Question 28 (Answer: **C**)

- Free trade brings lower prices, greater choice, larger markets and economies of scale.
- Those are all genuine benefits.
- What it does *not* protect is domestic industry – infant and declining industries can be damaged.

5(a)	**Identify a difference between an export and an import.** Export is a good or service that leaves the country / sold to another country (1), import is a good or service that enters the country / bought from another country (1). Export is a credit item in the current account of the balance of payments (1) imports are a debit item (1). Foreigners spend on exports (1) the home country's population spend on imports (1). Exports lead to money coming into an economy (1), while imports lead to money going out of an economy (1).
5(b)	**Explain why commercial banks may increase their lending.** Logical explanation which might include: To increase profits / revenue (1) earn more interest / high interest rates (1) as most commercial banks are in the private sector (1) main aim is likely to be profit maximisation (1). Increase in demand for loans (1) due to low interest rates (1) increase optimism about the future (1) higher demand for bank loans may increase profits (1). Increased confidence loans will be repaid (1) due to e.g. rise in incomes (1). Increase in bank deposits (1) more money to lend (1). Take advantage of economies of scale (1) lower average costs (1). Central bank / government encouragement / (expansionary) monetary policy / instructions (1) to increase total demand / increase consumer spending / increase investment (1). To promote social welfare (1) by reducing poverty (1). To keep up with competitors (1) attract more customers / gain more market share (1).

5(c)	**Analyse how an ageing population may affect a country's economic growth rate.** Coherent analysis which might include: • May increase economic growth / GDP / output (1) as an ageing population may have experience (1) more productive / more efficient / more skilled (1). • May have more spending power (1) increase total demand (1). • May train young workers to be more reliable / older workers may be more reliable (1). • May reduce economic growth / GDP / output (1) as may have out-of-date skills / not able to operate new technology (1) lack mobility (1). • More retired people / more economically inactive people (1) may mean a decrease in size of the labour force (1) increase dependency ratio / more dependents (1). • May save more (1) reducing total demand (1). • May be less healthy workers (1) more days absent from work due to sickness (1). • The government may have to spend more on state benefits / pensions / healthcare (1) lower tax revenue (1) reducing spending on items that could increase economic growth e.g. education, infrastructure / opportunity cost (1).

5(d)	**Discuss whether supply-side policy measures will reduce a government's budget deficit.** In assessing each answer, use the table opposite. Why they might: • education and training may raise productivity • increase economic growth and employment • raise direct and indirect tax revenue • privatisation may reduce government spending to support state-owned firms • revenue will be raised from the sale of privatised firms • privatised firms may earn high profits which may raise tax revenue • subsidies may encourage firms to expand and earn higher profits • unemployment benefit may be cut to increase incentive to work. • budget deficit may be increased in short term but reduced in the long term. Why they might not: • education and training will increase government spending and may not be successful • lower tax rates may reduce tax revenue • regulation will involve costs to enforce • spending on infrastructure projects may involve high government spending. • sale of profitable government-owned firms to the private sector may reduce government revenue from profits

5(d)	

Question 27 (Answer: **A**)

- International specialisation is encouraged when goods can move freely between countries.
- Free trade allows each country to concentrate on what it does relatively best.
- Tariffs and immobility are barriers – they discourage specialisation.

Question 27 (Answer: **D**)

- Specialisation at national level lets a country concentrate on what it does relatively best.
- That raises output, lowers costs and allows economies of scale.
- The *disadvantages* are dependency on other countries and vulnerability to demand changes.