They may protect domestic industries from foreign competition, allowing local firms to grow and potentially increase exports in the future. However • They can raise prices for consumers, as tariffs or quotas make imported goods more expensive, reducing consumer welfare. • Other countries may retaliate with their own trade barriers, which could reduce exports and harm the economy further. Possible reasons why contractionary policies are the best way to reduce a deficit on the current account of the balance of payments. • They can reduce domestic demand, which lowers imports and helps decrease the current account deficit. • They may help control inflation by reducing spending in the economy, which can stabilise the exchange rate and make exports more competitive. However • They can slow economic growth and increase unemployment, as lower demand reduces output in domestic industries. • They may reduce consumer and business confidence, which can further decrease spending and investment, worsening the economic slowdown. Guidance: The assessment of both perspectives must be in the context of the reducing a current account deficit and not a general explanation of both policies. Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
------	--

5(b)	Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. AO3 Evaluation Requires an assessment of whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. For example—Protectionist policies may work more quickly to reduce imports and protect domestic industries, but they risk retaliation from other countries and higher prices for consumers. Alternatively, contractionary policies may take longer to reduce the deficit but may help control inflation, though they may slow economic growth and increase unemployment. Accept all valid responses. A one-sided response cannot gain any marks for evaluation. Accept all valid responses.
	AO1 Knowledge and understanding and AO2 Analysis
	AO3 Evaluation

Question 29 (Answer: C)

- Primary income is income earned from ownership of a factor of production abroad – wages, interest, profits, dividends.
- Secondary income is a transfer with nothing given in return – aid, remittances, gifts.
- So the test is whether something was *earned* or simply *transferred*.

Question 21 (Answer: A)

- A current account surplus means net exports are positive, which is an injection into the circular flow.
- Higher aggregate demand pulls up the price level if the economy is near capacity.
- The surplus also brings in foreign currency, expanding the money supply.