

Multiple Choice Answers

Q4: C
Q11: A
Q28: C

Multiple Choice Answers

Q3: D
Q5: D
Q6: C

1(a)	Calculate the total financial sector contribution (in \$) to Switzerland's GDP. \$72.7 billion
1(b)	Identify <u>two</u> microeconomic policy measures. maximum prices (1) subsidies (1)
1(c)	Explain one reason why overdependence on foreign markets is a disadvantage to the Swiss economy. Makes it more exposed to external shocks (1) as anything that happens in other countries could also affect the Swiss economy, for example reduced exports / increased import prices / potential shortages (1).
1(d)	Draw a demand and supply diagram to show how a subsidy to solar energy producers would affect the market for solar energy. D&S diagram: Axes correctly labelled – price and quantity or p and q (1). Original demand and supply curves correctly labelled (1). New supply curve shifted to the right (1). Equilibriums – shown by lines P₁ and Q₁ and P₂ and Q₂ or equilibrium points marked as E₁ and E₂ (1).

1(e)

Explain two reasons why Switzerland had a current account surplus.

Logical explanation which might include:

- low inflation (1) price of Swiss exports relatively lower, leading to increased exports / price of domestically produced goods relatively lower leading to decreased imports (1)
- high-quality products (1) demand for Swiss exports higher, leading to increased exports / demand for domestically produced goods higher, leading to decreased imports (1)
- strong currency (1) has kept cost of imported raw materials in Switzerland low, reducing costs of production (1).

1(f)

Analyse the relationship between the global GDP growth rate and the change in the value of the Swiss Franc.

Coherent analysis which might include the following.

Expected relationship: generally negative / inverse relationship (1) as the global growth rate falls, the value of the Swiss Franc rises / as the global growth rate rises, the value of the Swiss Franc falls (1).

Supporting evidence: fall in global growth rate led to rise in the value of Swiss Franc from 2018–2019 or 2019–2020 (1), rise in global growth rate led to fall in the value of Swiss Franc from 2020–2021 (1).

Analysis: Swiss Franc's status as a "safe haven" currency (1) when investors are unsure about the economy, they usually keep their money in Swiss francs (1).

Exception: 2021–2022 (1) where global growth was falling but Swiss Franc was stable / rising only slightly (1).

Analysis for exception:

Other reasons could affect the value of Swiss Franc (1), for example Switzerland was also affected by the Covid–19 pandemic (1).

1(g)

Discuss whether or not an increase in interest rates will harm the Swiss economy.

Award up to 4 marks for logical reasons why it might, which may include:

- cost of borrowing increases for firms (1) increasing total costs (1) reducing profits (1)
- firms may invest less (1) may have to shut down (1)
- unemployment rises (1) decreasing incomes (1) decreasing total demand (1) decreasing economic growth (1)
- consumers may borrow less (1) save more (1) less spending (1) demand for goods and services decreases (1) as returns from savings increase (1) decreasing revenues of firms (1) decreasing profits (1)
- Government borrowing costs more (1) leaving less funding available for e.g. education / health (1).

Award up to 4 marks for logical reasons why it might not, which may include:

- hot money inflows strengthen the Swiss Franc (1) reduce cost of e.g. imported raw materials (1) reducing inflation (1) increasing export competitiveness (1)
- reduced demand-pull inflationary pressures (1) as cost of borrowing increases (1) decreasing demand for loans (1) increasing saving / decreasing consumption (1) investment (1) decreasing total demand (1) firms may reduce prices (1) increasing affordability of goods and services for consumers (1).
- costs of production may decrease (1) reducing cost-push inflationary pressures (1).

1(h)

Discuss whether or not a bank merger will benefit Swiss consumers and workers.

Award up to 4 marks for logical reasons why it might, which may include:

- to avoid one of them collapsing (1) reducing confidence in the whole banking system (1) greater job security (1) less chance of bank customers losing their savings (1)
- economies of scale (1) as output increases (average) costs fall (1) prices may decrease (1) goods and services more affordable for consumers (1)
- the merged firm may make higher profits (1) able to pay higher wages to workers who remain employed (1)
- workers in merged firm can share skills (1) improving efficiency (1).

Award up to 4 marks for logical reasons why it might not, which may include:

- monopoly power may increase (1) restricting supply (1) decreasing consumer choice (1) increasing prices (1) decreasing quality (1)
- workers may lose their jobs (1) as the bank might shut down some operations / reduce duplication (1) increasing unemployment (1)
- the merged firm may be too large / experience diseconomies of scale (1) example (1) reducing efficiency (1).

5(a)

Identify two reasons why workers may choose to work in the formal economy.

Two from:

- higher incomes in the formal economy
- may have access to employment protection
- may be covered by a national minimum wage
- may be able to join a trade union
- may be entitled to receive unemployment benefit
- may be entitled to retirement benefits / pensions
- will have a formal income record needed for e.g. bank loans
- formal economy may be regulated by government.

5(b)

Explain two effects of economic growth on a country's population.

Logical explanation which might include:

- more goods and services available / greater ability to purchase health care (1) higher living standards / life expectancy (1) less poverty (1)
- higher employment / more job opportunities (1) more income (1)
- more choice (1) due to more firms starting up / expanding (1)
- lower inflation (1) if due to higher productivity / lower costs / more competition (1)
- higher tax revenue (1) allows more government spending on e.g. education / health (1)
- higher prices (1) due to increasing total demand (1)
- more pollution / external costs (1) due to higher output of manufactured goods (1)
- depletion of non-renewable resources (1) reducing future economic growth (1)
- attracts immigrants / deters emigrants (1) due to benefits from high living standards e.g. job opportunities (1).

5(c)

Analyse how government regulation can reduce market failure.

Coherent analysis which might include:

market failure occurs when there is an inefficient allocation of resources in a free market (1).

laws / rules can be used (1):

- to promote the use of merit goods (1) that are under-consumed (1) e.g. making it compulsory to wear seat belts in a car (1)
- to reduce the consumption of demerit goods (1) that are over-consumed (1) e.g. banning smoking in public places (1)
- to ensure minimum standards for goods and services (1) e.g. making it compulsory for restaurants to reach certain standards of cleanliness (1) can overcome the problem of sellers having more information than buyers (1).
- to prevent abuse of monopoly power (1) by imposing maximum prices (1) e.g. a limit can be imposed on the price that can be charged by a monopoly water company (1)
- to reduce exploitation of labour (1) by imposing minimum wages (1).

5(d)

Discuss whether or not an increase in the number of firms will benefit an economy.

In assessing each answer, use the table opposite.

Why it might:

- may increase competition
- higher competition may lower costs and prices and increase quality
- may increase choice
- may reduce monopoly power
- more firms may increase output
- higher output may increase employment and living standards.

5(d)

Why it might not:

- firms may be smaller
- may not be able to take advantage of economies of scale
- may be wasteful duplication
- may have lower profits and so invest less, lower innovation.

1(a)	Calculate the number of Malawians who had access to electricity in 2022. 3.3 m or 3 300 000.
1(b)	Identify <u>two</u> capital goods used in Malawi. Two from: Factories (1) power stations (1) solar panels (1) electricity (1) fertilisers (1).
1(c)	Explain what is likely to have happened to Malawi's production possibility curve (PPC) in January 2022. • It is likely to have shifted to the left / inside / inwards / contract (1). • due to natural disasters / Storm (Ana) / resources destroyed / productive capacity (or land) reduced / less labour (1).
1(d)	Explain <u>two</u> reasons why the supply of Malawian tea may increase. Logical explanation which might include: • good weather conditions (1) would increase crop yields / prevent crops being destroyed (1). • government subsidies (1) provide a financial incentive / additional payment to that received from consumers / reduce costs of production (1). • fall in price of fertiliser (1) which reduces cost of production / increase crop yields / allows farmers to purchase more fertiliser (1). • fall in exchange rate (1) higher demand for Malawian tea (1).

1(e)	Draw a demand and supply diagram to show the effect of a report stating the health risks of consuming sugar on the market for sugar. Coherent analysis which might include the following. D&S diagram: • Axes correctly labelled – price and quantity or p and q (1). • Original demand and supply curves correctly labelled (1). • New labelled demand curve shifted to the left (1). • Equilibriums – shown by lines P_1 and Q_1 and P_2 and Q_2 or equilibrium points marked as E_1 and E_2 (1).
1(f)	Analyse the relationship between GDP per head and the percentage of children who complete primary education. Coherent analysis which might include the following. Expected relationship: Generally, a direct / positive relationship (1) the higher the GDP per head, the higher the percentage of children who complete primary education (1).

1(f)

Supporting evidence:

Four countries with the highest GDP per head had the highest percentage of children who complete primary education / Malawi / Uganda have the lowest of both (1).

South Africa had the highest GDP per head and the highest percentage of children who complete primary education (1).

Comparison of two countries (e.g. Namibia and Senegal where GDP falls as does percentage of children completing primary education).

Analysis of the expected relationship:

Parents in countries with high incomes are more likely to be able to afford to keep their children in primary education (1).

Government tax revenue is likely to be higher in countries with high incomes and so will be able to spend more on primary education (1).

Completing primary education may increase the chance of skilled / occupationally mobile high income earning workers (1).

Exception:

Malawi / Uganda (1) Malawi has a lower GDP per head but a higher percentage of children who complete primary education than Uganda (1).

Analysis of exception:

A higher percentage of children may complete primary education but the quality of the education may be low leading to a low GDP per head / GDP per head may be high but there may be a high degree of inequality with a relatively high proportion of the population unable to keep their children in primary education (1).

1(g)

Discuss whether or not Malawi should develop a solar energy industry.

Award up to 4 marks for logical reasons why it might, which may include:

- a sustainable source of energy (1) enables future generations to access energy (1)
- would create less pollution / external costs than burning wood and charcoal / improve air quality (1) reduce deforestation (1) improve health (1)
- may enable more Malawian households to gain access to electricity (1) increase living standards / reduce inequality (1)
- setting up solar panels creates jobs (1) leads to increased output / economic growth / access to electricity for Malawian firms (1)
- long hours / 3000 hours of sunshine (1) a good / viable source of energy (1)
- less need to import energy (1) reduce current account deficit (1)
- develops employment opportunities (1) raising incomes (1).

1(g)

Award up to 4 marks for logical reasons why it might not, which may include:

- opportunity cost of installing (1) example (1)
- opportunity cost of land use (1) reduced agricultural output (1)
- dependent on weather / sunshine and days lost (1) unstable supply (1) may experience storm damage / natural disasters (1)
- visual pollution (1) might reduce tourism / reduce house prices (1)
- cost of developing an electricity distribution network may be prohibitive
- cost of switching from fossil-fuel burning domestic appliances to electrical ones may not be affordable to households (1) limiting the impact of the switch (1)
- expensive to install (1) worsen government budget position (1)
- visual pollution (1) might reduce tourism / reduce house prices (1)
- solar panels could be damaged by storms (1) making them inefficient (1).

1(h)

Discuss whether or not a government should try to stop its country's foreign exchange rate falling in value.

Award up to 4 marks for logical reasons why it should try to stop it falling in value e.g. the disadvantages of the fall, including:

- will increase import prices (1) reducing imports (1) may increase cost of imported raw materials and capital goods cost (1) cause cost-push inflation (1) cause slow economic growth (1)
- may reduce pressure on domestic firms to keep prices low (1) quality high (1)
- may reduce confidence in the economy (1) reduce investment (1) increase debt (1).

Award up to 4 marks for logical reasons why it should allow a fall in value e.g. the advantages of the fall, including:

- will reduce export prices (1) increase exports (1) reduce imports (1)
- make domestic goods more competitive (1) reduce a current account deficit / improve the balance of payments (1)
- may increase economic growth (1) reduce unemployment (1) attract MNCs / attract investment (1) increase tourism (1)
- opportunity cost / costly for government to intervene (1) e.g. less funding for education / healthcare / housing (1)
- may increase government tax revenue (1).