Skoolumy

CAMBRIDGE A LEVEL ECONOMICS TOPICAL ESSAY QUESTIONS

CIRCULAR FLOW OF INCOME, GROSS DOMESTIC PRODUCT AND ECONOMIC GROWTH

PAST QUESTIONS

1. Artificial Intelligence

Artificial Intelligence (AI) is a form of technological progress. It involves computers or computer-controlled robots engaging in tasks usually performed by humans. Many businesses invest in AI to reduce their costs, to increase their efficiency by reducing human errors and to raise business revenues and profits.

The COVID-19 pandemic has accelerated this process – from increased use of contactless card payment systems to large-scale investment in driverless taxis. In China, a leading internet search company plans to follow some of its rivals in the United States (US) by starting a driverless taxi service in 100 cities by 2030.

Nevertheless, the pace of growth in AI has raised concerns that this will result in increased unemployment. One study suggests that up to 38% of US jobs are at risk from automation by the mid-2030s. To date, Japan has between 200 and 300 AI companies. It is also the leading supplier of industrial robots and third, behind China and the US, in spending on research and development into AI.

Just a few years ago, the growth of the internet created similar fears. Despite these concerns, the technology created millions of jobs and contributed as much as 10.5% towards US GDP in 2020. As a result, some economists suggest that the movement towards AI will fundamentally change the world and the way we work and live but will not lead to large rises in unemployment. AI technology may create more jobs than it destroys.

Nonetheless, the danger remains that automation will lead to a society of winners and losers. These newly created jobs will require new skills and significant investment in training young people and retraining adults. Therefore, governments may need to implement targeted policies to ensure that any changes to structural unemployment are only short-lived. However, rising national debt alongside projections of low economic growth, as shown in Table 1.1, may reduce the ability of governments to deliver such policies.

Table 1.1: Selected macroeconomic indicators for Japan and the US, 2020 to 2025

	Japan			US		
	Central government debt (% of GDP)	Unemployment rate (%)	Real GDP growth (% change from previous year)	Central government debt (% of GDP)	Unemployment rate (%)	Real GDP growth (% change from previous year)
2020	254.1	2.8	−4.6	133.9	8.1	−3.4
2021	256.9	2.8	2.4	133.3	5.4	6.0
2022*	252.3	2.4	3.2	130.7	3.5	5.2
2023*	250.8	2.3	1.4	131.1	3.0	2.2
2024*	251.0	2.3	0.8	131.7	3.0	1.7
2025*	251.3	2.3	0.6	132.5	3.1	1.7

*forecast

Source: IMF, 2021

(a) Using the information in Table 1.1, compare the change in projected real GDP growth of Japan with that in the US between 2022 and 2025. [2]

(b) With the help of a production possibility curve (PPC) diagram, demonstrate the likely impact of increased investment in AI on the Japanese economy in the long run. [2]

2. (a) With the help of an aggregate demand and aggregate supply diagram, explain how a decrease in interest rates could cause economic growth and consider whether economic growth will always result in inflation. [8]

(b) Assess whether economic growth is always desirable for an economy. [12]

3. (a) With the help of a diagram, explain what is meant by the circular flow of income in an open economy and consider the extent to which it can explain economic growth in such an economy. [8]

(b) Assess whether supply-side policy is the most effective way to achieve long-run economic growth. [12]

4. Explain two possible causes of economic growth and consider whether the consequences of economic growth for an economy will always be positive. [8]

5. Can economic growth in Chile reduce income and wealth inequality?

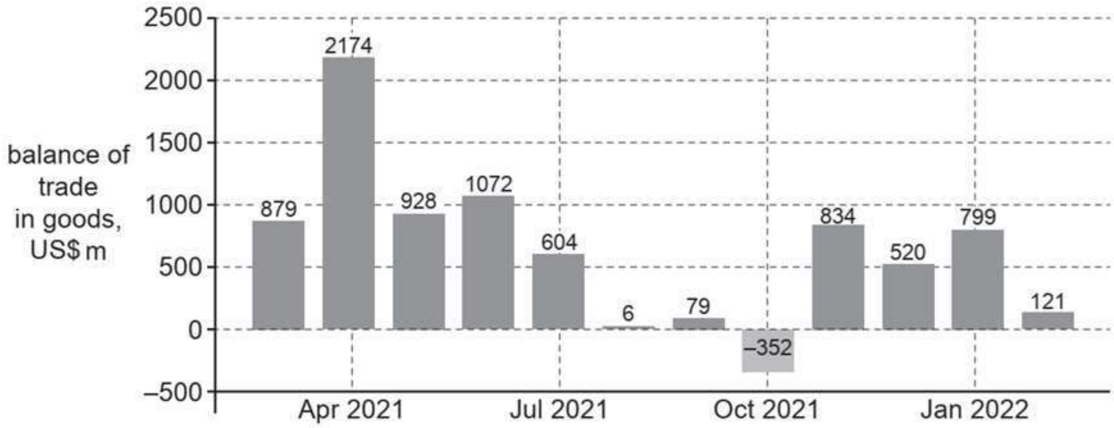
Chile is the world's biggest copper producer with 28% of global copper production and the second biggest producer of lithium with 22% of world production. Overall, mining contributes 11% of the country's Gross Domestic Product (GDP) and more than 50% of the value of the country's total exports. World copper and lithium prices have increased quickly since 2020. This has led to strong growth in GDP which is expected to increase by 3.5% in 2022, exceeding earlier estimates of 2.5% as world demand is expected to grow following the Covid-19 pandemic. Fig 1.1 shows the world price of copper in United States dollars (US$) per pound (lb) weight. A pound is 454 grammes.

Source: *tradingeconomics, April 2022*

Fig 1.1: World copper price, 2017 to 2022

Economic growth in Chile has also been helped by the world's highest rate of vaccination against Covid-19 and a rapid economic recovery from the pandemic which has led to a large increase in consumer spending.

However, the trade in goods surplus has fallen substantially in February 2022. This is mainly because of a 9.2% fall in the revenue from copper exports due to the higher prices and a fall in world demand during the Covid-19 pandemic. There has also been a 38.3% increase in the value of imported consumer goods. As a consequence, the current account deficit has widened substantially to US$7.5bn in the first quarter of 2022 from a deficit of US$1.1bn in the first quarter of 2021 despite a surplus of US$50m in the secondary income account.



Source: *tradingeconomics, April 2022*

Fig 1.2: Chile's balance of trade in goods, March 2021 to February 2022

One of the main benefits of Chile's increased prosperity in recent years has been a decline in the number of people living at or below the minimum income level of US$5.50 per day. However, Chile remains the most unequal country in the list of largely developed countries according to the Organisation for Economic Co-operation and Development (OECD) with an income gap 65% wider than the OECD average. In addition, although the Gini coefficient has fallen from 52.1 to 44.4, this is still higher than lower-income countries such as Haiti and El Salvador.

To try and reduce this inequality in income and wealth, the Chilean government has increased its expenditure on education from 3% of GDP in 1997 to 5.4% in 2018. Further recognition of the importance of education as a merit good is shown by the government increasing its education spending by 3.4% each year since 2018. Chile has also recently made all college tuition free of charge. It is hoped that this will reduce the gap in the quality of education received by the wealthiest and poorest students and open up opportunities for everyone.

Sources: Adapted from reuters.com 2 February 2022,

trade.gov/country-commercial-guides/chile-mining, 25 January 2022,

bcentral.cl/inicio and statista.com, April 2022

Assess the likely impact of the rise in the world copper price from 2020 on the future economic growth of Chile. [6]

6. (a) Explain the circular flow of income in a closed economy and consider the extent to which the circular flow of income changes as an economy becomes an open economy. [8]

(b) Assess whether the consequences of economic growth for an economy are always positive. [12]

7. Entrepreneurs are vital in an economy to achieve long run economic growth.

Assess whether encouraging entrepreneurship or increasing another of the factors of production will be a more effective way to achieve long-run economic growth. [12]

8. (a) With the help of a circular flow of income diagram, explain how equilibrium is determined in an open economy and consider whether a budget deficit or a trade deficit is more likely to cause lasting disequilibrium. [8]

(b) Assess whether an increase in investment in new infrastructure projects will always have a positive impact on the circular flow of income in an economy. [12]

9. Economic growth in Taiwan

In 2021, Taiwan's economy is forecast to grow at its fastest rate in seven years, encouraged by increasing global demand for its technology products. Gross domestic product (GDP) is expected to rise by 4.6% in 2021.

Exports from Taiwan's electronics industry include gaming devices, laptops, devices that aid cloud computing and semiconductors for car production. Taiwan is able to take advantage of a global shortage of semiconductors and it is estimated that exports will grow by 9.6% in 2021, the strongest export growth since 2017. A Taiwanese company is the world's largest producer of semiconductors, and it plans to increase its capital investment by as much as US$28 billion in 2021 to help meet the shortage of semiconductors.

Consumption expenditure in Taiwan is also expected to grow by 3.7% in 2021 which would be the fastest rate of growth in 17 years.

It is significant that the expected growth in GDP in 2021 is higher than the expected rate of increase in the consumer price index (CPI), as is shown in Table 1.1.

Table 1.1 Selected economic data for Taiwan, 2021

	Previous forecast (November 2020)	Latest forecast (February 2021)
Nominal GDP growth (% per year)	3.8	4.6
CPI increase (% per year)	1.2	1.3
Export sales growth (% per year)	4.6	9.6
Trade balance (US$ billion)	57.8	63.9

The growth in the demand for Taiwan's exports has contributed to an appreciation of more than 7% in the Taiwan dollar against the US dollar during 2020. Taiwan had a trade surplus of US$58.8 billion in 2020 and this is expected to rise to US$63.9 billion in 2021. This increase is likely to appreciate the value of the Taiwan dollar further.

Sources: Adapted from: Forbes magazine, 22 February 2021

and: Bloomberg, 20 February 2021

(a) Using the data in Table 1.1, calculate the expected growth in Taiwan's real GDP in 2021, based on the latest forecast. [2]

(b) State two internal causes of economic growth for Taiwan in 2021 and consider which of these is more likely to generate long-term economic growth. [4]

(c) Assess the possible consequences of a higher rate of economic growth for an economy such as Taiwan. [6]

10. Varied responses to the COVID-19 pandemic

The COVID-19 pandemic had a very significant impact on the global economy in 2020. Negative economic growth rates were recorded for all major economies. The speed, unexpected and unprecedented nature of the downturns has been devastating for businesses, governments and populations. Individual economies reacted to the pandemic differently. Fig. 1.1 shows quarterly economic growth rates in 2020 for four selected countries compared to the OECD (Organisation for Economic Co-operation and Development) average.

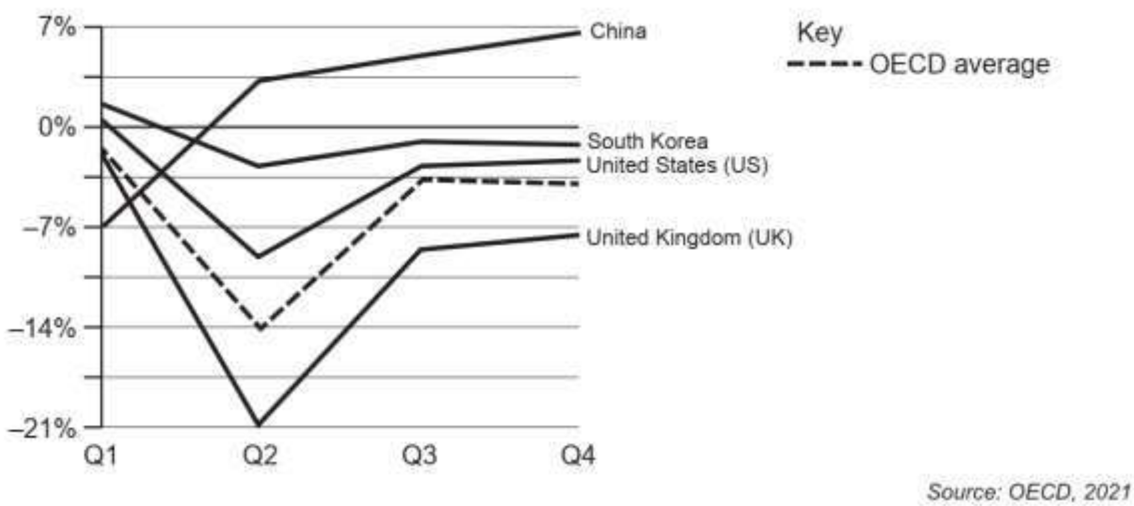


Fig. 1.1 Annual change to quarterly gross domestic product (GDP) in selected countries in 2020 compared to the OECD average.

China's economic performance in 2020 was the exception. China was the first country to experience the pandemic. It has also been the first economy to recover from recession, a period of two consecutive quarters of negative economic growth. The Chinese government was quick to enforce lockdowns to limit the pandemic and there was rapidly increasing demand for exports of PPE (personal protection equipment) and other Chinese-made products.

The case of neighbouring South Korea was different. Like China, the impact of the pandemic was more effectively contained than in other economies and growth in South Korea's economy was less affected. There was, however, little evidence in the data that by the end of 2020, South Korea's economy would recover to its pre-2019 position of strong economic growth.

The economies of the US and the UK had negative quarterly economic growth throughout 2020. Economists in these countries have disagreed about how best to increase the rate of economic growth after the pandemic. The governments of both countries introduced very high government spending programmes to encourage the return to economic growth in 2021. However, monetary policies have been widely promoted by many economists as an alternative to more traditional fiscal measures.

Source: OECD

(a) Explain the meaning of 'negative economic growth'. [2]

(b) Which country shown in Fig. 1.1 experienced the most severe recession in 2020? Justify your answer. [2]

(c) State two likely economic reasons why China experienced strong economic growth starting in the second quarter of 2020 and consider which of these is likely to have generated the greater rate of growth. [4]

(d) Assess how economic recovery is likely to have affected employment and price stability in China. [6]

(e) Assess whether monetary policies are the best way for high-income countries such as the US and the UK to produce an economic recovery. [6]

MARK SCHEME

Table A: AO1 Knowledge and understanding and AO2 Analysis

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	6–8
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	3–5
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	1–2
0	No creditable response.	0

Table B: AO3 Evaluation

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	3–4
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	1–2
0	No creditable response.	0

1. (a) Both countries experience positive growth over the period (1). Both experience a slowdown in the rate of growth (1). Over the period Japanese growth is slower than the USA (1). Average Growth rate in Japan over the period is 1.5%, USA 2.7% (1).

(b) Correctly labelled diagram and curved or straight line PPC (1). Outward shift of PPC indicating increased economic capacity to produce (1).

2. (a) **AO1 Knowledge and Understanding (max 3 marks)**

A clear understanding of what is meant by:

• economic growth (1)

• inflation (1)

• interest rates (1)

• through an accurate diagram, correctly labelled axes, and equilibrium price level and real GDP (1).

AO2 Analysis (max 3 marks)

Uses the diagram(s) to explain how a decrease in interest rates will impact on saving/borrowing (1) that cause will either cause an increase in consumption/investment/next exports (1) which causes an increase in economic growth/real GDP (1).

AO3 Evaluation (max 2 marks)

One mark for a valid explanation that rise in inflation assumes that the economy is operating at full capacity; the growth may be focused on capital intensive industries (1) or that the source of the growth may be long term in nature (1). The second mark is for a justified conclusion.

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) **Indicative content**

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

• The meaning of the term economic growth.

• An explanation of the potential benefits of economic growth for an economy – higher incomes, reduction in unemployment, improved government finances, increased international competitiveness, increases in both consumer and business confidence, increased life expectancy.

• An explanation of the costs of economic growth for an economy – inflation, current account deficits, inequality, pollution.

AO3 Evaluation

• Consideration that fully assesses the relative perspectives of economic growth for an economy and arrives at a reasoned conclusion concerning which viewpoint (or otherwise) is most likely.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

3. (a) up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2

Analysis

up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks)

A simple circular flow diagram (1) that clearly shows/ explains separately that expenditure flows from households to firms (1) and that income flows from firms to households (1) Note:, this is all that is required for the knowledge and understanding marks regardless of the complexity of the diagram.

AO2 Analysis (max 3 marks)

- The first two marks are for an analysis of injections greater than withdrawals and how this leads to economic growth/increase in national income and (1) for an analysis of withdrawals greater than injections and how this leads to a fall in economic growth/national income (1).
- Reference must be made in some way to the fact that in open economy injections include income from exports and that leakages includes

expenditure on imports along with at least one other example of an injection and one other example of a leakage for the (1).

AO3 Evaluation (max 2 marks)

- Evaluation should explain how the relative sizes of injections and leakages will lead either to economic growth or a fall in economic growth with 1 mark reserved for a justified conclusion.

Please use a text box to show the mark split e.g., 2,2,1

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Long-run economic growth is likely to need both growth of AD and AS
- Analysis of the role of supply side policy in achieving long-run economic growth and its advantages and disadvantages. E.g., supply side policy such as training and education is more likely to increase AS, but this can also lead to an increase in AD, for example as better training leads to an increase in income and therefore an increase in consumer spending. It is also less likely to result in inflation. However, it is costly and will take time.
- Analysis of the extent to which supply side policy can lead to growth in both AD and AS. For an explanation that a problem with supply side policy is that it is less effective in directly increasing the level of AD.

- Analysis of at least one alternative policy e.g., fiscal policy or monetary policy and how they may achieve long-run economic growth, together with their advantages and disadvantages e.g., fiscal policy such as a reduction in income tax is more likely to increase AD and can be relatively quick. It may also indirectly lead to an increase in AS if more people are encouraged to enter the workforce. However, if AS does not increase, it may be inflationary. It may also reduce the amount available for government spending.
- Analysis of the extent to which these policies can lead to growth in both AD and AS. For an explanation that a problem with such policies is that they are less effective in directly increasing the level of AS.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

- Requires an assessment of at least one other government policy to be compared against supply side policy in achieving long-run economic growth which leads to
- A justified conclusion as to whether supply side policy is the most effective way to achieve long-run economic growth or whether a different policy / combination of policies may be more successful that takes into account the advantages and disadvantages of such policies in increasing both AS and AD. A one-sided response cannot gain any marks for evaluation.

- **Please use a text box to show the mark split e.g., L2 5 L1 2**

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

4. up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

A knowledge and understanding of what is meant by economic growth (1) and two possible causes of economic growth, such as:

• an increase in the number of workers

• an improvement in the quality of workers, e.g. in terms an increase in education and/or training

• a greater commitment to research and development

• an improvement in the state of technology

• investment in capital stock

• increased mobility/flexibility of factors of production

• development of new export markets.

(Up to 2 marks)

AO2 Analysis (max 3 marks)

An analysis of the possible consequences of economic growth for an economy, both positive and negative, such as:

• leads to an increase in the standard of living

• could lead to a decrease in unemployment

• may lead to a depletion of resources and to environmental damage

• there could be a reduction in the quality of life, e.g. less leisure time.

AO3 Evaluation (max 2 marks)

Offers a valid judgement on whether the consequences of economic growth for an economy will always be positive (1) to reach a conclusion. (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

5. Up to 4 marks for the explanation / analysis:

Up to 3 marks for a discussion of the advantages of a rise in copper prices which include:

• Mining forms 50% of Chile's exports and contributes towards 11% of GDP and copper is a major part of this. N.B., a simple reference to the importance of copper mining to the Chilean economy will be sufficient.

• As world demand picks up and prices rise, assuming demand for copper is relatively price inelastic, revenue from exports should rise leading to a rise in GDP.

Up to 3 marks for a discussion of the disadvantages of a rise in copper prices which include:

• Data shows revenue from copper exports had fallen in February 2022 due to higher prices suggesting PED is more elastic/more substitutes available leading to a fall in revenue and GDP if the world copper price continues to rise.

• It may encourage more competition from other copper producing countries.

• Copper is a finite resource, and extensive mining may lead to depletion in the future leading to a future fall in export revenue and GDP.

Max: 4 marks

Note: maximum of 3 marks if only one side is considered.

Up to 2 marks for evaluation (no marks if only one side is considered)

• That assesses both sides and may include the argument that the fall in revenue from copper exports would be temporary due to a downturn in demand and that this would change as the world economy starts to grow again (1), leading to

• A valid conclusion (1).

6. (a) up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2

Analysis

up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

A clear knowledge and understanding that the circular flow of income in a closed economy involves households, firms, and the government (1) and has injections of I and G and leakages/withdrawals of S and T (1), so that equilibrium income is where I + G = S + T (1).

AO2 Analysis (max 3 marks)

An analysis of how the circular flow of income changes as an economy becomes an open economy, with the introduction of participation in the international economy (1) through the injection of X and the leakage/withdrawal of M (1), so that equilibrium income (is) (now becomes) where I + G + X = S + T + M (1).

AO3 Evaluation (max 2 marks)

Offers a valid judgement on the extent to which the circular flow of income changes as an economy becomes an open economy depending on the importance of international net trade (1) to reach a conclusion. (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

• The positive consequences of economic growth: an improvement in the standard of living, a reduction in the rate of unemployment, an increase in incomes, an increase in the level of aggregate demand, a possible reduction in income inequality, higher tax revenues which a government could spend on improving public services (such as education and healthcare), and an increase in business confidence leading to greater investment.

• The negative consequences of economic growth: a possible depletion of non-renewable natural resources and damage to the environment, such as through various types of pollution, an unequal sharing of the benefits of economic growth among a population leading to an increase in income inequality and a possible reduction in the quality of life of people through longer working hours and a reduction in the amount of leisure time, plus a shift towards more capital-intensive production.

Answers may also refer to the dangers of inflationary pressure.

A one-sided response can only gain a maximum of Level 2.

AO3 Evaluation

Points to consider may include:

• The degree to which the potential benefits of economic growth are equally shared among a population.

• The extent to which any shift towards more capital- intensive production affects the level of unemployment

• Whether long-term economic growth brings about a short-term cost as resources are used to produce capital goods rather than consumer goods

• The extent to which the economic growth is sustainable

• Which leads to a justified conclusion on whether the consequences of economic growth for an economy are always positive

A one-sided response cannot gain any marks for evaluation.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

7. AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)

The advantages of encouraging entrepreneurship include:

- The fact that entrepreneurs are the ones who organise the other three factors of production to produce output in an economy.
- They are the ones who take risks and in return receive profit which is the motivation to be successful and so stimulate economic growth.
- The fact that entrepreneurs must be creative and innovative to succeed and therefore should have the skills to anticipate current and future needs to be successful and therefore increase the productive potential of an economy and thus stimulate long run economic growth e.g., as measured by a shift to the right of the PPC.
- Modern economies are dynamic, ever changing and the need to respond quickly to changes is one that can be met by successful entrepreneurs.

BUT

- There may be a cost in training and educating future entrepreneurs.
- The rate of success of a policy to increase entrepreneurship may be low
- The success depends on other factors such as the availability of government subsidies etc. which have an opportunity cost as well as the availability and quality of the other factors of production,
- Because of high risks, entrepreneurs may seek short run gain which may not encourage long run economic growth and may in fact make it less likely e.g., due to rapid depletion of scarce resources.

These should be compared with the likely importance and the advantage(s) and disadvantage(s) of increasing **one** other factor of production i.e., land **OR** labour **OR** capital. This may include an assessment of the availability of other factors of production.

A one-sided response can only gain a maximum of Level 2.

AO3 Evaluation (max 4 marks)

- Consideration of the likely importance of increasing entrepreneurship compared to increasing one other factor of production to increase long run economic growth in a modern economy.
- In conclusion, which factor of production is likely to be the most important.

Accept all valid responses.

A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

8. (a)

up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2

Analysis

up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

An understanding of the circular flow of income shown through an accurate diagram showing income flows between firms and households (1); correct inclusion of exports and imports (1); correct inclusion of government spending and taxation (1)

AO2 Analysis (max 3 marks)

Explanation of injections into the circular flow of income;(1); explanation of leakages from the circular flow of income (1); determination of equilibrium in the circular flow of income (1)

AO3 Evaluation (max 2 marks)

Consideration how a budget deficit or a trade deficit leads to disequilibrium in the circular flow of income (1); consideration which is likely to cause lasting disequilibrium (1) **Reserve 1 mark for a justified conclusion**

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b)

AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)

Increased investment in new infrastructure can have a positive and negative impact on the circular flow of income in an economy:

- Increased investment can be from firms or government
- Household savings can be a source of funds for this investment
- Investment is an injection in to the circular flow of income
- There is increased payments for factors of production
- Households supply factor services to firms in the form of labour, enterprise and capital
- In turn, firms provide factor services to implement the investment
- Leakages impact on the total flow of funds in the circular flow of income
- Taxation on the inputs into the new infrastructure project is a leakage from households and firms to the government
- Other leakages are spending on imports of materials to implement the new infrastructure project
- Household savings are a leakage from factor income
- Equilibrium in the circular flow will depend on the balance between injections and leakages.

Maximum level 2 for a one-sided response

AO3 Evaluation (max 4 marks)

- The circular flow model is a simplified view of reality.

- The impact will depend upon the net of injections and leakages.
- There could be a negative impact on the circular flow of income if leakages exceed injections.
- Most forms of new infrastructure have a negative impact not taken into account by the model
- Consideration as to whether all new infrastructure always has a positive impact on the circular flow of income

Accept all valid responses.

A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

9. (a)

• Expected growth in Taiwan's real GDP in 2021 is 4.6% minus 1.3% = 3.3% (2)

• If a candidate correctly shows the method, i.e. 4.6% minus 1.3%, but makes an incorrect calculation, one mark can be awarded. (1)

• OR if a candidate states nominal GDP growth – CPI increase = real GDP growth (1)

(b)

• Identification of capital investment. (1)

• Example of capital investment by Taiwan producer of US$28 billion leading to faster economic growth (needs to refer to figure to gain the second mark). (1)

• Identification of growth in consumption expenditure. (1)

• Consumption expenditure is forecast to grow by 3.7% in 2021, the fastest growth in 17 years, leading to faster economic growth (needs to refer to the 3.7% growth figure to gain the second mark). (1)

(Max 3 marks)

Evaluation

Offers a valid judgement on which of these causes is more likely to generate long-term economic growth. (1)

(c)

Up to 4 marks for explanation/analysis:

• **Positive consequences:** Explanation/analysis that a higher rate of economic growth will lead to increased expenditure, such as on education and health care. Explanation extended to other possible consequences, such as in relation to a higher standard of living, more jobs, higher incomes and less poverty. **(Up to 2 marks)**

• **Negative consequences:** Explanation/analysis that a higher rate of economic growth would increase pressure on available resources which could have possible negative environmental effects, such as in relation to congestion and pollution. **(Up to 2 marks)**

Up to 2 marks for evaluation:

Relevant evaluation which weighs up the consequences on both sides (1) to reach a conclusion on the likely overall effect. (1)

10. (a)

• It is a decrease/fall in national income/output (1) as measured by:

• GDP/RGDP/GNP (1)

• A movement within a correctly labelled PPC (if drawn) or a shift within it (1)

(b)

• UK (1) because

• It had the biggest percentage fall in GDP (1)

• The other three economies performed consistently better than the OECD average (1)

(c)
Plausible reasons could include:

• The increased demand for exports of PPE (1)

• First to experience Covid and therefore the first to recover from it due to e.g., the speed of enforcing lockdowns. (1)

• Successful government policies – one mark per stated policy e.g., fiscal, and monetary policies (1)

Up to two marks for explaining why one of the stated reasons is likely to have generated the greatest growth. (1+1)

(d)

Up to 4 marks for explanation/analysis:

• How a recovery may increase the components of AD i.e., C + G + I + X − M and how this may increase the level of employment (up to 2 marks)

• The possible impact on price stability which will depend on e.g., the position on the AS curve, the possibility of cost-push inflationary pressure **(up to 2 marks).**

Up to 2 marks for evaluation:

• The effects on employment and price stability will depend on the speed and the size of the recovery (1)

• For a justified conclusion (1)

(e)

Up to 2 marks for an analysis of the uses of monetary policy:

• An explanation of what monetary policy consists of

• How an expansionary monetary policy can be used to produce an economic recovery based on an increase in AD e.g., through reducing interest rates, increasing money supply e.g., through relaxing credit restrictions.

• Increasing price competitiveness of exports due to a fall in the exchange rate.

Up to 2 marks for an analysis of the drawbacks of monetary policy:

• Expansionary monetary policy may cause inflation.

• It depends upon consumer and business confidence and receptiveness towards reductions in interest rates.

• The possible effects on the cost of imports due to a fall in the exchange rate.

• Impact of time lags.

Up to 2 marks for evaluation:

• The degree of interest sensitivity on components of AD

• The impact of such policies is uncertain.

• Possible use of alternative policies

• Reserve 1 mark for a justified conclusion