Quick Answers

Question 1

Identify <u>two</u> reasons why the total amount saved in Kenya is likely to have increased in 2015.

Higher income/real GDP per head (1) a higher interest rate (1).

Question 2

Identify two ways a government could encourage saving.

- raise the rate of interest
- introduce tax-free saving schemes
- provide information / education about the benefits of saving
- introduce compulsory saving schemes
- government measure that can increase income e.g. lower taxes

Question 3

Identify two factors that affect borrowing in an economy.

- interest rates
- confidence levels
- wages / incomes

Question 4

Analyse the relationship between the countries' consumer expenditure and imports.

Coherent analysis which might include:

Expected relationship:

- Direct / positive relationship (1) generally countries with higher consumer expenditure import more goods and services (1)
- As income rises consumption rises for both domestic and imported goods and services (1)

Evidence:

- E.g. Brazil spends the most and imports the most and Panama spends the least and imports the least (1) supportive data (1)

Exception:

- Argentina/Philippines (1) supportive data (1)

Analysis:

- Trade restrictions reduce growth in imports (1) imports include not only consumer goods, but also capital goods bought by firms (1)

Guidance

- Responses do not have to be in the format suggested but they should address the expected/normal relationship, offer supporting evidence of that, highlight any exceptions to that, and analyse the overall data

Question 5

Define saving.

- Income (1) not spent / minus spending (1).
- Putting money in the bank (1) for future use (1).

Question 6

Identify two motives for consumer spending.

• to satisfy needs e.g food, shelter
• to satisfy wants e.g. luxury goods
• fear of future price rises
• to gain satisfaction from that consumption

Question 7

Explain two motives for saving.

• to gain interest (1) as a form of income / as a return on saving (1)
• for the future (1) e.g. for unexpected events, save for pensions (1)
• to purchase expensive items (1) e.g. cars, houses, furniture / items which can't be bought immediately (1)
• for children's education (1) to improve social mobility (1)

Question 8

Explain, using information from the extract, two reasons why consumer expenditure may increase in India in the future

- The economy is growing / there is a rise in GDP per head (1) more income increases people's ability to spend (1)
- There is growing optimism (1) which is likely to increase people's willingness to spend as they may expect incomes/employment to be high in the future (1)
- The population is increasing (1) more people to buy goods and services (1)
- The labour force is increasing (1) more people with incomes to spend (1)
- The population is due to be relatively young (1) the young may spend a relatively high proportion of their income (1)
- Low/stable inflation (1) may enable interest rates to be low (1)

Question 9

Identify two ways a government could encourage people to spend more.

• lower taxes
• increase government spending / expansionary fiscal policy
• increase money supply
• reduce interest rates / expansionary monetary policy
• raise subsidies

Question 10

Discuss whether or not people in developed countries are likely to save more than people in developing countries.

Up to 5 marks for why they might:

- On average people in developed countries have a higher income (1) so are more able to save (1) or more able to save larger amounts so may gain a higher interest rate (1)
- There tends to be a greater range of financial institutions in developed countries (1) more secure financial institutions (1) this gives greater confidence in saving (1)
- People in some developed countries may have a culture of saving (1) e.g. Japan (1)
- Inflation rate may be lower in developed countries (1) enabling people to save more of their income (1)

Up to 5 marks for why they might not:

- The lack of a developed welfare system in some developing countries (1) means that some people may save more for e.g. their old age / retirement (1) future health problems (1)
- There may be greater confidence about economic prospects in some developed countries (1) encouraging people to spend more (1)
- The rate of interest may be lower in some developed countries (1) reducing the incentive to save (1)
- Some people in developing countries are richer than some people in developed countries (1)
- Some people in developing countries may save more to spend on higher education to increase the opportunity to work abroad (1)

Guidance

- Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is expected
- Accept responses from the opposite perspective, i.e. people in developing countries are likely to save less than those
  in developed countries

Question 11

Analyse the impact of a cut in interest rates on saving and investment.

- Saving is expected to fall (1) as the return from saving falls (1), reducing opportunity cost of spending (1), causing individuals to spend more (1) and borrow more (1)
- Investment will rise (1) as it becomes cheaper for firms to borrow (1), reducing the cost of investment (1) and making investment more profitable (1)

Question 12

Explain why a recession is likely to reduce consumer spending.

- Rise in unemployment (1) reduced income (1) reduced ability to spend (1)
- Consumers save more (1) for fear of future / increased pessimism (1)
- Likely to be associated with lower prices (1) consumers delay purchases (1)