Quick Answers

Question 1

Analyse how a rise in investment could increase a country's economic growth rate.

Coherent analysis which might include:

- More investment will increase total (aggregate) demand (1) there will be more capital goods (1) these may be more efficient / embody advanced technology (1) productive capacity will increase / productivity rise (1) costs of production may fall (1) prices may fall (1) quality may rise (1) more products may be demanded by domestic consumers (1) foreign buyers / more exports (1) output may increase (1)
- Higher investment may increase employment (1) raise income (1)
- Investment in human capital/education/healthcare (1) can raise productivity (1)

Question 2

Calculate India's economic growth rate in 2017.

Answer:
7% (1).

Question 3

Explain two benefits of a higher economic growth rate.

Logical explanation which might include:

- Higher incomes / output (GDP) / spending (1) better living standards (1)
- Reduced poverty (1) able to afford basic necessities / more goods and services available (1)
- Reduced unemployment (1) more jobs created (1)

- Increased tax revenue (1) providing more funds to spend on education/healthcare (1)
- Higher confidence (1) increase investment (1)
- Attract MNCs (1) due to higher total (aggregate) demand (1)
- Higher exports (1) may exceed higher imports / may improve the current account position (1).
- Increase the country's economic power (1) e.g. in trade negotiations (1)

Guidance:

One mark for each of two benefits identified and one mark for each explanation.

Question 4

Discuss whether or not an increase in house building will benefit the people who live in the area.

Up to 3 marks for why it might:

- House building may create jobs (1) lower unemployment (1) generate income / raise wages / raise living standards (1)
- House building will increase the supply of housing (1) the lower price of housing (1) makes houses more affordable (1) fewer homeless (1)
- May attract more firms to set up in the area (1) more services may be provided (1) due to more people living in the area / larger labour force (1)
- May save travel time for those working nearby (1) reduce pollution / congestion (1)

Up to 3 marks for why it might not:

- House building may cause external costs (1) examples (2)
- More houses may reduce the value of people's homes (1) reduce their wealth (1)
- There is an opportunity cost (1) the area used could have been used for e.g. school buildings (1)
- Demand for extra services may not be met (1)

- Jobs may only be temporary / seasonal unemployment (1)
- More housing may create overcrowding in the area. (1)

Question 5

Analyse how fiscal policy could be used to stop a recession.

- The government could cut taxes (1) this could raise disposable income / purchasing power (1) which may increase consumer spending (1) cuts in corporate tax may provide more funds for firms (1) raise investment (1) encourage firms to expand their output (1) increase employment / reduce unemployment (1)
- A government could increase its own spending (1) example e.g. healthcare (1) this would increase total (aggregate) demand (1) encouraging an increase in output (1)
- Spending on infrastructure (1) may reduce firms costs and so encourage higher output (1)

Question 6

Discuss whether or not an increase in the size of a country's gold mining industry will benefit an economy.

Up to 5 marks for why it might:

- It may provide more jobs (1) reduce unemployment (1)
- It may increase output / cause economic growth (1) increase wages (1) increase living standards (1)
- Some of the gold may be exported (1) improve the current account position (1)
- The industry may experience (external) economies of scale (1) lower average cost (1) example of an external economy (1)
- It will be more beneficial if world demand is increasing (1)
- May attract multinational companies to set up in the country (1)
- Tax revenue may increase (1) enabling government to spend more on e.g. infrastructure (1)

Up to 5 marks for why it might not:

- A rise in the supply of gold may reduce its price (1) reduce revenue (1) reduce exports (1)
- External costs may be created (1) damage to the natural environment / pollution (1)
- The industry may experience (external) diseconomies of scale (1) higher average cost (1) example of an external economy (1)
- Mining is a dangerous occupation (1) wages may be low as primary sector (1) jobs may be unskilled (1)
- Resource of gold may be depleted (1) stopping future generations being able to take advantage of them (1)
- It will be less beneficial if other gold producing countries are increasing their output (1)

Question 7a

Calculate Turkey's total output.

$320 billion

Question 7b

Explain the relationship between the growth of Istanbul's service sector and its growth in total output.

Logical explanation which might include:

- Higher growth in service sector leads to higher total economic growth (1)
- This is expected as countries become more developed, the share of services increases (1) and the share of primary sector decreases (1)
- For example, in 2011, the service industry grew most rapidly at 28.16% and the total economic growth was 21.9% (1)

- However, although growth of service sector was lowest in 2010 at 11.9%, total growth was 14.38% (1), higher than in 2014 where growth of service sector was higher (1)

Question 7c

Analyse how good transport links have contributed to Istanbul's economic growth.

Coherent analysis which might include:

- Good roads could lead to reduction in commute time (1) good roads / air transport leads to faster transport of goods and services (1)
- Workers can move easily / higher labour mobility (1) reduce unemployment (1)
- More competition in the labour market (1) more competition in the product market (1) could lead to fall in cost of production (1) increase in productivity (1)
- Easy to conduct business internationally due to good air transport links (1) access to huge international market (1) e.g. 1.5 billion people within a flight time of 4 hours (1) may have attracted MNCs (1)
- Contributed to the growth of the transport industry (1) allowing transport firms to take greater advantage of economies of scale (1)

Question 8

Explain, using information from the extract, two causes of economic growth in New York.

- good human capital (1) high skills / labour productivity (1)
- economic freedom encouraging business start-ups (1) increased investment / innovation (1)
- strong finance/manufacturing growth (1) increased investment/consumption/exports (1)
- education (1) improved skills (1) increased productivity/growth of tertiary sector/greater GDP per capita (1) attracts students who spend on local goods and services (1)

- falling unemployment (1) greater use of resources (1)

Guidance

- Two **causes** must be explained for maximum marks

Question 9

Explain, using information from the extract, the possible negative effects of economic growth in New York.

- pay gap widening/inequality (1) creating more social tensions (1) reducing productivity due to dissastisfaction (1)
- external costs / environmental problems (1) increased pollution (1) lack of green, open space (1)
- risk of financial crisis / recession (1) bank runs/asset bubbles bursting (1) lack of job security (1)
- more people move to New York for employment (1) increasing the shortage of affordable homes (1) increasing housing prices (1)

Question 10

Define Gross Domestic Product.

- GDP measures the (total) output/income/expenditure (1) of a country/economy (1)

Question 11

Discuss whether or not a reduction in imports is beneficial to an economy.

Up to 5 marks for why it might be:

- Reduction in imports may improve the trade in goods / trade in goods and services balance (1) this will improve the current account position / reduce a current account deficit (1) this may reduce a country's debts (1) avoid downward pressure on the exchange rate (1)

- Spending on imports may be replaced by spending on domestically produced products (1) this would increase the country's output / cause economic growth (1) this would increase demand for labour (1) raise employment / reduce unemployment (1) increase incomes and living standards (1)
- Fewer imports may enable infant industries to grow (1) may protect declining strategic industries (1)
- May prevent dumping (1) explanation of what is meant by dumping (1)
- Imports may be harmful products (1) might affect people's health (1)

Up to 5 marks for why it might not be:

- Imports of capital goods / raw materials may decline (1) these might be cheaper / lower quality than domestically produced capital goods and/or raw materials (1) this will raise costs of production (1) make the country's products less internationally competitive (1) lower output/reduce economic growth (1) worsen the current account position (1) raise unemployment (1)
- Fewer imports may reduce choice (1) reduce competition (1) may raise prices (1) lower quality of people's lives (1).
  Exports may be falling by more than imports (1) so current account position may be worsening (1)
- Quantity of imports may be falling but value of imports may be rising (1)
- If the reduction is caused by protectionist measures (1) this would reduce benefits of free trade (1)
- Loss of tariff revenue (1) may be a major source of tax revenue/reduce amount that can be spent on e.g. education (1)
- Imports may be of beneficial products (1) not produced in the country (1).

Question 12

Discuss whether or not building a new city will benefit an economy.

Up to 4 marks for why it might:

- Jobs will be created (1) reduce unemployment (1) higher total demand / economic growth (1) creating higher income / less poverty (1).
- Better housing may be constructed (1) overcrowding may be reduced / less homelessness (1) living standards may rise (1).
- MNCs may be attracted into the country (1) by improved facilities (1).
- Results in higher tax revenue (1) which government can spend on other objectives e.g. education and health (1).

Up to 4 marks for why it might not:

- It will involve an opportunity cost (1) money spent/resources used could have been used to e.g. improve education and healthcare (1) may cause a budget deficit (1).
- It may cause external costs (1) e.g. damage the environment (1).
- People and firms may not want to move (1) new facilities will be wasted (1).
- Causes inflation (1) if already at or close to full employment (1).
- Pushes up prices (1) causing cost-push inflation (1).
- Depletes natural resources / raw materials (1) more dependent on imports (1).

Question 13

Identify the difference between economic growth and recession.

- Economic growth is an increase in GDP/output (1).
- Recession is a fall in GDP/output / negative economic growth (1).

Question 14

Explain two benefits a government may gain from the growth of the private sector.

- Higher tax revenue (1) private sector may be more efficient / private sector may earn higher profits / higher tax revenue may be spent on e.g. education (1).

- Lower government spending on supporting state-owned enterprises (1) spending could rise on other areas e.g. healthcare (1).
- Increases employment / reduces unemployment (1) which is a government objective / reduces government payments on unemployment benefits (1).

Question 15

Discuss whether or not a rise in the rate of interest will reduce economic growth.

Up to 5 marks for why it might:

- It may discourage spending (1) as it would be more expensive to borrow (1) more rewarding to save (1) this will lower total (aggregate) demand (1) which could reduce firms' output (1).
- It may discourage investment (1) as more expensive to borrow (1) firms decide to save the money (1).
- Higher interest rate may cause exchange rate to rise (1) discouraging exports / encouraging imports (1).

Up to 5 marks for why it might not:

- People / firms may still be prepared to borrow if they are optimistic about the future (1) thinking they will be able to repay (1) because they expect e.g. higher income in the future (1).
- The rate of interest may still be low (1) and may be below the inflation rate (1).
- A higher rate of interest may reduce inflation (1) this could make domestic products more price-competitive (1) and so increase exports (1).
- Government spending (1) increased exports (1) may offset reductions in consumption and investment resulting in higher economic growth (1).

Question 16

Explain, using information from the extract, two reasons, apart from changes in employment, for Iceland's high growth rate from 2002–2007

- increased availability of bank loans (1) more borrowing (1) to fund consumption (1) and to fund investments (1)
- increasing income of its major trading partners, including the European Union and Norway (1) Iceland can now export more to their trading partners (1) increase net exports / external demand / total demand (1)

Question 17

Calculate, using information from the extract, Iceland's GDP in 2007.

\$18.53 billion (2)
18.53 or working e.g. \$17bn × 0.09 = \$1.53bn (1)

Question 18

Analyse how an increase in exports could improve a country's macroeconomic performance.

- An increase in exports can increase export revenue (1) this may reduce a current account deficit (1)
- An increase in exports will increase total (aggregate) demand (1) firms will produce more products / higher output (1) more workers will be employed (1) unemployment will fall (1) economic growth will increase / incomes will rise / higher living standards (1)

Question 19

Discuss whether or not a country will suffer if its output falls.

Up to 5 marks for why it might:

- Lower output may mean that people will have fewer goods and services (1) this could reduce living standards / reduce incomes (1)
- Lower output may mean fewer workers are needed (1) unemployment may rise (1)

- If consumers cannot buy domestically produced products (1) they may buy imports (1) exports may fall (1) resulting in a current account deficit (1)
- MNCs may leave the country (1) reducing employment (1)
- Tax revenue may fall (1) reducing government's ability to spend on e.g. education (1)

Up to 5 marks for why it might not:

- Living standards may rise (1) if output falls by less than population (1)
- A lower output may reduce external costs (1) e.g. pollution (1) destruction of sights of natural beauty (1)
- Lower output may reduce demand for imports (1) improve the current account position (1)

Question 20

Discuss whether or not the Russian government should have been concerned about the state of the Russian economy in 2016.

Up to 4 marks for why they should have been concerned:

- Negative economic growth / recession (1) increasing unemployment (1) increasing poverty rates (1) possible policy measures to reduce poverty (1) e.g. costs of healthcare may rise (1) need for greater spending on benefits e.g. unemployment benefits (1) falling tax revenues (1) may have to increase taxes (1) opportunity cost(s) involved / reduced spending on other areas e.g.defence (1)
- Rising inflation (1) making goods and services less affordable (1)
- Emigration from Russia is increasing (1) reducing the available workforce (1)
- Export values are falling (1) so less foreign currency is earned (1) falling value of the rouble (1) causing imported inflation (1) leading to higher interest rates (1) higher cost of borrowing for government (1)
- Investors lacked confidence in the Russian economy (1) may have reduced productive potential (1)

Up to 4 marks for why it is less of a cause for concern:

- Government spending may not need to rise (1) and tax revenue may increase (1)

- Domestic consumption is increasing (1) and domestic investment is increasing (1) this may create employment (1) and offset decreases in foreign investments and exports (1) therefore total (aggregate) demand might not decrease significantly (1)
- Inflation may be a sign of increasing demand (1) showing confidence in the economy (1)
- Emigration may be mainly of unskilled workers (1) who are less valuable to firms (1)
- The falling exchange rate may improve the current account (1) with no need for government / central bank action (1)

Question 21

Discuss whether or not moving firms from the public sector to the private sector will benefit an economy.

Up to 5 marks for positive effects:

- Private sector firms have the profit motive (1) and so the efficiency (1) and quality of their output may be good (1) and so may enable them to pay higher wages (1)
- The threat of closing down (1) will force firms to provide a good service to stay in business (1)
- Competition between private firms (1) leads to better response to consumer demand (1) keeping costs (1) and prices low (1)
- Private firms are accountable to shareholders (1) who want high dividends (1) therefore firms need to be efficient/profitable (1)
- Investment in the private sector will not be disrupted by fluctuations in government tax revenue (1)
- May attract financial investment from abroad (1)

Up to 5 marks for negative effects:

- Investment funds may be more available to the public sector than the private sector (1) to provide a quality service (1)
- A public sector firm can be prevented from going of business (1) guaranteeing the provision of certain products e.g. water (1) maintaining employment (1)

- Public sector firms are not always motivated by profit (1) the government is more likely to base its decisions on social/external costs and benefits (1) e.g. the environment (1) rather than just private costs and benefits (1)
- Public sector firms may provide essential services (1) which the private sector is not willing to provide (1) will be more inclined to keep prices low (1) the poor will be able to afford essential products (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 to be rewarded
- Accept responses from the opposite perspective i.e. positive effects of the public sector and negative effects of the private sector.

Question 22

Discuss whether or not advances in technology benefit an economy.

Up to 5 marks for why they might:

- Advances in technology will raise the quality / productivity of capital / labour (1) it will increase the output that can be made / cause economic growth / increase GDP (1) may raise income (1)
- Advances in technology can lower costs of production (1) reduce cost-push inflation (1) make domestic products more internationally competitive (1)
- improve the current account position of the balance of payments (1)
- May raise the quality of products produced (1) raise living standards (1) make domestic products more quality competitive (1) improve the position of the current account of the balance of payments (1)
- May attract MNCs (1)
- Provide employment for certain classes of worker (1) e.g. skilled (1)

Up to 5 marks for why they might not:

- Advances in technology may result in capital equipment that can replace labour (1) result in unemployment (1)

- If workers do not have sufficient skills (1) they may not be able to get the most out of more advanced equipment (1)
- New capital equipment may worsen working conditions (1) e.g. workers may get eye strain by looking at a screen for long periods of time (1)
- May be an opportunity cost (in the short run) (1) as more resources may have to be devoted to capital goods / R&D (1)
- New capital equipment may be expensive (1) increase firm' costs (1) may be an opportunity cost if provided by the government (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.

Question 23

Discuss whether or not increased government spending will increase economic growth.

Up to 5 marks for why it might:

- Higher government spending will increase total (aggregate) demand (1) higher total demand may encourage firms to increase output (1)
- Higher government spending on education/training (1) health (1) may raise labour productivity (1) increase productive potential/long run economic growth (1)
- Higher government spending on infrastructure (1) will reduce costs of production (1) encouraging firms to expand (1)
- Higher government spending on R & D (1) would lower costs/raise productive potential (1)

Up to 5 marks for why it might not:

- Higher government spending may increase inflation (1) this may make products less internationally competitive (1) reducing net exports (1) reducing output (1)
- Higher government spending may not increase total demand if offset by e.g. lower consumer expenditure (1)

- Higher government spending may not increase total demand if it is accompanied by higher taxation (1)
- Higher government spending on education/training may not increase labour productivity if it does not raise the quality of education/training (1)
- Higher benefits (1) may reduce incentives to work (1)
- Government spending may be spent wastefully/inefficiently (1)

Question 24

Analyse how a recession may reduce a country's imports

- A recession is a decrease in GDP (1) over 6 months or more / two consecutive quarters (1)
- A recession is likely to reduce incomes (1) increase unemployment (1) reduce confidence levels (1) consumer spending is likely to fall (1)
- As output is falling (1) firms are likely to buy less raw materials from abroad (1) buy fewer capital goods from abroad (1)
- During recessions governments may impose trade restrictions which will reduce imports (1)
- A recession may cause a depreciation of the currency (1) making imports more expensive (1)

Question 25

Define recession.

- A fall in GDP / negative economic growth (1) for two successive quarters / 6 months or more (1)