Question 22 (Answer: **A**)

- Chile exports copper, so its export earnings depend on the copper price.
- A large rise in world supply pushes the copper price down.
- So Chile's export revenue falls, worsening its current account and reducing national income.

Question 24 (Answer: **B**)

- Deflation is a sustained fall in the general price level.
- That means a *negative* inflation rate.
- A falling *rate* of inflation, with prices still rising, is disinflation – a different thing.

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Question 22 (Answer: **C**)

- GDP per head is GDP divided by population.
- GDP grew 2% while population grew 1.3%.
- Output grew faster than population, so GDP per head rose – by roughly 0.7%.

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Question 22 (Answer: **C**)

- Economic growth is measured by the increase in *real* GDP.
- Real means adjusted for inflation, so it reflects actual output rather than higher prices.
- A rise in the money value of output could be inflation alone.

2(a)	**Identify <u>two</u> examples of primary sector industries.** Two from: • farming / agriculture • mining • fishing • forestry
2(b)	**Explain <u>two</u> causes of rising GDP.** Logical explanation which might include: • increased consumption (1) decrease in taxes (1) such as income tax / corporation tax (1) increased disposable income /profits (1) • increase in investment (1) leading to increase in total demand (1) • increase in government spending (1) e.g. spending on infrastructure (1) increasing total (aggregate) demand in the economy (1) • improvements in technology (1) increase in productivity (1) • increase in the quantity (1) and quality of factors of production (1) e.g. increase in size of labour force (1) improved labour skills (1) increase in productive capacity of the economy (1) • decrease in interest rates (1) cost of borrowing falls (1) borrowing increases (1) • decreases in exchange rate (1) price of exports falls / price of imports rises (1) increase exports / decrease imports / increase net exports (1).

2(c)	**Analyse why house prices may increase.** Coherent analysis which might include the following. Increase in demand (1) due to lower interest rates (1) increasing borrowing for house purchases (1) higher population (1) higher incomes (1) increasing ability to purchase houses (1) higher confidence (1) increasing willingness to buy houses (1). Decrease in supply (1) reduction in subsidies on new house building (1) increased taxation on housing (1) government building fewer houses (1) stricter planning regulation (1) land is used for other things e.g. infrastructure (1). Increasing cost of production of new houses (1) cost of labour (1) cost of raw materials (1) cost of land (1) increased costs passed on to buyers of houses as higher prices (1). Less government intervention (1) removal of price controls (1).

2(d)	**Discuss whether or not increased government spending on education will lead to economic development.** In assessing each answer, use the table opposite. Why it might: • increase skills / qualifications / knowledge • increase job opportunities • encourage more investments • increase productive capacity • reduce consumption of demerit goods • improved health / life expectancy • higher HDI

2(d)	Why it might not: • takes a long time to have an impact on the economy • financial cost of government spending e.g. taxation / borrowing • opportunity cost e.g. health spending • reduced benefit to the economy if there is emigration of skilled workers / net migration is negative • government might spend the money inefficiently • education programmes may be ineffective.

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Question 23 (Answer: **B**)

- When employment falls, more people claim unemployment benefits.
- So government spending on state benefits rises while tax revenue falls.
- Consumer confidence and consumer spending both fall at the same time.

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Question 24 (Answer: **C**)

- Inflation rises fastest when demand grows while supply does not.
- So look for rising demand combined with static or falling supply.
- Both moving together would leave the price level much less affected.

Question 30 (Answer: **B**)

- A current account surplus means more currency is bought to pay for exports than sold to buy imports.
- So demand for the currency rises relative to supply.
- With a floating rate the currency therefore *appreciates* – it does not depreciate.

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Question 17 (Answer: **B**)

- Real GDP strips out the effect of rising prices.
- So it rises only when nominal GDP grows *faster* than inflation.
- If nominal GDP and inflation rise at the same rate, real GDP is unchanged.