Past-paper walk-through

Current account of the balance of payments ▪ 6.4

eXercise

Questions in this set

- 0455/12 N25 Q29 ▪ 1 mark
- 0455/13 N25 Q27 ▪ 1 mark
- 0455/13 N25 Q29 ▪ 1 mark
- 0455/11 J25 Q30 ▪ 1 mark
- 0455/13 J25 Q21 ▪ 1 mark
- 0455/13 J25 Q30 ▪ 1 mark
- 0455/22 J25 Q5 ▪ 12 marks
- 0455/12 N24 Q30 ▪ 1 mark
- 0455/13 N24 Q30 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 29

0455/12 N25 ▪ Q29 ▪ 1 mark

29 Which combination of changes in export revenue and import expenditure is most likely to cause a country's exchange rate to depreciate?

	export revenue	import expenditure
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

Solution 29

Answer: **B**

Why

- The exchange rate falls when the supply of the currency exceeds demand for it.
- More spending on imports means more of the currency is sold.
- Less export revenue means less of it is bought – so falling exports with rising imports causes depreciation.

Question 27

0455/13 N25 ▪ Q27 ▪ 1 mark

27 What is a likely benefit of increased national specialisation?

A It guarantees a balance of trade in goods and services surplus.

B It increases dependency on other economies.

C It lengthens international supply chains.

D It reduces the cost of living.

Solution 27

Answer: **D**

Why

- Specialisation raises output and lowers costs, so living standards rise.
- But it increases dependence on other countries and on a narrow range of products.
- It cannot *guarantee* a trade surplus – that depends on prices and demand.

Question 29

0455/13 N25 ▪ Q29 ▪ 1 mark

29 Which combination of changes would definitely raise the price of the Pakistani rupee on the foreign exchange market?

	demand for Pakistan's exports	Pakistan's demand for imports
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

Solution 29

Answer: **C**

Why

- The rupee's price rises when demand for it rises or its supply falls.
- More foreign demand for Pakistani exports raises demand for rupees.
- Fewer Pakistani imports means fewer rupees sold – so both together raise the rate for certain.

Question 30

0455/11 J25 ▪ Q30 ▪ 1 mark

30 The table shows the values of the items in a country's current account in two years.

item	year 1 ($m)	year 2 ($m)
balance of goods and services	–30	0
net primary income	–30	–20
net secondary income	?	?
balance of current account	–50	+10

Question 30

How did the value of net secondary income change between year 1 and year 2?

A decreased by $10m

B decreased by $20m

C increased by $20m

D increased by $30m

Solution 30

Answer: **C**

Why

- The current account balance is the sum of its components.
- So add the trade balance, primary income and secondary income together.
- Work the missing figure out from the total given, remembering that deficits are negative.

Question 21

0455/13 J25 ▪ Q21 ▪ 1 mark

21 Brazil's real GDP fell by 3.8% in a year.

What might have caused this?

A a decrease in imports

B a decrease in income tax

Question 21

C an increase in interest rates

D an increase in output per worker

Solution 21

Answer: **C**

Why

- Real GDP falls when aggregate demand falls.
- Higher interest rates reduce borrowing, consumption and investment.
- Lower income tax or lower interest rates would raise demand instead.

Question 30

0455/13 J25 ▪ Q30 ▪ 1 mark

30 The table shows a selection of economic data for a country.

	\$m
primary income	1000
secondary income	–500
total value of exported goods	1000
total value of imported goods	2000
total value of exported services	800
total value of imported services	200

What is the current account balance of the balance of payments of this country?

Question 30

A \$100m **B** \$600m **C** \$4500m **D** \$4725m

Question 30

Question 30

Solution 30

Answer: **A**

Why

- The current account is the trade balance plus primary income plus secondary income.
- So add exports minus imports, then add the two income items.
- Keep the signs right: a negative figure is an outflow.

Question 5

0455/22 J25 ▪ Q5 ▪ 12 marks

5 In 2023, the Chinese Government said that it would aim for an economic growth rate of 5% and a steady increase in both exports and imports. It was expected that higher output would be caused mainly by an increase in household spending, although this could also result in inflation. Another aim of the Chinese Government was to keep the unemployment rate at around 5.5%. China has an ageing population and an ageing labour force.

(a) Identify two influences on household spending. [2]

(b) Explain two advantages of employing older workers. [4]

(c) Analyse how an increase in household spending could cause inflation. [6]

(d) Discuss whether or not a government should aim for an increase in imports. [8]

(a) (a) Identify two influences on household spending. [2] **[2]**

Question 5

(b) (b) Explain two advantages of employing older workers. [4] (c) Analyse how an increase in household spending could cause inflation. [6] **[4]**

(d) (d) Discuss whether or not a government should aim for an increase in imports. [8] **[6]**

Solution 5

(a) Mark scheme

- Identify two influences on household spending.
- Two from:
- ▪
- income
- ▪
- interest rate
- ▪
- taxation

Solution 5

- ▪
- confidence
- ▪
- inflation rate / cost of living / prices / price
- ▪
- wealth
- ▪
- age
- ▪
- size of household

Solution 5

- ▪
- culture
- ▪
- advertising
- ▪
- quality
- ▪
- tastes
- 2 If more than two influences given, consider the first three.
- 0455/22

Solution 5

- May/June 2025
- Mark
- Guidance

Solution 5

(b) Mark scheme

- Explain two advantages of employing older workers.
- Logical explanation which might include:
- ▪
- May be more experienced (1) may have high
- productivity / high efficiency / high skills (1).
- ▪
- May make few mistakes (1) produce high quality
- products (1).

Solution 5

- ▪
- May be reliable / easy to manage (1) punctual / carry
- out duties carefully (1).
- ▪
- May need little training / may have received more
- training (1) keep firms' costs low (1).
- ▪
- May be less likely to take maternity / paternity leave 1
- less disruption to output / lower costs (1).
- ▪

Solution 5

- May train young workers (1) pass on experience (1).
- ▪
- May be less likely to leave job (1) in search of a better
- paid job (1).
- ▪
- May keep older people healthy (1) lowering healthcare
- costs / increasing life expectancy (1).
- ▪
- May increase the incomes of older people (1) reducing
- poverty (1).

Solution 5

- ▪
- May increase the size of the labour force (1) encourage
- more older workers to seek employment / increase
- productive potential (1).
- ▪
- Make older people more financially independent
- (1)reduce financial burden on family / government (1).
- ▪
- May be prepared to work fewer hours (1) make firms
- more flexible (1).

Solution 5

- ▪
- May be prepared to work for relatively low wages (1) in
- order to e.g. stay active (1).
- ▪
- May relate better to older customers (1) a growing
- market in most countries (1).
- 4 One mark each for each of two advantages identified and
- one mark each for each of two explanations.
- If more than two advantages given, consider the first three.
- There is an element of mix and match here with some

Solution 5

- explanations being linked with different identifications but do
- not reward the same point twice.
- Award increase in incomes rather than increase in wages.
- 0455/22
- May/June 2025
- Mark
- Guidance
- 5(c
- Analyse how an increase in household spending could
- cause inflation.

Solution 5

- Coherent analysis which might include:
- Household spending / consumer expenditure / consumption
- is a component of total demand (1) An increase in
- household spending would increase total demand (1).
- Total demand could exceed total supply (1) higher demand
- may encourage firms to raise prices (1) resulting in demand-
- pull inflation (1).
- An increase in household spending could encourage firms to
- invest / increase investment (1) increase their output (1) they
- may hire more workers (1) this may drive up wages 1

Solution 5

- increase demand for raw materials / capital goods (1) raise
- price of raw materials / capital goods (1) increase costs of
- production (1) cause cost-push inflation (1) cause a wage
- price spiral (1).
- 6 Formula $AD = C + I + G + (X – M)$ can be taken as
- recognition that C is a component on total demand.
- Higher total (aggregate) demand and prices being pushed
- up can be shown on a diagram – one mark each.
- Reward but do not expect reference to the multiplier effect.
- 0455/22

Solution 5

- May/June 2025
- Mark
- Guidance

Solution 5

(d) Mark scheme

- Discuss whether or not a government should aim for an
- increase in imports.
- In assessing each answer, use the table opposite.
- Why it should:
- ▪
- may save scarce resources
- ▪
- may reduce shortages in the home market

Solution 5

- ▪
- may lower the exchange rate
- ▪
- may increase choice and quality of products in the
- home market
- ▪
- may import technology
- ▪
- may reduce firms' costs by importing low price raw
- materials and capital goods

Solution 5

- ▪
- may increase competition, making domestic firms more
- efficient
- ▪
- may increase revenue from import tariffs
- ▪
- may enable a country to consume more than it
- produces in the short term
- ▪
- may increase incomes abroad raising demand for this

Solution 5

- country's exports.
- Why it should not:
- ▪
- may worsen the current account balance
- ▪
- may cause some domestic firms to go out of business
- ▪
- may reduce exchange rate
- ▪
- may reduce employment

Solution 5

- ▪
- may lower incomes / GDP per head
- ▪
- may lower living standards in the long term
- ▪
- will not want to import demerit goods.
- 8
- Level
- Description
- 3

Solution 5

- A reasoned discussion which accurately
- examines both sides of the economic
- argument, making use of economic
- information and clear and logical
- analysis to evaluate economic issues
- and situations. One side of the argument
- may have more depth than the other, but
- overall both sided of the argument are
- considered and developed. There is
- thoughtful evaluation of economic

Solution 5

- concepts, terminology, information
- and/or data appropriate to the question.
- The discussion may also point out the
- possible uncertainties of alternative
- decisions and outcomes.
- 6–8
- 2
- A reasoned discussion which makes use
- of economic information and clear
- analysis to evaluate economic issues

Solution 5

- and situations. The answer may lack
- some depth and development may be
- one-sided. There is relevant use of
- economic concepts, terminology,
- information and data appropriate to the
- question.
- 3–5
- 0455/22
- May/June 2025
- Mark

Solution 5

- Guidance
- Level Description
- 1
- There is a simple attempt at using
- economic definitions and terminology.
- Some reference may be made to
- economic theory, with occasional
- understanding.
- 1–2
- 0

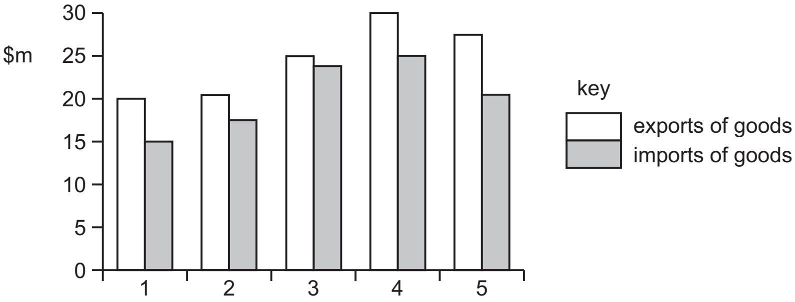
Solution 5

- A mark of zero should be awarded for no
- creditable content.
- 0

Question 30

0455/12 N24 ▪ Q30 ▪ 1 mark

30 The diagram shows the value of a country's exports and imports of goods over five years.



Question 30

year

Between which two years did the country have an increase in the value of imports and an improvement in its balance of trade in goods?

A 1 and 2 **B** 2 and 3 **C** 3 and 4 **D** 4 and 5

Solution 30

Answer: **C**

Why

- Compare the two lines year by year.
- Exports above imports is a trade surplus; imports above exports is a trade deficit.
- The *gap* between the lines shows the size of the balance, so watch where they cross.

Question 30

0455/13 N24 ▪ Q30 ▪ 1 mark

30 Country X records these selected items in the current account of its balance of payments.

- Country X exports $200m of goods.
- Country X imports $50m of services.
- Country Y's citizens working in country X send home to relatives $25m.
- Country X sends country Y $75m of aid.

By how much did the balance on the current account of country X increase?

A $50m **B** $100m **C** $200m **D** $350m

Solution 30

Answer: **A**

Why

- The current account is trade in goods, plus trade in services, plus income flows.
- So add exports and subtract imports for each category.
- Keep the signs consistent: money coming in is positive, money going out negative.