



**Skoolumy**

**CAMBRIDGE A LEVEL ECONOMICS TOPICAL ESSAY  
QUESTIONS**

**GOVERNMENT POLICIES AND PRIVATISATION**

## PAST QUESTIONS

### 1. The Fiji economy: a positive outlook

Fiji is a small island country in the Pacific with a population of 860 000. In 2014 its economy was reported to be continuing to grow steadily. It remained on course for a fifth consecutive year of expansion, boosted by high tourist arrivals and visible export earnings, particularly from sugar. The factors that were expected to restrict growth in 2015 included ongoing dry weather conditions causing lower output of agricultural goods, with the exception of sugar.

**Table 1: Selected economic indicators for Fiji**

|                                           | 2014<br>estimate | 2015<br>forecast |
|-------------------------------------------|------------------|------------------|
| Economic growth rate %                    | 3.3              | 3.0              |
| Inflation rate %                          | 3.0              | 3.5              |
| Current account balance as % share of GDP | −6.0             | −7.0             |

Source: Asian Development Bank, 2014

Consumption remained strong in the first five months of 2014, and imports of consumer goods, mainly vehicles, rose by 15.6%. Personal remittances increased, boosting consumption expenditure.

The tourism sector – Fiji’s main source of foreign exchange – continued to perform strongly. Visitor arrivals increased by 4.0% year-on-year, with 4.6% more visitors from Australia and 11.6% more from New Zealand, but there was a significant fall in visitor arrivals from Japan.

Sugar production increased, aided by government investments in new technology that improved efficiency of production and reduced price.

Despite higher growth, inflationary pressures were eased by declining international commodity prices. However, annual average inflation in 2014 was not expected to fall below 3.0%, as economic activity was expected to revive. In addition, continuing dry weather was affecting the food supply.

Despite the positive growth outlook, increased investment is needed to improve productivity and address supply-side capacity constraints.

Source: Asian Development Outlook 2014 Update

***(a) Explain how increased investment could address supply-side capacity constraints in the Fiji economy. [4]***

***(b) Discuss any economic factors that might help to explain the changes in visitor arrivals to Fiji from Australia and Japan. [6]***

***2. Discuss the use of supply side policy as a means of solving the problem of inflation. Consider whether this policy is likely to be effective. [12]***

### **3. Problems put the brakes on India's economic growth**

With developed economies heavily in debt, the ability of the BRICs (Brazil, Russia, India and China) to drive the global economic engine is increasingly in doubt. China's growth has slowed to its lowest rate in three years. Brazil's growth has decreased and Russia is heavily dependent on oil and energy prices, which are falling. India's growth has slowed but is still high by the standards of developed countries, though well below the levels required to maintain economic momentum and improve the living standards of its citizens.

However, there are still positives in the Indian story. There is a youthful population, a large domestic demand and high savings. But India's economic difficulties, including its weak international position and inadequate infrastructure, threaten to overwhelm the country's potential. In critical sectors such as power, transport and

utilities more investment is needed, and although its workforce is young and growing, there is a shortage of skills.

The country is running a current account deficit of more than 3% of GDP. The cause is slowing exports as a result of weakness in India's trading partners and higher imports, mainly purchases of commodities and oil (India imports around 75% of its crude oil).

In addition, India has a weak external position. It has around US\$ 270bn in currency reserves. But foreign debts that must be repaid in the current year are about 40–45% of this amount.

Source: Adapted from The Independent

**Table 1: Selected Economic Indicators for India 2007–2013**

|                                                          | 2007  | 2008   | 2009   | 2010   | 2011   | 2012*  | 2013*  |
|----------------------------------------------------------|-------|--------|--------|--------|--------|--------|--------|
| <b>Gross Domestic Product<br/>% change</b>               | 10.0  | 6.9    | 5.9    | 10.1   | 6.8    | 4.9    | 6.0    |
| <b>Inflation<br/>Index<br/>2001=100</b>                  | 130.7 | 141.7  | 157.1  | 175.9  | 191.5  | 211.1  | 231.5  |
| <b>Current Account<br/>Balance<br/>US\$ billion (bn)</b> | –8.08 | –30.97 | –25.91 | –52.22 | –62.75 | –74.54 | –69.07 |
| <b>Exchange Rate:<br/>Indian Rupees per<br/>US\$</b>     | 41.3  | 43.5   | 48.3   | 45.7   | 46.6   | 52.1   | 52.9   |

\*Forecast

Source: The World Bank and other international organisations

***Explain how the provision of improved transport facilities and education services might develop the productive potential of the economy in India. [4]***

#### 4. Russia's economic problems are getting worse

Russia's currency, the rouble (RUB), has been falling rapidly in value

An index of the real exchange rate fell from a value of 100 in 2010 to 75.8 in 2015 and this should have the effect of eventually helping to encourage exports.

*Source: Adapted from The Economist*

**Table 1.1: Selected economic indicators for Russia 2013–2015**

| <b>Economic Indicator</b>               | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|-----------------------------------------|-------------|-------------|-------------|
| Annual inflation rate                   | 6.8%        | 7.8%        | 15.4%       |
| Economic growth rate                    | 1.3%        | 0.6%        | –3.9%       |
| Nominal exchange rate<br>(RUB per US\$) | 38.4        | 56.3        | 61.3        |

*Source: Adapted from The World Fact Book*

***Discuss whether the privatisation of some state assets would be of overall benefit to the Russian economy. [6]***

***5. Discuss whether the advantages of privatising an industry will always outweigh the disadvantages. [12]***

## 6. Will an increase in exports lead Sri Lanka back into economic growth?

In May 2022, Sri Lanka had to admit that it was unable to pay its debts to other countries for the first time in its history. As a result, in February 2023 it was forced to obtain a loan of US\$3bn from the International Monetary Fund (IMF). The question is now, can Sri Lanka trade its way out of trouble?

The main problem faced by Sri Lanka for many years has been a lack of international competitiveness. Despite a growth in exports between 2000 and 2018, over the same period, they fell as a share of the economy from 39% to 23% of Gross Domestic Product (GDP). As a result, the country has found itself unable to earn enough foreign currency to pay for essential imports of food and fuel.

**Table 1.1: Sri Lanka balance of trade in goods and services, US\$ million, January 2022 to January 2023.**

| January 2022 | March 2022 | May 2022 | July 2022 | September 2022 | November 2022 | January 2023 |
|--------------|------------|----------|-----------|----------------|---------------|--------------|
| –858         | –762       | –404     | –123      | –205           | –450          | –410         |

For many years, Sri Lanka has enjoyed a comparative advantage in growing and exporting tea. However, the ban on imports of fertilisers in 2021 which cut yields by a fifth and an overreliance on outdated methods of production have had a disastrous impact. Another major export is textiles, but these rely heavily on imported raw materials that have rapidly increased in price following the COVID-19 pandemic and the conflict in Ukraine. So, what alternatives exist for Sri Lanka?

Unlike in other Asian nations, Sri Lanka does not appear to have a plan to develop any new comparative advantage. Probably the most likely option would appear to be to take full use of its position at the centre of Indian Ocean shipping lanes by developing its ports. Sri Lanka could become a major shipping hub which would extend opportunities for exports. For example, approximately a third of the world's oil is transported across the Indian Ocean.

Other options include allowing the Sri Lankan rupee to depreciate to boost exports because it is felt that the currency is overvalued. There are also suggestions that all import tariffs should be removed. Sri Lanka is currently one of the most protected

economies in the World and removing tariffs may help attract much needed foreign investment and encourage local industries to become more efficient.

The question now is, could the introduction of these options lead Sri Lanka back into economic growth?

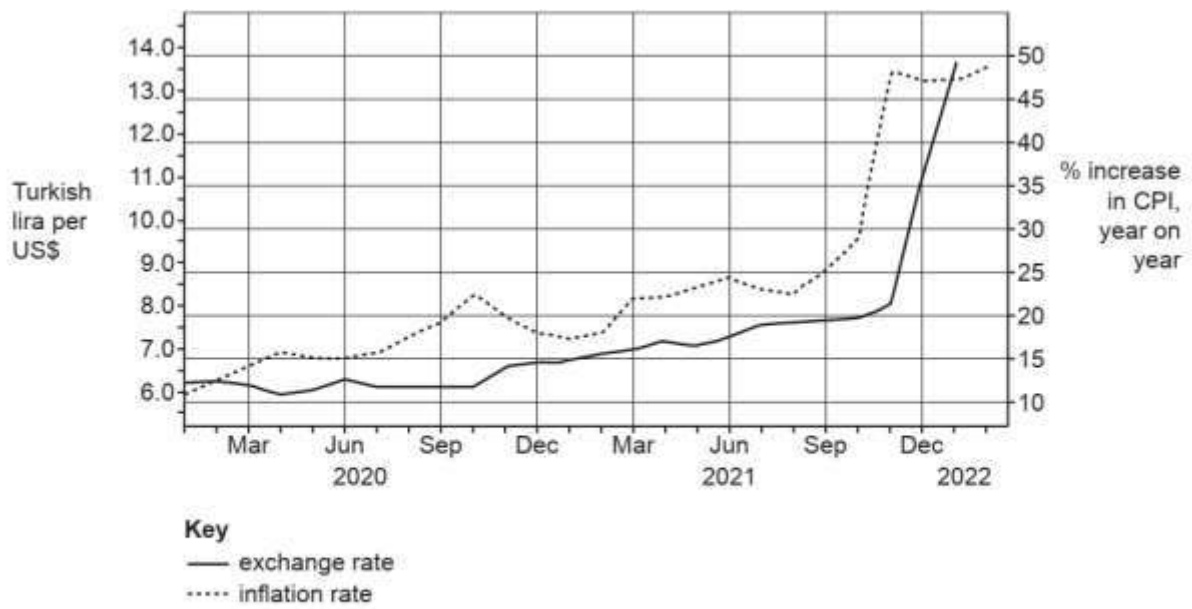
Source: Adapted from Ben Chu, Economics Editor, BBC Newsnight article and [tradingeconomics.com](http://tradingeconomics.com), February 2023

***Assess the extent to which supply-side policies will be able to 'lead Sri Lanka back into economic growth'. [6]***

## **7. Turkey's unconventional way of managing its economy**

The relationship between interest rates and the general price level is one that is central to macroeconomic theory; namely that an increase in the rate of interest produces a reduction in the rate of inflation in an economy. Most economists agree on this relationship. Not so, according to President Erdoğan of Turkey, who has defied conventional economic theory in tackling his country's fundamental economic challenges.

Two economic challenges stand out. There is spiralling inflation and a collapse in the external value of Turkey's currency (the lira) in the foreign exchange market, as shown in Fig. 1.1.



Source: Turkstat, Bloomberg, February 2022

Fig. 1.1 Inflation and the exchange rate of Turkey, January 2020 to February 2022

In January 2022, the year-on-year rise in consumer prices was 48.7%, against a 36.1% year-on-year increase for December 2021. Much higher food prices and transport and energy costs accounted for most of the increase. Despite this rise, the country's Monetary Policy Committee (MPC) held the short-term interest rate at 14%. This was the rate set in September 2021 when the MPC cut the rate substantially from 19%. In short, the President had used his influence over the MPC to reduce interest rates in an attempt to reduce the increasing rate of inflation.

The President's unconventional approach has had a dramatic effect on the external value of the lira. The rapid depreciation in the value of the lira from September 2021 has had serious repercussions for Turkey's economy as Mr Erdoğan has sought to prioritise exports over currency stability. Consumer and producer confidence are low; many who can, have converted their lira deposits into US dollars or euros, fearing a collapse of the banking system.

Despite these problems, the President remains adamant that his economics is right for Turkey. Moreover, he is convinced that when exports increase and international tourists return after the COVID-19 pandemic, employment will increase and the current account deficit on the balance of payments will be reduced. If true, this unconventional approach to Turkey's economic problems will be proved to be a success.



***Assess whether Mr Erdoğan's economic policies have had a beneficial impact on Turkey's economy since 2020. [6]***

***8. Assess whether a government should always aim for an expansionary fiscal policy rather than a contractionary fiscal policy. [12]***

***9. (a) With the help of examples, explain the difference between the marginal rate of taxation and the average rate of taxation and consider whether a government should decide to increase the rate of indirect tax to raise additional revenue. [8]***

***(b) Assess whether the achievement of a balanced budget should always be a main government macroeconomic objective. [12]***

**10. Is Nigeria being held back by its dependence on oil and gas?**

Nigeria has about half of West Africa's population with approximately 202 million people and one of the largest populations of young people in the world. With an abundance of natural resources, it is Africa's biggest oil exporter, and has the largest natural gas reserves on the continent.

Nigeria is highly vulnerable to the global economic disruption caused by the COVID-19 pandemic, particularly due to the steep decline in oil prices. Nationally, 40% of Nigerians live in poverty, while another 25% are vulnerable and could fall into poverty due to the pandemic.

Oil accounts for 80% of Nigeria's export revenues, a dominant position that it has occupied since the 1970s. Many people believe that Nigeria needs to move further away from its dependence on oil and natural gas. Initial attempts at diversification have produced limited gains as the policies have been aimed mainly at the domestic market to create jobs and to improve living standards. There needs to be a focus on export-orientated manufacturing that should boost economic growth as it has done in countries such as Malaysia and Indonesia.

Based on the experience of these countries, more open trade and competition policies would help to diversify the economy, especially as the African Continental Free Trade Area (ACFTA) takes effect. Nigeria needs to create at least five million new jobs each year to employ its growing population of young people.

**Table 1.1 Nigeria: key economic indicators**

|                                                                                  | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------------------------------------------------------------|------|------|------|------|------|
| Economic growth rate<br>(% change in real Gross Domestic Product (GDP) per year) | 1.6  | 0.8  | 1.9  | 2.2  | -1.8 |
| Inflation rate<br>(% change in Consumer Price Index (CPI) per year)              | 15.7 | 16.5 | 12.1 | 11.4 | 12.8 |
| Current account balance<br>(% of GDP)                                            | 0.7  | 2.8  | 1.30 | -3.8 | -3.7 |
| Government budget balance<br>(% of GDP)                                          | -3.9 | -5.4 | -4.5 | -4.3 | -5.2 |
| Unemployment rate<br>(% of labour force)                                         | 7.0  | 8.4  | 8.5  | 8.5  | 9.0  |

*Source : Global economy.com*

Nigeria's economy entered a recession in 2020 due to fall in crude oil prices caused by falling global demand and measures to fight the spread of COVID-19. Inflation rose in 2020 due mainly to higher food prices, the removal of fuel subsidies and an increase in the price of electricity. The budget deficit also worsened in 2020 because the COVID-19 pandemic caused higher government spending and lower tax revenues, adding to the national debt.

Nigeria's national debt is sustainable at 25% of GDP, but interest payments are high, accounting for about 50% of government spending. Nigeria's government could improve its finances by reforming domestic tax collection. Non-oil tax revenue is equivalent to just 4% of GDP. An increase in the rate of value-added tax

(VAT) from 5% to 7.5% in 2020 resulted in less revenue than forecast because of the recession. A wider tax base could help the budget, but this will require significant reform to reduce both tax evasion and a large informal economy.

Sources: Adapted from: World Bank in Nigeria Nov 2020

and: IMF News, African Department, February 2020

and: African Development Bank Group: Nigeria Economic outlook, 2021

***(a) Compare the government budget balance of Nigeria in 2016 with the government budget balance in 2020.***

***(b) Assess whether using supply-side policy is the best way to diversify the Nigerian economy away from its dependence on oil and natural gas exports. [6]***

***(c) Assess whether adjusting the collection of direct tax or indirect tax is likely to be more effective in increasing the tax revenue collected by the Nigerian government. [6]***

***(d) Consider the extent to which the removal of fuel subsidies in Nigeria would lead to an increase in inflation. [4]***

***11. (a) Explain how monetary policy may be able to reduce the rate of inflation in an economy and consider the likely success of this policy. [8]***

***(b) Assess how governments use macroeconomic intervention to achieve their macroeconomic objectives.***

**12. (a) Explain the reasons why governments impose taxes and consider whether an increase in income tax is fairer than an increase in sales taxes. [8]**

**(b) Assess whether a government should always aim to balance its budget rather than have a budget surplus or a budget deficit. [12]**

## MARK SCHEME

**Table A: AO1 Knowledge and understanding and AO2 Analysis**

| Level    | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Marks |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| <b>3</b> | <ul style="list-style-type: none"> <li>A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate.</li> <li>The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations.</li> <li>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.</li> <li>Responses are well-organised, well-focused and presented in a logical and coherent manner.</li> </ul> | 6–8   |
| <b>2</b> | <ul style="list-style-type: none"> <li>Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies.</li> <li>The response addresses the general theme of the question and the relevant economic issues, with limited development.</li> <li>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.</li> <li>Responses are generally logical and coherent but are sometimes lacking in focus or organisation.</li> </ul>                                               | 3–5   |
| <b>1</b> | <ul style="list-style-type: none"> <li>A small number of relevant knowledge points are included and the response is limited by significant errors or omissions.</li> <li>The response has little relevance to the question.</li> <li>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.</li> <li>Responses show limited organisation of economic ideas.</li> </ul>                                                                                                                                                                                                                                       | 1–2   |
| <b>0</b> | No creditable response.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 0     |

**Table B: AO3 Evaluation**

| Level | Description                                                                                                                                                                                                                        | Marks |
|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| 2     | <ul style="list-style-type: none"><li>Provides a justified conclusion or judgement that addresses the specific requirements of the question.</li><li>Makes developed, reasoned and well-supported evaluative comment(s).</li></ul> | 3–4   |
| 1     | <ul style="list-style-type: none"><li>Provides a vague or general conclusion or judgement in relation to the question.</li><li>Makes simple evaluative comment(s) with no development and little supporting evidence.</li></ul>    | 1–2   |
| 0     | No creditable response.                                                                                                                                                                                                            | 0     |

**1.** (a) For a clear understanding of the meaning of the supply-side of the economy [1 mark].

For explanation of the link between investment and an increase in supply-side capacity

[1 mark] with appropriate examples of supply-side policies [1 mark].

For comment on the strength of the link [1 mark].

(b) At least two factors must be identified and discussed. For example:

- differences in relative exchange rates
- differences in income changes
- differences in price of related goods, for example travel.

For full marks some evaluative comment is required on the likely impact of each factor identified. For example the impact of income changes depends upon the income elasticity of demand.

Up to 4 marks for each factor discussed. If no evaluative comment, 2 marks maximum on each factor discussed. [6 marks maximum]

**2. For analysis that explains:**

- The aims and objectives of supply side policies with appropriate examples. (Up to 6 marks)
  - How the methods adopted are designed to solve the problem of inflation with due reference to the strengths and weaknesses of these methods. (Up to 6 marks)
- (8 marks maximum)

For evaluation that assesses and compares

- the relative strengths and weaknesses of different supply side policies (Up to 3 marks)
  - and for reaching a conclusion on their likely effectiveness. (1 mark).
- (4 marks maximum)

**Guidance:**

Supply side policy is designed to increase the aggregate supply curve of the economy. Methods that might be adopted include

- measures to increase the supply of capital goods
- measures to increase the labour supply to prevent upward pressure upon costs

Evaluative comment might include:

- the expense of supply side policy
- the fact that it might take a long time to be effective

**3.** Both enhanced transport and education facilities will improve productive capacity in India. This might be illustrated with a shift outwards in the PPC. Transport will improve the market as supply constraints are removed. Enhanced skills provided through education will improve productivity and increase total output.

Reward key Economics concepts such as skills, productivity, output, resources, infrastructure, shift outwards of PPC, productive/allocative efficiency. Do not reward very general answers which do not bring in relevant Economics concepts.  
(up to 4 marks)

**4.** For identification and explanation of the possible benefits of privatisation  
(Up to 3 marks)

For identification and explanation of the possible costs of privatisation  
(Up to 3 marks)  
(5 marks maximum for explanation)

For evaluative conclusion on the factors identified in relation to whether the privatisation of some state assets would be of overall benefit for the Russian economy.  
(1 mark for evaluation)

**Guidance:**

Definition of privatisation: the transfer of the ownership of a firm or an industry from the state or public sector to the private sector.

The sale of some state assets would bring revenue in. The sale of some state assets would reduce public expenditure on such assets. The overall effect of increasing public revenue and reducing public expenditure would be to contribute positively



to a reduction in the size of the budget deficit in Russia, although it is uncertain whether this would be sufficient to bring down the size of the budget deficit from 7% of GDP to 3% of GDP. The privatisation of some state assets could also lead to an improvement in efficiency.

However, privatisation will lead to firms aiming for profit maximisation and this could lead to detrimental effects on the Russian economy, such as an increase in unemployment

**5. Up to 4 marks for analysis of advantages of privatisation**

Up to 4 marks for analysis of disadvantages of privatisation

(AN: up to 8 marks )

**Evaluation:**

For exercising some judgement on whether the privatising of an industry will always have a positive effect. This could include a consideration of a positive effect for whom – firms, government, workers and consumers.

Up to 3 marks plus 1 mark for a conclusion

(EV: up to 4 marks)

**Guidance:**

Advantages of privatising an industry:

- Efficiency will be improved because of aim of profit maximisation
- Greater competition gives an incentive to be more productive
- May increase the number of shareholders, encouraging enterprise culture

- Greater efficiency could lead to lower prices for customers

Disadvantages of privatising an industry:

- Strive for efficiency could lead to higher unemployment
- There may not be greater competition; could be a natural monopoly
- Aim of satisfying shareholders may mean that prices are not reduced

**6. Up to 4 marks for explanation / analysis:**

- Possible benefits of using supply-side policies e.g., to create a better trained, educated and healthier workforce that is more productive, an environment more suited to enterprise etc.

(up to 2 marks)

- Possible drawbacks of using supply-side policies which may include the cost of provision, the time lag involved, the receptiveness of the workforce etc.

(up to 2 marks)

**Up to 2 marks for evaluation:**

- That fully considers both potential benefits and drawbacks to reach a valid conclusion as to the extent to which supply-side policies will be able to lead Sri Lanka back into economic growth. **(reserve 1 mark)**

**7. Up to 2 marks for explanation / analysis of the possible positive effects**

e.g., short term interest rates have fallen, and this may lead to further investment, the year on year % CPI has flattened by the end of 2022 which may increase consumer confidence.

**Up to 2 marks for explanation / analysis of the possible negative effects**

e.g., food prices, transport and energy costs have increased, and these affect all consumers, the lira has collapsed in the foreign exchange market, increasing import prices etc.

**Up to 2 marks for evaluation** of the relative positive and negative effects.

**Reserve 1 mark** for a justified conclusion.

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

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

### **Indicative content**

Responses may include:

#### **AO1 Knowledge and understanding and AO2 Analysis**

Explanation of when an expansionary fiscal policy would be appropriate, and how such a policy would work, such as:

- to increase aggregate demand (AD)
- to increase economic growth
- to increase employment
- to increase inflation
- to encourage exports and imports.

Explanation of when a contractionary fiscal policy would be appropriate, and how such a policy would work, such as:

- to reduce aggregate demand (AD)
- to reduce economic growth

- to reduce employment
- to reduce inflation
- to discourage exports and imports.

**Level 1 responses** will be assertive and lacking in explanations/mainly descriptive and/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**

- Consideration of when a government should aim for an expansionary policy and when a government should aim for a contractionary one.
- In conclusion, which approach will be better for particular economic situations.

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) 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)**

- Accurate knowledge and understanding of marginal rate of tax (MRT). That is an understanding that it is the proportion of extra income taken in tax (1).
- Accurate knowledge and understanding of average rate of tax (ART) i.e., an understanding that it is the proportion of the whole of income that is taxed (1).
- An accurate example (which may be numerical/graphical) of each type of tax. MRT – a person earns an extra £100 and £40 is taken as tax then the marginal rate is 40%. ART – an individual with total earnings of £10 000, total tax paid £3000 the average rate is 30% (1).

### **AO2 Analysis (max 3 marks)**

Discussion is likely to focus on whether the gains in revenue exceed the disadvantages of the indirect taxes:

- easier and quicker to put in place than direct taxes
- they may be less easy to avoid than direct taxes
- however, they are often seen as regressive and can lead to a higher MRT for poorer households
- their effectiveness in raising revenue depends on PED
- they may also lead to cost push inflation

**Note:** if only the advantages or disadvantages are considered, maximum mark of 2

### **AO3 Evaluation (max 2 marks)**

An assessment of the strengths and weaknesses of using indirect taxes to raise additional government revenue (1), leading to a valid 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**

- This question is asking whether a balanced budget should always be a main objective rather than the main objective and consequently an analysis of the importance of other government macroeconomic objectives is not essential.
- An analysis which directly compares the strengths and weaknesses and uses of a balanced budget with a budget in surplus and deficit may gain access to Level 3 and full marks.
- The strengths of a balanced budget may include stability and may encourage both domestic and inward investment, but it may not be sufficiently flexible to deal with changing economic conditions e.g., unemployment and inflation.
- A budget deficit may enable, e.g., economic growth or reduce unemployment but may be unsustainable in the long run.

- A budget surplus may be necessary to solve inflation, but this may cause opportunity costs due to a lack of government spending.
- Analysis of other government macroeconomic objectives may be rewarded but only in the context of a balanced or unbalanced budget e.g., the problems of achieving other objectives if the sole aim is a balanced budget. These may include difficulties in controlling inflation, unemployment, creating actual economic growth etc.

**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 may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

**Level 3 responses** may 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**

- An overall assessment of whether the achievement of a balanced budget should always be a main government macroeconomic objective.
- If part of the analysis, this should also include an assessment of the difficulties of achieving other objectives against the desirability of a balanced budget to gain higher level evaluation marks.
- Leading to an overall and balanced conclusion.

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

AO1 Knowledge and understanding and AO2 Analysis 8

**10. (a) Between 2016 and 2020 the budget deficit (1) increased (1)**

**Guidance:**

- Must refer to the fact that the budget is in deficit both years
- Do not accept e.g. 'became worse'

**(b) Up to 4 marks for the explanation/analysis:**

of any valid supply-side policy to diversify the economy which may include:

- Training and education
- Government support to business e.g., assistance in setting up
- Improved infrastructure
- Research and development
- Deregulation.

For an explanation of the strengths and weaknesses with no explicit or clear implicit reference to how the chosen policy(ies) may help diversify the Nigerian economy away from its dependence on oil and natural gas exports then **(maximum 1 mark overall)**

For analysis that clearly explains the strengths of the chosen policy(ies) in helping to diversify the Nigerian economy away from its dependence on oil and natural gas exports. **(Up to 2 marks)**



For analysis that clearly explains the weaknesses of the chosen policy(ies) in helping to diversify the Nigerian economy away from its dependence on oil and natural gas exports. **(Up to 2 marks)**

**Up to 2 marks for evaluation:**

- Which must (weigh up) assess the analysis of the relative strengths / advantages and weaknesses / disadvantages of the policy/ policies in diversifying the Nigerian economy away from an overdependence on oil and natural gas exports.
- Supply-side policy may also be judged against an alternative policy e.g., protection of infant industries.
- Reaches an overall and justified conclusion as to whether supply-side policy is the best way in the context of the Nigerian economy **(reserve 1 mark)**

**(c) Up to 4 marks for the explanation/analysis:**

- For a simple assessment of the strengths and weaknesses of different methods of collecting direct and indirect tax with no explicit link to their effectiveness in increasing the tax revenue collected by the Nigerian government then (maximum of 1 mark overall)
- One method of adjusting direct tax may be to introduce a more progressive income tax. Analysis should consider the advantages and disadvantages of this in raising more domestic tax revenue. **(Up to 3 marks maximum; but 1 mark maximum if only advantages or disadvantages are analysed.)**
- One method of adjusting indirect tax may be to further increase the rate of VAT higher than the rate of 7.5% mentioned in extract 2. Analysis should consider the advantages and disadvantages of doing this in raising more domestic tax revenue. **(Up to 3 marks maximum; but 1 mark maximum if only advantages or disadvantages are analysed.)**

**A maximum of 3 marks if only one type of tax is analysed.**

Issues to consider for both the above may include:

- Fairness and equality
- The amount that may be raised
- Costs of ensuring compliance etc.

Up to 2 marks for evaluation:

- Which must compare and weigh up the likely effectiveness of both types of tax in raising tax revenue with consideration of the problems faced by the Nigerian government in increasing the amount of tax revenue raised.
- Reaches an overall conclusion as to which type of tax is likely to be the most effective.

(d)

- For an explanation of why the removal of subsidies is likely to lead to an increase in the price of fuel e.g., by increasing the cost of producing and / or supplying fuel or by shifting the supply curve to the left to its original position. (1)
- For an explanation of why this is likely to lead to an increase in inflation /a rise in the price level e.g., fuel will have a high weighting in the measurement of inflation / PED is likely to be inelastic/ it is an important cost of production that affects the price of many other products / it may lead to cost-push inflation. (1)
- For an explanation of why this may lead to continuing inflation e.g., as price rises, wage demands fuel further inflation / may lead to an increase in the price level for a much wider range of products. (1)

**For some evaluation of the overall impact e.g., the inflationary impact may be offset by the fact that: (1)**

- there is a reduction in other costs/prices OR
- PED may in fact be elastic leading to a fall in demand and therefore prices rise but at a lower rate OR

- It also may depend on the size of the original subsidy.

Accept any other valid reason why the inflationary impact may be offset

**11.** (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 monetary policy (1); tools of monetary policy :interest rates, supply of money and regulations (1); nature of a contractionary monetary policy (1)

**AO2 Analysis (max 3 marks)**

An explanation of how the tools of monetary policy can be applied to reduce inflation (1); analysis of these changes on aggregate demand and the price level (1); analysis of the effects on output and employment (1).

**AO3 Evaluation (max 2 marks)**

The effectiveness of monetary policy will depend upon the response of consumers and firms, in particular to higher interest rates (1) May also depend on the rate of inflation and its causes (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)**

- Macroeconomic objective of price stability
- Macroeconomic objective of low unemployment
- Macroeconomic objective of economic growth
- Government budget as a form of intervention
- Scope and use of fiscal policy as a form of intervention
- Scope and use of monetary policy as a form of intervention
- Scope and use of supply-side policy as a form of intervention
- Examples of links between macroeconomic objectives and forms of intervention
- Other objectives such as distribution of income

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

#### **AO3 Evaluation (max 4 marks)**

- Consideration of the extent to which macroeconomic intervention allows governments to achieve their macroeconomic policy objectives
- Effectiveness of particular interventions in relation to specific macroeconomic objectives

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

**12.** (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 understanding of the various possible reasons why governments impose taxes.

**AO2 Analysis (max 3 marks)**

Analysis of the distinction between a direct tax, such as income tax, and an indirect tax, such as a sales tax, with appropriate reference to fairness.

**AO3 Evaluation (max 2 marks)**

Offers a valid judgement on whether an increase in income tax is fairer than an increase in sales taxes (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 meaning of a balanced budget.
- The significance of a balanced budget.
- The meaning of a budget deficit.
- Link to expansionary fiscal policy.
- Explanation in relation to such aims as reducing the level of unemployment or increasing the rate of economic growth in an economy.
- The meaning of a budget surplus.
- Link to contractionary fiscal policy.
- Explanation in relation to such aims as reducing the rate of inflation or the size of the trade balance through a reduction of imports.

**(Up to 8 marks)**

**AO3 Evaluation**

- Consideration of which fiscal position is appropriate for particular macroeconomic problems.
- In conclusion, which approach will be better for particular economic situations.

Accept all valid responses.

**(Up to 4 marks)**

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4