IGCSE Economics: **w25 11**

Question 29 (Answer: **B**)

- If US oil imports fall and exports rise, the US buys less foreign currency and earns more.
- So the US current account improves.
- The UK, on the other side of that trade, sells less oil to the US, so its export earnings fall.

Question 30 (Answer: **C**)

- A persistent current account surplus means strong demand for the country's currency.
- That pushes the exchange rate *up*, not down.
- A higher exchange rate then makes exports dearer, which eventually erodes the surplus.

IGCSE Economics: **w25 13**

Question 20 (Answer: **C**)

- Total demand rises when spending becomes cheaper or more money is available.
- So a lower interest rate, a larger money supply and a devalued exchange rate all raise it.
- A revaluation would make exports dearer, reducing demand.

IGCSE Economics: **s25 11**

Question 29 (Answer: **B**)

- The exchange rate is set where demand for the currency meets supply of it.
- More foreigners buying Chinese goods raises demand for yuan, so the yuan appreciates.
- More Chinese buying imports raises the supply of yuan, so it depreciates.

IGCSE Economics: **s25 12**

Question 29 (Answer: **B**)

- To compare prices across countries, convert them all into one currency.
- Use each country's exchange rate to express the price in a common unit.
- Only then can the four figures be ranked meaningfully.

IGCSE Economics: **s25 13**

Question 29 (Answer: **C**)

- Sterling moved from \$1.48 to \$1.32, so the pound has *depreciated*.
- That makes UK exports cheaper for American buyers and US imports dearer in Britain.
- So export volumes should rise and import volumes fall.

IGCSE Economics: **w24 11**

Question 29 (Answer: **C**)

- The diagram shows the demand for country X's currency shifting.
- Demand rises when foreigners want more of X's exports or want to invest there.
- Demand falls when its exports become less attractive, so the exchange rate falls.

IGCSE Economics: **w24 13**

Question 29 (Answer: **B**)

- The exchange rate is set where demand for the rupee meets its supply.
- Read which curve shifted and in which direction.
- More demand for rupees raises the rate; more supply of rupees lowers it.

3(a)	**Define *foreign exchange market.*** An arrangement / place (1) where different countries' currencies are bought/demanded (1) and sold/supplied (1) one currency is exchanged for another currency (1).
3(b)	**Explain <u>two</u> reasons why a firm may adopt labour-intensive production.** Logical explanation which might include: • Labour may be low in price / wages may be low (1) which might make labour cheaper than capital / there may be a high supply of labour (1). • Labour may be very productive / efficient (1) which can make employment profitable / result in low costs of production (1). • The government may subsidise the employment of workers (1) to reduce unemployment (1). • The firm may provide personal services (1) with individual attention (1). • Labour may be more creative / adaptable / provide feedback (1) produce high quality products / improve methods of production (1) • Labour may be unskilled / low level of education (1) unable to use high-tech capital equipment (1).

3(c)	**Analyse how the macroeconomic aims of economic growth and balance of payments stability may conflict.** Coherent analysis which might include: Economic growth may increase employment (1) increase wages / incomes / purchasing power (1) this may increase imports (1). Higher consumer spending (1) may encourage firms to switch products to the domestic market (1) reduce exports (1) increase / cause a current account deficit (1). To produce more goods and services, firms may import more raw materials (1) capital goods (1). Economic growth may result in inflation (1) which would make domestic products less price competitive (1). Economic growth may deplete resources (1) increase need for imports (1). Economic growth may be export-led (1) may be achieved by restricting imports (1) result in a current account surplus (1). Migrant workers may send more money home (1). Export-led growth may increase the exchange rate (1) which may increase imports / reduce exports (1).

3(d)	**Discuss whether or not a high level of poverty is likely to exist in a market economic system.** In assessing each answer, use the table opposite. Why it might: • may be unemployment • lack of welfare benefits • likely to be income inequality • merit goods including healthcare and education may be under-consumed and so underproduced • monopolies may develop resulting in higher prices. Why it might not: • competition / profit motive may result in low prices • efficiency is encouraged which can result in high wages and high employment • greater response to changes in consumer demand, may increase economic growth • countries with efficient private sector firms may have relative poverty but low absolute poverty.