A-Level Economics: **w25 11**

Question 20 (Answer: **D**)

- Aggregate demand shifting left means less demand at every price level.
- That follows from lower consumption, investment, government spending or net exports.
- So higher interest rates, higher taxes or a stronger exchange rate would all do it.

Question 30 (Answer: **D**)

- Reducing a current account deficit means cutting imports or raising exports.
- A measure that also *raises* government spending, or cuts tax revenue, widens the budget deficit.
- So look for the policy that improves trade at the cost of the public finances – a subsidy to exporters does both.

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Question 20 (Answer: **D**)

- A falling price level makes domestic goods cheaper relative to foreign ones.
- So exports become more competitive and imports less so.
- It also raises the purchasing power of savings, since each unit of money buys more.

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Question 30 (Answer: **A**)

- Both currencies float, so the rate is set by supply and demand for each.
- A rise in the dollar–euro rate means one euro buys more dollars, so the euro has appreciated.
- Large fluctuations create uncertainty, which discourages trade and investment between the two areas.

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Question 30 (Answer: **B**)

- Sterling fell from $1.38 to $1.32, so the pound has depreciated.
- That makes UK exports cheaper abroad and imports dearer at home.
- In the short run trade volumes respond only slowly, so the value of imports rises first and the trade balance can worsen.

A-Level Economics: **Specimen 1**

Question 25 (Answer: **B**)

- A rising dollar makes US exports dearer abroad and imports cheaper at home.
- That widens the deficit most when trade volumes respond strongly to price.
- So the deficit grows most where demand for traded goods is price elastic.

Question 30 (Answer: **C**)

- Higher interest rates make it more attractive to hold that country's assets.
- Foreign investors buy the currency to do so, raising demand for it.
- With a floating rate, higher demand means the exchange rate appreciates.