Quick Answers

Question 1

Analyse the factors which lead an MNC to produce in particular countries.

Coherent analysis which might include:

- Size of market (1) if demand for the product/s produced is high in the country (1) higher revenue may be earned (1)
- Costs of production (1) e.g. low wages/low raw material costs may attract multinational companies (MNCs) (1)
- Availability of raw materials (1) certain raw materials e.g. copper may be found in a small number of countries (1)
- Trade protection (1) MNCs may set up in a country to get round tariffs (1)
- Government subsidies (1) financial help may be given to companies setting up in some countries (1)
- Fewer government regulations (1) MNCs may set up in countries with fewer rules and laws (1)
- Skills of workers (1) highly skilled workers will produce products of a good quality (1)

Question 2

Discuss whether or not a government should impose tariffs on its country's imports.

Level 3 (6-8 marks)

A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes

Why they might impose tariffs:

- This will raise revenue for the government; this could be spent on e.g. healthcare/education
- This may reduce demand for imports; improve the trade in goods position; and so improve the current account position
- This may protect infant industries; these may grow and take advantage of economies of scale; become internationally competitive; so create output and employment
- This may protect declining industries; preventing unemployment
- This may prevent dumping; foreign firms selling at below cost price; domestic firms being driven out of business
- This may protect consumers from harmful products

Why they might not impose tariffs:

- This may raise prices to consumers; consumers may not have domestic products to switch to; any domestic substitutes may be of a lower quality; so reduces variety for consumers
- This may raise costs of imported raw materials; raise costs of production; cause cost-push inflation
- This may lead to reduction in competitive pressure on domestic firms; so to inefficiency
- There may be retaliation; with other countries imposing tariffs on the country's exports
- There may not be domestic substitutes for imports; consumers may not stop buying imports; because of inelastic demand

Question 3

Explain two benefits producers may gain from free trade.

Logical explanation which might include:

- Availability of larger/global market (1) may increase revenue/profit (1)

- Ability to produce on a larger scale / higher output (1) take advantage of economies of scale (1) specialise (1)
- Access to cheaper / better quality raw materials / raw materials without tariffs imposed on them (1) lowering costs of production/raising quality of products produced/lowering price (1)
- Access to advanced technology/ideas from abroad (1) resulting in improved methods of production/new products (1)
- Increased competitive pressure (1) which may raise efficiency (1)

Guidance:
One mark for each of two benefits identified and one mark for each of two explanations

Question 4

Calculate the percentage of total world output of palm oil produced by Indonesia in 2017.

Answer
60% (1)

Guidance:
Accept 60

Question 5

Identify two methods of protection.

One mark each for any two from:

- tariff
- quota

Question 6

Analyse how a cut in in the rates of corporation tax and income tax may influence the number of MNCs setting up in the country.

Coherent analysis which might include:

- Firms will be able to keep more of their profits (1) firms may be profit motivated/seeking to maximise profits (1) MNCs will compare the profits they can earn in a number of countries (1) lower corporation tax will enable them to invest more / expand (1) pay higher dividends (1)
- Lower income tax will increase disposable income (1) may increase demand for consumer goods (1) increase the market for the MNCs products (1) may reduce pressure for wage rises (1) may make workers more motivated and so more productive (1)
- Lower tax revenue may reduce a government's ability to spend (1) on e.g. education and healthcare (1) this may reduce labour productivity (1) which may increase MNCs' costs (1)

Guidance:

- A maximum of 4 marks if only corporation tax or income tax is considered

Question 7

Discuss whether or not a government should subsidise its exports.

Up to 5 marks for why it should:

- A subsidy would lower costs of production (1) lower the price of exports (1) this may make them more internationally competitive (1)
- Some industries producing exports may be infant industries (1) may need support before advantage can be taken of economies of scale (1)
- Exports may rise (1) this may improve the current account / trade in goods and services balance (1) raise GDP / increase economic growth (1) increase employment / lower unemployment (1)

Up to 5 marks for why it should not:

- Some domestic firms may already be price competitive (1) and so do not need a subsidy (1

- The subsidy may encourage some domestic firms to become inefficient (1) not cutting their costs (1) and improving the quality of their output (1)
- It may be regarded to be a form of trade protection (1) other countries may retaliate (1) so exports may not increase (1)
- There will be an opportunity cost involved (1) example (1)

Question 8a

Identify two methods of trade protection other than tariffs.

- quotas
- embargoes
- voluntary export restraint
- red tape / bureaucracy / artificially high standards
- subsidies

Question 8b

Discuss whether or not the imposition of import tariffs by a country will reduce its unemployment.

Up to 5 marks for why it might:

- Import tariffs may raise the price of imports (1) demand for imports may fall (1) consumers may switch to domestic products (1) firms may increase output (1) take on more workers (1)
- Tariffs can protect infant industries (1) allow them to grow (1) and employ more workers (1)
- Tariffs can protect declining industries (1) reduce structural unemployment (1)
- Tax revenue may increase (1) example of higher government spending that could reduce unemployment (1)

Up to 5 marks for why it might not:

- Other countries may retaliate (1) imposing tariffs on this country's exports (1) employment in the export industries may fall (1)
- Tariffs on imported raw materials (1) will increase costs of production (1) this may lead to higher prices of domestic products (1) causing a fall in demand (1)
- Imports may not have domestic substitutes (1) price of imports may still be lower (1) so consumers may continue to buy imports (1) demand for imports may be price inelastic (1)

Question 9

Discuss whether or not Istanbul benefits from investment by MNCs.

Up to 4 marks for why it may be beneficial:

- Increased investment leads to increased total demand (1) leads to economic growth (1)
- Increase demand for workers in Istanbul (1) decreasing unemployment rates (1) increasing incomes (1) and increasing standards of living (1)
- Bring new / better technology (1) increase productive capacity / productivity (1)
- Increase variety of products on sale (1) produce new products (1)
- Increase tax revenue (1) allowing local government to spend more on e.g. roads (1)

Up to 4 marks for why it may not be beneficial:

- Replace domestically owned firms in Istanbul / decrease demand for domestic firms (1) MNCs may be more efficient
  than domestic firms (1) leading to failure of domestic firms / decrease demand for domestic firms (1) monopoly of
  MNCs (1)
- Profits leave the country (1) not reinvested domestically (1)
- MNCs may exploit workers (1) such as low wages (1) poor working conditions (1)
- MNCs may exploit environment (1) e.g. pollution (1)

Generic example

- Tax revenue may decrease …… because of reason e.g. incomes may be lower

- Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument

- Tax revenue may increase because of a different reason i.e. not the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education

Question 10

Discuss whether or not opening up to free trade benefits an economy.

Up to 4 marks for how it might:

- Opening up to free trade will increase choices from imports (1) obtain products cannot produce (1) reduce prices (1) standards of living increases (1)

- More competition from imports (1) improve quality (1) increase productivity (1)

- Encourage more foreign investments (1) increase employment / decrease unemployment (1) increase capital spending (1) increase innovation (1)

- May increase the opportunity of specialisation (1) increase exports (1) increase GDP/GDP per capita/income (1)

- Avoid retaliation (1) that can occur if trade restrictions are imposed (1)

Up to 4 for marks for how it might not:

- Domestic producers might be adversely affected (1) can't compete with foreign firms (1) who might be more cost competitive (1) unemployment increases (1)

- Increase imports (1) will increase current account of the balance of payment deficit (1)

- May become dependent on other countries (1) they may gain monopoly power (1)

- Free trade may involve the removal of tariffs (1) reducing government revenue (1)

Question 11

Analyse the advantages that an MNC has over a firm which only produces domestically.

- Set up in economies where labour costs are less (1) and raw material costs are cheaper (1) which can give them cost advantage in the international markets (1)
- Greater market (1) easier access to foreign markets (1) greater profits (1) fewer trade barriers (1) production set up in countries which have lots of favourable trade agreements (1) bigger output (1) economies of scale (1)
- Reduction in risk (1) diversified markets (1)
- Locate operations near the potential market (1) which results in lower transportation cost (1)
- Wider access to more skilled workers (1) more productive (1)

Question 12

Analyse how a move to freer international trade may benefit a country's producers.

- With lower tariffs (1) their exports will be cheaper (1) the volume of exports will not be restricted by quotas (1).
- If producers are efficient (1) they will sell more abroad (1).
- Producers will be able to buy imported raw materials more cheaply (1) this will reduce their costs of production (1) increase their profits (1).

Question 13

Analyse why a country with low costs of production may experience a decrease in its exports.

- The foreign exchange rate may increase (1) leading to higher export prices (1).
- The quality of the products produced may fall (1) reducing demand (1).
- Incomes abroad may have fallen (1) reducing foreigners' ability to buy exports (1).
- There may be a rise in competition (1) with foreign firms having even lower costs (1).
- Producers may charge higher prices (1) leading to a fall in demand (1).

- Foreign countries may implement protection measures (1) e.g. tariffs (1).

Guidance

- The analysis must be dynamic / about change.

Question 14

Define a multinational company.

- A firm that produces / operates (1) in more than one country (1)
- A firm that has its headquarters in one country (1) but also produces / operates in other countries (1)

Question 15

Discuss whether or not a government should protect its country's industries from foreign competition.

Up to 5 marks for why it should:

- The industries might be infant industries (1) not able to take full advantage of scale (1) and so not able to compete on price (1).
- The industries may be declining industries (1) if they go out of business quickly, unemployment may increase (1).
- The industries may be facing dumping (1) which will make it difficult for firms to compete against foreign producers selling at below cost price (1).
- The government may want to reduce a current account deficit (1) caused by imports exceeding exports (1) encourage economic growth (1) create more jobs (1).

Up to 5 marks for why it should not:

- It may push up the price of imported products if tariffs are used (1) costs of production may rise (1) causing inflation (1) consumers' purchasing power would fall (1).

- It may reduce competition for domestic firms (1) this may reduce efficiency (1) raise prices (1) reduce quality (1).
- Other countries may retaliate (1) reduce exports (1).
- Opportunity cost (1) e.g. resources could be used to support education / healthcare / infrastructure (1).
- Free trade may result in lower prices (1) greater variety for consumers (1).

Guidance

- Do not accept descriptions of the types of protection measures.

Question 16

Discuss whether or not trade protection supports the growth of domestic firms.

Up to 5 marks for how it might:

- Protectionism may increase the price of imports (1) making imports less desirable (1) quantity of imports demanded decreases (1) quantity of domestic goods demanded increases (1)
- Protectionism may reduce the quantity of imports e.g. quotas (1)
- An increase in demand for domestic goods may lead to an increase in revenue (1) and profits (1) of domestic firms, encouraging them to hire more workers (1) decreasing unemployment (1)
- Trade protection can allow infant industries to grow / prevent sunset industries from declining (1) which may enable then to take greater advantage of economies of scale (1) making them more internationally competitive (1)

Up to 5 marks for how it might not:

- Protectionism might lead to retaliation (1) other countries might put a protectionist policy on domestically produced goods (1) increasing the price of the country's exports / reducing the quantity allowed (1) decreasing the demand for exports (1)
- An increase in price of imported raw materials may increase some firms costs of production (1) lowering profits (1)

- Domestic substitute raw materials may be of a lower quality (1) which will reduce the quality of the output of domestic firms (1) may lead to lower demand (1)

- Trade protection may make domestic firms complacent/less efficient (1) may become reliant on protection (1) less incentive to grow (1)

Question 17

Identify two reasons why an MNC may decide to start producing in a foreign country.

• access to raw materials
• cheap labour
• skilled labour
• large market
• government support
• low taxes
• avoid trade restrictions

Question 18

Define protectionism.

- Protectionism is the deliberate attempt to limit imports or promote exports / make foreign products less competitive (1) have trade restrictions (1)

Question 19

Explain two methods of trade protection.

- Tariffs (1) tax on imports that would increase the price of imports (1)

- Quotas (1) limit on the volume of imported goods allowed into the country (1)

- Subsidies (1) to reduce the costs of domestic firms / reduce the price of domestic goods and services (1)

- Embargoes (1) total restriction / ban on imported goods (1)

- Exchange controls (1) limit on the amount of foreign currency that can be purchased (1)
- Regulations (1) making it difficult to import (1)

Question 20

Explain two reasons why a government may impose a tariff on imported gold

- To discourage the purchase of the foreign gold / reduce the demand for imported gold (1) to improve the current account position on the balance of payments (1)
- To raise revenue (1) to fund government expenditure (1)
- If gold is an infant industry (1) enable domestic industries to grow (1) increase output / become more competitive / efficient / natural resources discovered (1)
- Protect domestic gold industry (1) protect jobs / keep unemployment low (1) encourage expansion of domestic firms (1).
  Retaliation (1) in response to trade restrictions on gold imposed by other countries (1)

Guidance

- Reward but do not expect an argument based on the dumping of gold.

Question 21

Identify, from the extract, two methods of trade protection.

- Tariffs (1) Exchange control/limit on foreign currency that people can buy (1)

Question 22

Discuss whether or not MNCs are likely to set up in countries with low unemployment.

Up to 5 marks for why they might:

- Incomes/GDP may be high (1) creating high demand for the MNCs' products (1) increasing profit (1)
- People they employ are likely to have work experience (1) may be trained/need less expenditure on training (1) have higher productivity (1) lowering costs of production (1)
- Employment may be in primary sector (1) where wages are lower (1)
- May be a capital intensive and don't need many workers (1) just skilled workers (1)
- Tax revenue may be high (1) due to high incomes and spending (1) so the government may not set high corporation tax (1) may provide subsidies to the MNCs (1)
- infrastructure is good reducing costs for MNCs (1)

Up to 5 marks for why they might not:

- May have to pay high wages (1) provide generous fringe benefits (1) to attract workers from other firms/difficult to recruit (1) increasing costs of production (1) are uncompetitive with other MNCs in other countries (1) reducing profits (1)
- The workers may be employed in low-skilled jobs (1) the MNCs may have to spend money on training workers (1)
- High wages mean MNCs are unable to exploit labour with low wages (1) prefer to locate in countries where pay low wages (1) as this means low costs of production (1) and increases profits (1)
- Low unemployment may mean a high level of demand (1) causing demand -pull inflation (1) it may push up wages (1) causing cost-push inflation (1) higher inflation may make it harder for the MNCs to export (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. why MNCs may want to establish in countries with high unemployment

Question 23

Analyse why a country may change from a net exporter of a product into a net importer of the product

- Internal demand for the product may increase (1) due to a rise in income (1)
- There may be a change in tastes from domestic to foreign produced versions (1)
- There may be supply problems at home (1) due to bad weather/diseases (1)
- Imports may become relatively cheaper (1) better quality (1)
- Import restrictions may be removed (1) and foreign producers may be more efficient (1)
- Higher inflation at home (1) may reduce exports as more expensive/increase imports which are cheaper than before (1)
- Maybe a change in climate (1) making it difficult to grow a particular crop (1)

Question 24

Identify two ways a government could conserve its country's resources

One mark for each appropriate action identified. Examples include:

- Ban/place a limit on the amount of resource consumed
- Import resources to reduce consumption of country's own resources
- Reduce exports to reduce consumption of limited resources
- Put tax/increase tax on resources to reduce demand
- Educate consumers to reduce consumption/conserve resources
- Control immigration to reduce consumption of resources
- Encourage recycling of resources e.g. metals/plastic
- Subsidise firms that conserve natural resources

Question 25

Explain TWO benefits consumers may gain from free trade

- Lower prices (1) increases purchasing power (1) due to greater competition or economies of scale (1)
- Better quality (1) improve living standards (1) due to greater competition (1)
- Greater availability/variety of products (1) products can be purchased that are not made in the domestic economy (1)
- Higher exports can lead to economies of scale (1) and therefore lower prices (1).

Guidance

- Maximum of 2 marks for each benefit identified and explained.

Question 26

Analyse how reducing transport costs could increase a country's exports and imports

- Lower transport costs may reduce costs of production (1) lower costs may reduce export prices (1) making the country's products more internationally competitive (1) increase demand for exports (1)
- Could attract more MNCs to set up (1) which tend to export high proportion of output (1)
- Higher export revenue would enable a country to buy more imports (1)
- Lower transport costs may enable a country to specialise to a greater extent (1) this would encourage it to export the products it is good at producing (1) and import the products it is not so good at producing (1)
- Lower transport costs will reduce the cost of getting imports to market (1) lower price of imports (1) increase demand for imports (1)
- Lower transport costs for consumers can increase purchasing power and increase import spending (1
- Could encourage tourism (1) increasing exports and imports of services (1)

Guidance

- It is possible to gain full marks with reference to either just exports or just imports

Question 27

Define **import tariff.**

- A tax (1) imposed on products purchased from other countries / imports (1)

Question 28

Explain two benefits of an increase in world output

- Higher output may increase employment (1) better use of resources (1)
- Higher output may increase incomes (1) reduce poverty / raise living standards (1) increase choice (1)
- Higher output may increase government tax revenue (1) to increase education/healthcare (1)
- Higher output may include higher agricultural output (1) reduce risk of malnutrition (1)

Question 29

Discuss whether or not a developing country will benefit from the removal of trade restrictions.

Up to 5 marks for why it might:

- Developing countries tend to have more trade restrictions on their products (1)
- The removal of trade restrictions on the country's products can enable a country to specialise in the products it is best at producing (1) they can be sold at a lower price which may increase demand in foreign markets (1)
- The removal of trade restrictions that the country imposes may mean it can purchase raw materials (1) and capital equipment (1) at a lower price (1) reducing costs of production (1)

- Consumers may enjoy a greater variety of products (1) greater availability of products (1) lower prices (1) higher quality (1)
- Domestic firms may respond to greater competition by becoming more efficient (1)
- The removal of trade restrictions may increase inward investment / attract MNCs (1)

Up to 5 marks for why it might not:

- Infant industries (1) may not be able to survive without protection (1) because they cannot take advantage of economies of scale (1)
- Declining industries (1) may go out of business more quickly (1) causing unemployment (1)
- Strategic industries (1) may go out of business disrupting the rest of the economy (1)
- There may be dumping (1) with foreign firms selling products at below cost price (1) to drive domestic firms out of business (1) and then raising price (1)
- Demerit goods may be imported (1)
- May result in imports exceeding exports, (1) causing a current account deficit (1)
- Tax revenue may fall (1) revenue from tariffs may account for a relatively high proportion of a developing country's tax revenue (1)

Question 30

Define import quota.

- Limit (1) on quantity of good or service allowed in to a country / bought from abroad / imported (1)

Question 31

Analyse the impact on an economy of the removal of import quotas imposed by other countries.

- Likely to increase exports (1) improving the current account of the balance of payments (1)
- Extra revenue earned could be spent on imports (1) increasing variety / choice (1)
- Allows country to specialise more (1) making better use of resources (1)
- Rising total (aggregate) demand (1) could increase the demand for labour (1) reducing unemployment (1) and causing economic growth (1)
- Higher demand could cause inflation (1) demand-pull (1) reducing purchasing power (1)

Question 32

Explain two reasons, other than methods of protection, why a country's exports may fall.

Logical explanation which might include:

- Lower incomes abroad (1) reduce the ability of foreigners to buy the country's exports / lower demand (1)
- Rise in the foreign exchange rate (1) will make exports more expensive (1)
- Quality may fall (1) e.g. educational standards may have declined (1)
- Price may rise (1) due to inflation/higher costs of production/lower productivity/making exports less competitive (1)
- Domestic demand may rise (1) products may be switched from the export to the home market (1)
- Lower output (1) reduce the ability of firms to export as many goods and services / result of fewer resources (1)

Guidance:

- One mark for each of two reasons identified and one mark for each of two explanations