



Skoolumy

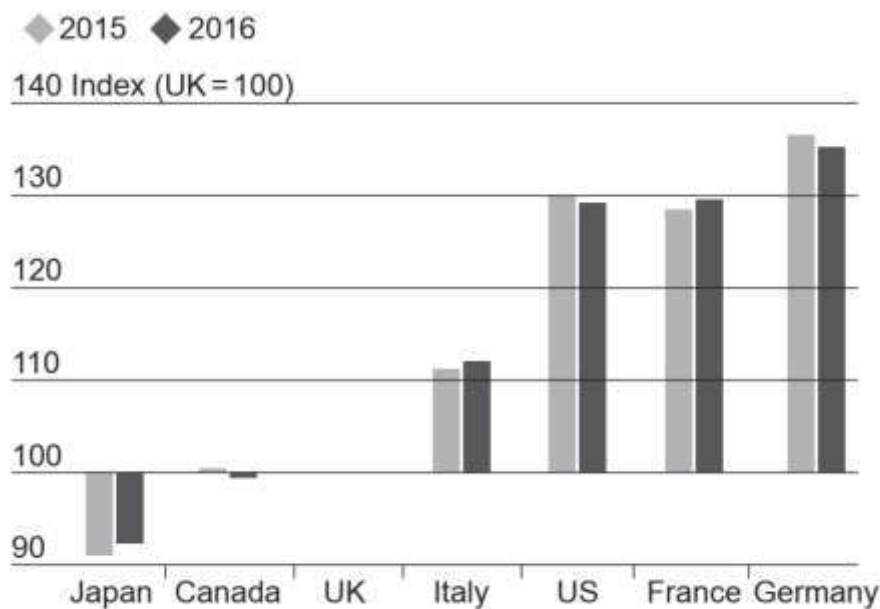
**CAMBRIDGE A LEVEL ECONOMICS TOPICAL ESSAY
QUESTIONS**

**NATIONAL INCOME, ECONOMIC GROWTH AND
DEVELOPMENT**

PAST QUESTIONS

1. Productivity in the G7 countries

The G7 is a group of countries that have some of the world's major advanced economies. Productivity in the G7 countries varies, as shown in Fig. 1.1 below, with United Kingdom (UK) performance as the base index of 100.



Source: The Sunday Times, 24 June 2018

Fig. 1.1: Gross domestic product per hour worked, G7 countries, for 2015 and 2016

Productivity in the UK was one of the worst in the G7. Poor management practices and lower levels of skills in the workforce were the main reasons for the UK's position. In low wage, high employment sectors of the UK economy, the performance compared unfavourably with five of the G7 countries. In retailing, the UK was 40% lower than the performance in the United States (US). In hospitality industries the UK had a 45% lower rate than France.

Tackling poor productivity is about innovation, investment and improving infrastructure as well as labour skills.

The Federal Reserve Bank of the US suggested that innovation is one of the keys to

productivity differences among the G7 countries. Innovation can occur using different factor inputs such as IT hardware and software, investment in staff training, research and development (R&D) and marketing. In 2015, the US had the most advanced software and IT services industries in the world accounting for a third of the global IT market. In 2018, the industry accounted for 12% of private sector employment and contributed 7.1% of GNP. Three of the top ten IT companies in the world were based in the US.

In 2014, in the UK, businesses spent US\$26 billion on R&D, notably on digital technology and biomedical research projects that are world-renowned. However over the past 25 years R&D in the UK has only averaged between 1% and 1.3% of GNP and falls behind Japan with 3.4%, Germany 2.9%, the US 2.7% and France 2.2%.

There were concerns about the UK government reducing spending but in 2018 it made a commitment to a large investment programme in transport and communications to provide a boost to productivity. At that time one threat to the UK economy was its decision to leave the European Union's single market. The decision created uncertainties for investors and the balance of foreign direct investment (FDI) showed that there were more investments abroad than there were foreign investments in the UK. This made some UK industries, such as car production, vulnerable. The central bank in the UK has stated that foreign owned car manufacturers in the UK invest heavily in R&D and their presence boosts the productivity of labour. It was thought this may change in the future.

Sources: The Sunday Times 24 June 2018, David Smith (Economic Outlook). 'We don't need a new target but we must raise our game'.

The Times 27 June 2018, David Smith. 'Inward Investment so important to Britain is now at risk'.

Office for National Statistics, Britain, 2016

(a) Explain what is meant by productivity. [2]

(b) The information suggests that innovation and R&D are important in ensuring high productivity. Is this statement consistent with the evidence in Fig. 1.1? [4]

(c) Use the information to comment on productivity in the US and indicate which factors contributed to its performance. [6]

(d) Use the information to discuss whether or not it is likely that the UK's productivity within the G7 countries will improve. [8]

2. With the help of a circular flow diagram discuss how a policy of export-led growth might affect the standard of living in a developing economy. [25]

3. Public services – better or worse?

A government usually has macroeconomic policy aims that it hopes will enable some success in raising the quality of life, or well-being, of the population. In doing this the government also hopes achieve efficiency in the use of resources.

Efficiency is measured by relating inputs to outputs. Inputs are relatively easy to count: they are financial costs of public services. Output can also be counted, but it is not necessarily a good measure of the outcome. The outcome is much harder to calculate. It is broader and more subjective – how do we assess whether a public service is ‘better’ or ‘worse’?

This is where a knowledge of well-being makes an enormous difference. It could provide a much clearer view of the trade-offs that have to be made in allocating taxpayers’ money to public services. Take the example of healthcare. To maximise the impact of expenditure on well-being, the budget may need to be adjusted to give more to mental health services and less to building general hospitals. For older people it could mean giving priority to programmes that would keep them out of hospital.

A focus on well-being should lead to better outcomes. This is where policymakers need a better understanding of behavioural economics. Governments have established Behavioural Insights teams, or Nudge Units. They have had some success. A small change in the wording of a letter to people who owed tax

demonstrated how more behaviourally sensitive language sped up payments. The unit also found that jobseekers were nearly twice as likely to turn up for a job fair if the text message from the job centre used their names, and nearly three times as likely if the person sending the text message added 'good luck'.

Do tax reliefs persuade people to save? No. So enrol them instead automatically in a pensions programme as a default position, with the possibility of opting out. Allowing people to learn from mistakes is good: it reduces dependency on the public sector and helps people make better decisions for themselves. But some errors, such as failing to save anything until you are too old to earn, cannot be reversed. Then an early 'nudge' is justified. It has proved successful in spreading the habit of saving for retirement into groups not persuaded by tax reliefs alone. In the long term this, and similar behavioural changes, may well have more influence on well-being than can be represented by concentrating on a monetary calculation of GDP. Other economic indicators could be used to assess this change in well-being.

Source: RSA Issue 1, 2017

The article deals with an improvement in well-being. Discuss whether there are any economic indicators that could be used to assess whether well-being has become better or worse. [7]

4. In pursuit of well-being

It has been said that the mark of success of a government is raising the quality of life or the well-being of the people in the country. This is sometimes measured by the Human Development Index (HDI). Table 1.1 shows the rank order of selected countries by the HDI and compares it with the rank by Gross Domestic Product (GDP) of that country.

In order to understand how people make decisions, governments in the United States (US), the United Kingdom (UK) and Australia established Behavioural Insights Teams. They came to be known as the Nudge Units as they used nudge theories from behavioural economics.

It was hoped that this approach would help to achieve an increase in well-being as well as in economic growth and GDP. Nudge policies were used, with some success, to get people back to work, encourage them to pay their taxes on time and give them good reasons to save for future pensions or to study for improved qualifications.

They were not, however, sufficient to eliminate government budget deficits which remained at a high level. There was an ever-rising demand for public services but this was not matched by an equal rise in tax revenues so the deficit increased.

Eliminating the government budget deficit continued to be a problem. One method of dealing with the problem was to increase taxation. However, tax rates were already high and even higher tax rates would not result in the increase in revenue that was needed. An alternative option was to increase government borrowing. There might be a strong case to support economic growth, but increasing the deficit in order to achieve this could risk causing another financial crisis.

A third option was to reduce government expenditure on public services. This could be achieved without causing a reduction in the quality of the service and a reduction in well-being if increases in productivity took place. Without continued increases in productivity, however, further cuts in spending could have serious long-term detrimental effects, especially in health provision and education.

Table 1.1 Rank of selected countries by HDI and GDP in 2017

	Rank	HDI		Rank	GDP (millions US\$)	
Norway	1	0.89		29	391 959	
Australia	3	0.86		13	1 359 723	
Germany	5	0.85		4	3 423 287	
UK	13	0.83		5	2 496 757	
Thailand	70	0.58		26	432 898	
Botswana	103	0.43		115	15 564	
Pakistan	117	0.38		43	251 487	
Eswatini	121	0.36		157	3 938	

Sources: RSA Issue 1, 2017

The information is entitled 'In pursuit of well-being'. Discuss whether the information supports the idea that GDP is a good measure of well-being. [6]

5. (a) 'Developing countries have low levels of productivity and a high dependency ratio.'

Explain the meaning of these two characteristics and consider whether they are linked. [12]

(b) Assess the view that foreign direct investment remains the key to economic growth in developing countries. [13]

6. (a) Assess the impact of foreign direct investment (FDI) on developing economies. [12]

(b) It is often stated that the problem of 'a vicious cycle of poverty' exists in developing countries.

Explain what this means and discuss how this problem might be solved. [13]

7. Health and well-being

European countries have some of the highest GDP per capita levels in the world. They also have some of the highest life expectancy figures at birth – averaging 81 years compared with 71 years for the world as a whole. Life expectancy has steadily increased due to improved healthcare, decreased deaths from heart disease, cancer, diabetes and chronic respiratory disease. But a World Health Organisation (WHO) report warned that all of that progress could be overturned within a generation if the unhealthy lifestyle of many Europeans is not addressed.

The report stated that Europe has the highest rates of smoking and alcohol consumption of any region in the world and is second for obesity after the Americas. This lifestyle will mean that life expectancy will decline over the next generation. Table 1.1 gives GDP per capita and health statistics for some European countries.

Table 1.1: GDP and health statistics for selected countries

Country	GDP per capita US dollars	% of adult population who smoke	% of population who are overweight	Average life expectancy at birth (years)
Germany	45 615	32.9	54.8	80.9
Sweden	45 143	24.1	55.9	81.8
United Kingdom	39 136	22.3	63.4	81.0
France	38 850	30.6	60.7	82.1
Italy	34 757	24.9	58.8	82.9
Spain	33 763	32.1	60.9	82.6
Greece	26 098	46.8	60.5	81.3

Sources: World Bank, 2014 and WHO European Health Report, September 2015

The WHO suggested that governments should consider introducing sugar taxes, a minimum price for alcohol and also subsidies on fruit and vegetables.

To try and limit smoking, the United Kingdom (UK) Government has conducted advertising campaigns warning of the dangers of smoking and banned smoking in public places. It has also put high taxes on alcohol and cigarettes. However, it has refused to place a tax on all sugar consumption and there are no minimum prices for alcohol.

The WHO report attempted to measure well-being. Education, housing, health, sanitation and employment are all part of life satisfaction; how much money people have, it said, is not the major determinant. Happiness appears to require an annual income of US\$10000, according to the WHO. People's sense of well-being is undermined if they earn less than that but does not increase if they earn more. "We do not quite understand why this is", said the WHO. "Why do people in poorer countries report higher satisfaction than in countries where incomes are higher?"

Source: The Guardian, 23 September 2015

(a) With reference to Table 1.1, is there a positive correlation between smoking and life expectancy at birth? [3]

(b) Explain the possible effects on an economy if a government policy were to set a minimum price for a product such as alcohol. [4]

(c) Discuss whether the information supports the view that higher incomes increase consumer well-being. [6]

(d) Explain, according to indifference curve analysis, what happens to a consumer's satisfaction and demand as income rises. Consider whether the evidence in Table 1.1 about income levels, as shown by GDP per capita, and smoking, is sufficient to support that analysis. [7]

8. *'Both developed and developing economies can experience high levels of unemployment, high rates of inflation and large current account deficits. Therefore there is now no real difference between these two types of economy'.*

How far would you agree with the view that this statement is misleading? [25]

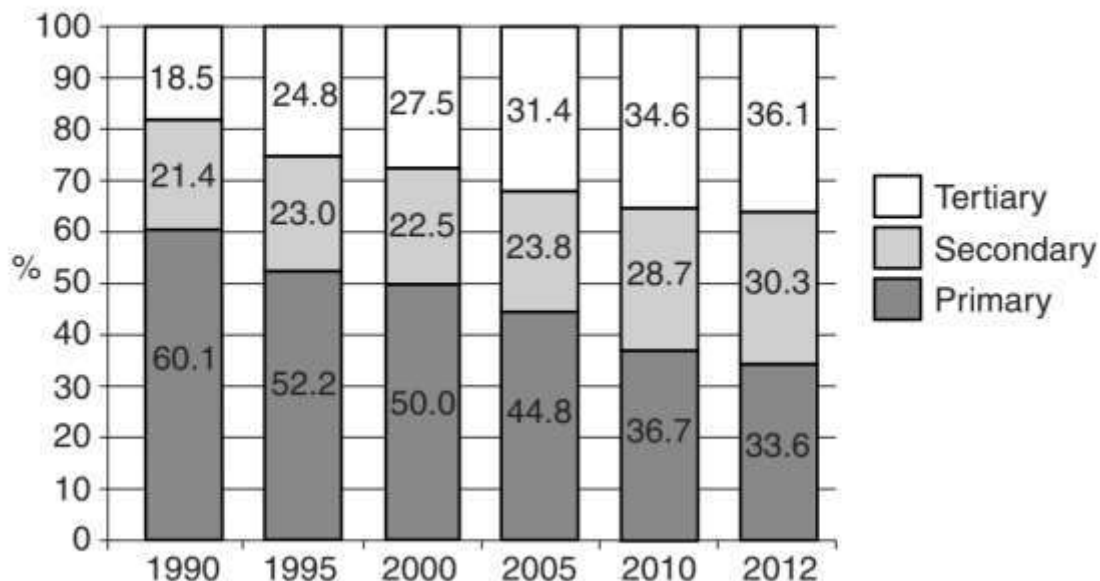
9. (a) *Explain why some countries are referred to as developing. Suggest why the expected increase in population in developing economies is thought to be a source for concern. [12]*

(b) *Discuss what the government of a developing country might do to enable its economy to become more developed. [13]*

10. Changes in the Chinese economy

China is an emerging economy. The proportions of workers employed by sector between 1990 and 2012 are shown in Fig. 1.

Fig. 1: Working population in China by sector 1990–2012



Iron ore is used for steel making. By 2013, China was the largest iron ore importer in the world. The main suppliers were Australia, Brazil, India and South Africa. China also needed other raw materials such as aluminium and copper. As a proportion of GDP, China bought four to ten times more of these than other countries and was responsible for much of the global increase in their demand during the two decades before 2013.

The iron and steel industry in China was stimulated by strong domestic demand, particularly from the construction, manufacturing and automotive industries, all of which had expanded production.

But during 2013 the outlook for China's economy was less bright. There was a sharper than expected fall in export growth in China, while imports actually fell. Growth in industrial output was also slower and this, together with increased output from new iron ore mines in Australia, seemed likely to cause a reduction in iron ore prices. It was thought that the potential change in industrial output in China, the world's second-largest economy, would worsen the outlook not only for mining companies but also for other producers worldwide.

Statistics for the annual rate of inflation in China indicated that in 2013 prices of key products such as iron ore fell, causing the rate of inflation to fall and creating the prospect of price deflation. An economist said 'falling prices are bad for the economy.' Some economists feared that the future growth of building and urbanisation would be at a significantly slower rate. The result, it was thought, would be that any economic growth would be more likely to be caused by consumption and not by investment.

This change to consumption from investment would mean that the demand for raw material inputs would fall significantly, as previous demand was a consequence of China's growth through an investment approach. Of course, items such as cars, washing machines and computers all require a substantial amount of raw materials, so the demand for some inputs would still increase.

Sources: China Labour Bulletin, accessed 29 April 2014, and Daily Telegraph, 10 June 2013

(a) Identify the trends in working population in China and consider whether they are what might be expected in an emerging economy. [5]

(b) The article states that 'falling prices are bad for the economy'. Analyse whether falling prices necessarily harm an economy. [5]

(c) Does the article give enough evidence to lead you to conclude that the changes in the Chinese economy would be bad for countries that trade with China? [4]

(d) Using the article and your own knowledge, discuss what difference an investment approach to growth and a consumption approach to growth might make to an emerging economy such as China. [6]

11. (a) Explain what is meant by the equilibrium level of national income, and consider whether it is possible to have such an equilibrium and unemployment at the same time. [12]

(b) At a time of an election a government makes a promise that, if re-elected, it would aim to increase the growth rate of the national income.

Discuss whether an increase in the growth rate is necessarily beneficial. [13]

12. Discuss which issues are at the heart of the debate about the quality of life in a country and what indicators might be used to assess them. [25]

13. A fuel shortage slows India's economic growth

India has struggled to provide enough electricity to power its industry. New power stations have been built but the country cannot get enough fuel, mainly coal, to run the power stations. About 55% of India's electricity is generated by the use of coal. India has one of the world's largest reserves of coal but has not been able to exploit it. The state-owned Coal India, which has a monopoly control of 80% of production, is required by government policy to sell coal at a 70% discount below the market price.

There has been almost no new investment in coal production by either the Government or the private sector according to industrialists who struggle with the daily loss of electric power. Coal production increased by 1% in 2012 while electricity-generating capacity increased by 11%. Some coal is imported but this has now become very expensive as India's chief supplier, Indonesia, has doubled prices of its coal.

Attempts to open new areas to mining have met with strong opposition from environmental regulators who have blocked the plans because, it is claimed, the development would destroy dense forests.

The electricity sector's problems have contributed to a second year of decreasing economic growth for India. The growth rate was 10% in 2010 but only an estimated 7% in 2012. A complex system of price controls has resulted in retail electricity prices being lower than the cost of producing power, which has caused large losses at state-owned electricity-generating industries.

Businesses report that frequent losses of electric power have forced them to lower production and spend significantly more on diesel fuel to run back-up generators. Analysts say that the reduced rate of economic growth could have been avoided if policymakers had addressed the problems of electricity shortage, weak infrastructure and restrictive regulations.

The gap between demand and supply for electricity increased between 2010 and 2012 as shown by Table 1.

Table 1: Electricity use in India, 2010–12

	Excess of electricity units demanded over units supplied 2010–2011	Excess of electricity units demanded over units supplied 2011–2012
Normal use	8.5%	10.3%
Peak use	9.8%	12.9%

Source: Adapted from The New York Times

(a) Define economic growth and identify two reasons for India's decreasing economic growth. [4]

(b) Analyse whether the increase in electricity-generating capacity in 2012 overcame the problems reported by businesses. [3]

(c) Use evidence from the information given to analyse whether the government policy towards Coal India has been only disadvantageous to businesses and to economic growth in India. [8]

14. In 2013, a new aircraft, the Boeing 787 Dreamliner, was assembled in the United States (US). United Airlines, an American private company, ordered 50 of these aircraft, each costing over US\$200 million.

(a) Imagine that the US was a closed economy with no government intervention. Analyse why the increase in national income from this investment in new aircraft might be different than if it were an open, mixed economy. [12]

(b) Discuss the policies that a government might use to influence the level of investment in an economy. [13]

15. In 2012, a table for Gross Domestic Product (GDP) per head showed that only three of the world's ten richest countries had populations above 7 million. These were the United States: 315 million; the United Arab Emirates: 8.2 million; and Switzerland: 8 million.

(a) Explain how GDP is calculated and show how GDP at market prices is different from net national income at factor cost (basic prices). [12]

(b) Classifications often distinguish between developed (rich) and developing (poor) countries. Consider in what sense a developing country is said to be 'poor' and discuss whether the best way to become developed (rich) would be to reduce the size of its population. [13]

16. (a) Explain what is meant by a country's national income multiplier and two reasons why the value of the multiplier might fall. [12]

(b) Discuss how a fall in national income might affect a country's standard of living. [13]

17. (a) It is sometimes claimed that the population of a developing country is always large. Is a large population the distinguishing feature of a developing country? [12]

(b) Discuss whether economic growth is necessarily beneficial to a developing economy. [13]

18. Governments often suggest that there has been an improvement in the standard of living in their economy and support their statement by referring to a range of economic indicators. One of the indicators they use is GDP.

Discuss whether GDP is a reliable indicator of changes in the standard of living in an economy. [25]

19. (a) What distinguishes a developed economy from a developing economy? [12]

(b) Developing economies are often keen to encourage industrial development in rural areas. Developed economies, by contrast, often prevent industrial development in rural areas.

Discuss why there might be this difference in policies. [13]

20. Explain how a fall in interest rates might influence the level of investment and, as a result, national income. [12]

21. Government economic policies

The following is a summary of the economic performance of five European countries at the start of 2010 together with the policies each government proposed.

Greece:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£209 bn	-2%	124%	9.7%

What's the economic situation? The economy shrank by a smaller amount than the European average in 2009 and the unemployment rate was below the European average. The public finances were a source of concern with government debt of 124% of GDP.

Suggested policies: no pay rises in the public sector; raising the retirement age from 61 to 63; increasing taxes on fuel, tobacco, alcohol and property.

Ireland:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£143 bn	-7.25%	46%	11.8%

Suggested policies: reducing public spending; stabilising the banking sector.

Italy:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£1 333 bn	-4.8%	115%	8.5%

Suggested policies: encouraging economic growth; creating greater competition through supply-side measures.

Portugal:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£141 bn	-2.7%	76%	10.4%

Suggested policies: raising the retirement age; reducing public spending.

Spain:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£912 bn	-3.6%	49%	19.5%

Suggested policies: raising the retirement age from 65 to 67; reducing public spending; raising taxes; increasing measures to stop tax evasion.

(a) Is this information on the size of the economy (GDP) enough to conclude that the average person in Italy is better off than the average person in Ireland? Briefly explain your answer. [3]

(b) (i) The economic growth rates are shown to be negative. Explain what economic theory suggests might happen to the level of unemployment in an economy if the growth rate figure is negative. [4]

(ii) What evidence is there from the information whether there is any link between the economic growth rates and unemployment? [3]

(c) In 2010 there was much concern about the weakness of the economic situation in Greece compared with the other European countries shown. How far can the data be used as evidence to support that concern? [4]

(d) Discuss the possible effects on economic growth and unemployment in the Spanish economy, of the policies suggested by the Spanish Government. [6]

22. Population is increasing more rapidly in developing countries that can least afford it if they wish to encourage economic growth.

(a) What are the main characteristics of a developing country? [12]

(b) If a developing country wishes to become developed, the main aim of its government should be to control the growth of its population. Discuss this opinion. [13]

23. (a) Explain what is meant by GDP and describe the alternative methods by which it is calculated. [12]

(b) 'GDP figures tell us many things except that which makes life worthwhile. They tell us nothing about education, health and quality of life. They are, therefore, of little value.'

Discuss the extent to which you agree with this argument. [13]

24. (a) Explain how the impact of the Keynesian multiplier process will change if a free-market closed economy becomes a mixed economy with foreign trade. [12]

(b) Analyse how a change to the equilibrium level of income resulting from the multiplier process might lead to unemployment or inflation. [13]

25. Interest rates, inflation and growth

Between 1 July and 1 October 2007, the GDP of the US rose at an annual equivalent rate of 4.0%. This was faster than the forecast rate of 3.1%. The rise was caused by an increase in consumer spending and by rising exports.

By November 2007, however, there were increased signs of a housing market slump, a rise in oil prices and a fall in the value of the US dollar. These changes presented the Federal Reserve (the US central bank) with a problem about interest rates.

The Federal Reserve had already cut interest rates in October 2007 and it reduced the interest rate again in November in order to help defend the US economy against the worsening housing market.

Further interest rate cuts were thought unlikely, as there was anxiety over the rising price of oil, which by November 2007 had reached a record level. The Federal Reserve said 'recent increases in energy and commodity prices may result in further inflation'.

A difficult balance: conflicting policy objectives

America's housing market is slumping ...

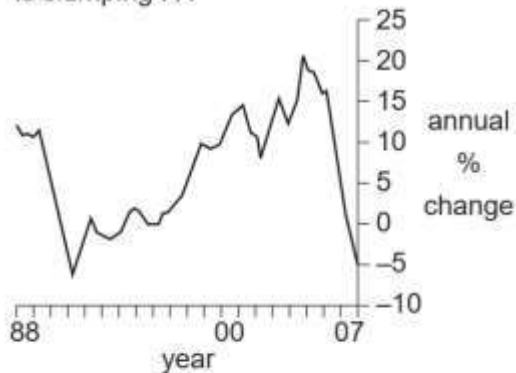


Fig. 1: House price index

... so the Federal Reserve acted to cut borrowing costs

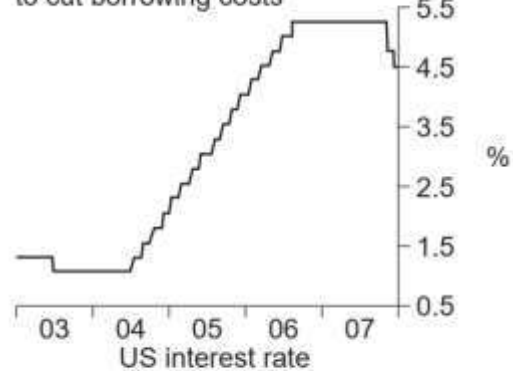


Fig. 2: US interest rate

but soaring oil prices pose an inflation threat ...

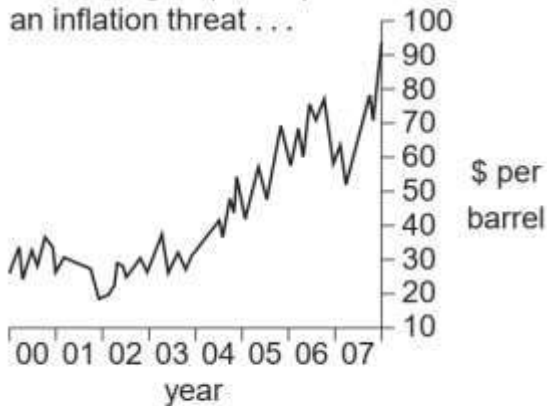


Fig. 3: US crude oil price

... and so does the falling dollar

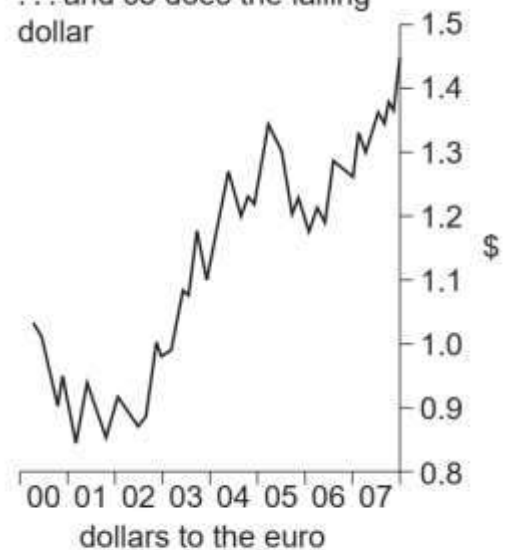


Fig. 4: Dollars to the Euro

(a) Name two components of aggregate demand not mentioned in the first paragraph of the extract. [2]

(b) Calculate the percentage increase in the GDP of the US between 1 July and 1 October 2007. [2]

26. For some years governments of developed countries have been promoting Fair Trade, which means paying a fair price for primary products bought from African developing countries. Now the governments in developed countries, anxious to conserve resources, are complaining that the transport of products around the world increases pollution and should be limited. They support instead the purchase of goods produced at home. These are often more expensive to produce. African farmers may be left with products that their local people do not eat.

(a) Explain what might determine whether a country is classified as developed or developing. [12]

(b) Discuss whether the old and the new approaches to trade of the developed countries would help achieve the conservation of resources. [13]

27. A firm undertakes a major investment. Analyse why in a closed economy without a government the increase in national income from this investment might be higher than in an open mixed economy. [12]

28. Private Sector Money and Development

The amount of money that workers employed in foreign countries send home is worth US\$200 billion a year and, therefore, the potential benefits of this to developing countries are huge. In some countries the amount of money sent home by those working abroad is very significant when compared with official development aid. For example, in Bangladesh and Kenya, recent figures were:

	Kenya 2004	Bangladesh 2005
Money sent home by workers	US\$464 m	US\$2.2 bn
Money given in aid	US\$625 m	US\$1.4 bn

Even small amounts of money sent by individuals can have an impact on development. The primary education of many children is paid for by money sent home by relatives working abroad. Some governments actively encourage workers

to send money home. India has offered nonresident Indians special investment opportunities, perhaps influenced by the example of China where investment from Chinese living abroad has been a big factor in the development of the economy. The same story is true for Ghana and Nigeria, which are developing 'remittance partnerships' with the UK to make it easier and cheaper for people from those countries working in the UK to send money home.

Further, the money could be worth even more if it is directed not just within the family but into community projects. In Mexico, local governments are matching any private money from abroad invested in community development with their own funds.

However, money is not the simple solution to poverty. The director of an economic research centre rejects the idea that income is the most significant contributor to well-being. Instead, in the research centre, attention is being turned to measures that seem to have little to do with economists' traditional indicators about production and consumption. When asked to rank what was important to them, poorer people said religion, relationships and inner peace were more important than income.

(a) Explain whether the money sent to Kenya by Kenyans working in the UK would be included in Kenya's GDP. [2]

(b) Analyse why many people from developing countries might go to work in developed countries. [5]

(c) How far does the article support the view that economic development is largely the result of private actions rather than government policy? [5]

(d) Discuss the suggestion that 'traditional indicators about production and consumption' are of little use as measures of welfare. [8]

29. A World Bank report in 2007 commented on the continuing need for major spending worldwide on infrastructure on everything from roads and railways to water and electricity generation.

Explain the effect on national income when there is an increase in spending on infrastructure. [10]

30. The North Sea oil industry

The UK drills for oil in the North Sea. In 1999, production was at 4.5 million barrels a day. However, as the oil in the easily accessible oil fields was used up, production fell steadily from 1999 until it reached 3.3 million barrels a day in 2005.

Nevertheless, in 2006, many in the oil industry did not consider it to be in decline. Indeed, some of the industry's problems were associated with an expanding industry, not a declining one. The managers complained, for example, about the shortage of skilled labour and the high rents of the oil rigs. Investment increased by 30% in 2006 and it was hoped that production would rise in 2007.

The UK government was keen to keep production high as the industry supported 250 000 jobs and had a large impact on the trade balance of the UK. One way to keep production high is to explore for new oil fields. Another way is to use every drop of oil from the existing oil fields. Sometimes a large company leaves an oil field which still has substantial amounts of oil because although it is technically possible to extract the oil, it is not profitable to do so. However, a smaller company is often able to drill profitably for the oil when it is unprofitable for a large company.

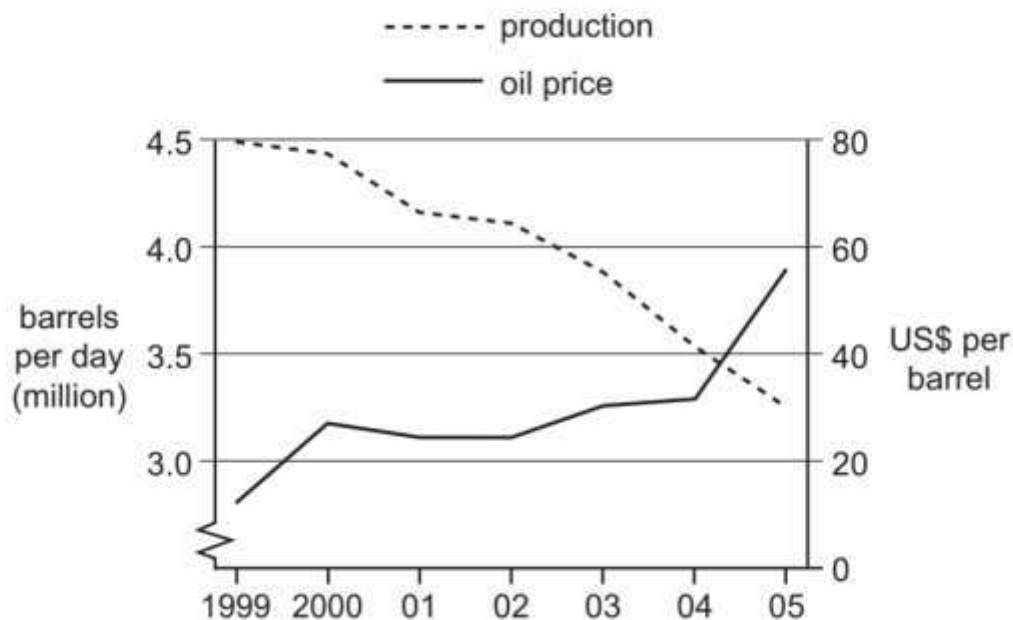
In view of this, the UK government encouraged smaller and more enterprising firms. In 2005, 152 licences to drill were given to 99 companies. These new licences gave companies exclusive rights to develop the more inaccessible oil fields for six years rather than four years as before. Furthermore, the government also changed the rules on access to pipelines – which are often owned by large companies – so that smaller companies could get their oil to the market more easily.

The Chancellor of the Exchequer (Minister of Finance) also made changes. In 2002, he raised the tax on oil company profits to 40% from the usual company rate of

30%, and raised it again in 2005 to 50%. The justification given was that the oil companies made huge profits.

The industry is more dependent than ever on large expensive technological advances and innovation. Most of the government's reforms recognised this.

Fig. 1 North Sea oil industry: production and price



(a) How might the North Sea oil industry have an impact on the national income of the UK? [4]

(b) From the information given, consider whether the North Sea oil industry appears to be declining or expanding. [6]

(c) What evidence is there that might explain why the North Sea oil industry is still prepared to increase investment? [4]

31. The solution to unsatisfactory economic development and growth is to focus on economic theory, scientific advances, new technology and market forces.

(a) Explain what is meant by economic development. [10]

(b) Discuss whether you agree with this statement. [15]

32. (a) It is feared that if the government increases taxes the level of national income will fall. Explain whether this is necessarily true. [10]

(b) Discuss whether a fall in the level of national income is a good indicator that there has also been a decline in the standard of living in the country. [15]

33. Employment in Turkey

A large proportion of the work that women do in Turkey consists of traditional activities and is unpaid. Of those Turkish women who are in employment, 72% work in agriculture (compared with a world average of 49%). In total, Turkey's agricultural sector still employs 48% of the workforce (compared with 17% in the US and 3.9% in France).

In Turkey, the greatest social inequality between the sexes lies in the level of education. 26% of the women are illiterate, compared with 7.5% of the men. There is mass migration to cities, which offer more jobs and services, but the less educated women are not able to take up these opportunities.

There are more non-industrial jobs than industrial jobs in the cities and as many as 66% of all lower-class urban families depend on non-industrial, unskilled work for their livelihood. Turkey continues to face economic challenges including a large informal economy, large income inequalities, a large inefficient government sector, and relatively high unemployment. Birth rates and death rates are declining. The age structure, in which there are many young people, will continue to cause difficulties in the labour market as young people become old enough to seek jobs. Since 1970 the population of Europe has multiplied by 1.2 but in Turkey it has

multiplied by 2.5. Many Turkish people seek work in other countries where they think the job opportunities are better.

Table 1 Economic data about Turkey

% of GDP from agriculture	11.7
% of GDP from industrial sector	29.8
% of GDP from service sector	58.5

% of population below poverty line	20
% of population living on under US \$2 a day	18

	1999	2000	2001	2002	2003
% Unemployment rate	7.6	6.6	8.5	10.4	9.0

(a) Explain what is meant by GDP. [3]

(b) From the information give two reasons why Turkey's GDP is lower than it could be. [2]

(c) How might labour migration to the cities affect GDP? [4]

(d) Discuss whether there is sufficient evidence in the extract to indicate that Turkey should be classified as a developing country. [8]

34. Some people say they are better off living in a rural area, where there is less congestion and pollution. Others prefer cities for the employment and the variety of leisure activities available.

If there are such differences of opinion of living standards in one country, is there ever any chance of accurately comparing living standards between countries? [25]

35. These statements come from the same journal article:

World population has grown to 6.5 billion, with an increase of more than 4 billion since 1950.

The number of people starving has increased in the last 10 years. 31.6% of the urban population live in slums and 42 countries face food emergencies.

Urbanisation could be a solution to poverty, disease and malnutrition owing to economies of scale that arise.

Source: Royal Society of Arts Journal, August 2005

Explain whether the growth of population is likely to have been faster in developing countries than in developed countries. [10]

36. United Nations' Development Programme Report

A report stated that the average GDP per capita in Namibia in 2001 was US\$7120, and the country was 124th out of 175 countries in the Human Development Index of the United Nations. While some countries had experienced a boom in the 1990s, 50 nations, half of them in Africa, were worse off in 2001 than in 1990, with more people going hungry and life expectancy falling. In those countries, prices of crucial exports had fallen, foreign aid had declined and the number of people with HIV/AIDS had increased. The same report also stated that in Africa 40% of the people live on less than \$1 a day. This was contrasted with the amount of subsidy given to European farmers, who received \$43 a day for each cow they owned. The values of the Human Development Index for selected African countries were:

Botswana	0.614
Ghana	0.567
Malawi	0.387
Mozambique	0.356
Namibia	0.627
South Africa	0.684
Zambia	0.368
Zimbabwe	0.496

The average value of the index for sub-Saharan Africa was 0.468.

In contrast, the top five countries in the index were:

Norway	0.944
Iceland	0.942
Sweden	0.941
Australia	0.939
Netherlands	0.938

The world average was 0.722.

(a) Explain what is meant by 'GDP per capita'. [2]

(b) (i) Identify the reasons given in the extract for the worsening conditions in African countries. [4]

(ii) Discuss how far the situation in Africa in the 1990s might have been the result of what was happening in other countries. [4]

(c) Describe the economic features that might exist when a country 'experiences a boom'. [4]

(d) If you were asked to comment on the relative standards of living in Europe and Africa how far would the information given be of use to you? [6]

37. The gain in happiness when someone gets an extra dollar is much smaller when the person is rich than if they are poor. So money transferred from rich to poor raises total happiness and governments should seek to make such transfers.

Discuss what policies a government might use in order to decrease poverty in its country. [13]

38. Sometimes the development of a project in an urban area is encouraged by a government. At other times the priority is to support rural areas.

(a) Explain what benefits might be obtained by encouraging investment in rural areas. [12]

(b) Discuss whether it might be better to conserve, rather than exploit, the resources of a country. [13]

39. The following extract is adapted from an article that appeared in 2003.

Diversification in Botswana

The Botswana government wishes to use the wealth that the country obtains from diamonds to diversify its economy. Botswana is the world's largest producer of diamonds, which accounted for 77% of the country's export earnings and 45% of GDP in 2002.

The diamond industry is controlled by one company, Debswana, which is a partnership between De Beers (a private sector company) and the Botswana government. Each owns 50% of Debswana but De Beers keeps 75% of the profits.

Botswana has various incentives for investors. The corporate tax rate is one of the lowest in Africa at 15% and profits can easily be sent back to the home country because there are no exchange controls. Wage rates are relatively low and the workforce is the most educated in Africa. Botswana is also perfectly located to

become a financial hub for the 200 million people in the 14 African countries in the Southern African Development Community.

However, there are problems for investors. Usable water is in short supply and transport costs are high. Labour is also in short supply because the population is only 1.7 million and life expectancy is only 39.

Despite its problems, Botswana remains an example of prosperity in conflict-ridden Africa. US President George W Bush said 'Botswana has demonstrated sure, sound economic administration and a commitment to free market principles.'

(a) Identify two advantages of Botswana for foreign investors. [2]

(b) What evidence is there in the article that Botswana is a developing country? [4]

(c) Discuss the advantages to a developing economy if it becomes more diversified. [6]

40. (a) Explain two methods of calculating gross domestic product used in national income statistics. [10]

(b) How useful are national income statistics for indicating changes in living standards? [15]

41. The following is adapted from an article which appeared in a newspaper in August 2002.

Lower earnings in the US could endanger economic recovery.

Although the recession has ended, the wage rates of more than 100 million workers in the US below management level have remained unchanged for over a year, and this is endangering consumer spending. The effect on spending is particularly noticeable because there has been a loss of overtime hours, which has decreased

earnings. In addition, 1.7 million jobs have been lost in the past year and the unemployment rate is now 5.9%.

Employers faced with falling profits have cut their costs. They have stopped paying for health insurance for their employees. These charges are now deducted from their employees' earnings, which further reduces consumer spending. Some workers have tried to resist downward pressure on their earnings. 2700 workers in a food company were on strike for six weeks. At the end of the strike the company did agree to pay for the health insurance rather than pass the cost onto the workers. However, in a weak economy with unemployment rising, the bargaining power of other wage earners has diminished.

On the other hand, not everyone fears that consumer spending is likely to fall. According to the US Government's Commerce Department, a broader measure of personal income, which includes items such as social security benefits and unemployment benefits as well as wages, has shown an increase. Some argue that this increase is enough to generate a recovery in the economy. But if a broader picture is to be taken then any income earned from the stock market should also be included, as this is a huge source of income in the economy. Since the late 1990s this source has shrunk considerably.

It is, therefore, uncertain whether all these changes balance each other out or whether there will be a sufficient increase in consumer spending to generate a recovery. It also partly depends on how the workers view the changes in their earnings and how long they think the current situation will last.

(a) US workers experienced a fall in disposable income. Identify three reasons from the article why this occurred. [3]

(b) (i) Why was the cost of health insurance passed onto the employees by some employers? [2]

(ii) Why might the food company have agreed to continue paying for their employees' health insurance? [3]

(c) Discuss the reasons for the disagreement about the likely changes in consumer spending. [6]

(d) Analyse how lower earnings could endanger economic recovery. [6]

42. (a) Explain what indicators suggest that an economy is developing rather than developed. [12]

(b) In Johannesburg in 2002 there was an international conference, the World Summit on Sustainable Development, to discuss the use of the world's resources and the best ways governments can help to promote environmentally friendly development.

Analyse how the policies adopted by a developed economy may affect the standard of living in a developing economy. [13]

43. One tenth of the world's population live in developing countries. Many of those live on less than US\$2 day, and the average life expectancy is less than 50 years.

(a) Explain what other indicators might be used, apart from those above, to classify a country as developing rather than developed. [10]

(b) Describe the policies that might be used by the government of a developing country to remedy the situation described above, and assess how easy it would be to implement those policies. [15]

44. To what extent do you agree that an increase in productivity will lead to a higher standard of living in low-income countries? [20]

45. Income inequality

According to a report by the World Bank, income inequality has declined in some low-income countries in recent years. For example, between 2008 and 2018, the Gini coefficient decreased by more than 5 percentage points in Chile, Colombia and Mexico. In some other countries, such as Ethiopia, India and Indonesia income inequality has remained relatively stable over the past decade while it has increased in China and South Africa.

In low-income countries inequalities of opportunity, in particular the differences in access to education between females and males, appear to pose obstacles to a more equal income distribution. Equality of opportunity becomes an issue of macroeconomic relevance.

Table 1.1 shows Gini coefficients, female/male literacy ratios and the percentages of population in absolute poverty for five countries.

Table 1.1

Country	Gini coefficient	Literacy ratio ¹	% of population below the poverty line
Brazil	0.53	1.01	4.2
Mauritius	0.36	0.95	10.3
India	0.35	0.90	21.9
Egypt	0.31	0.80	32.5
Pakistan	0.30	0.67	24.3

¹Literacy ratio = female literacy rate ÷ male literacy rate

Source: CIA World Factbook

It is important to note that income inequality is a complex issue that can be influenced by a wide range of factors, including economic growth, government policies and global economic trends. The government can use fiscal and supply-side policies to influence and change income distribution.

These could lead to higher Gross Domestic Product (GDP) and increased economic growth. While the Gini coefficient is the most widely used measure of income

inequality, it is important to note that it has limitations. It does not take into account other factors that contribute to inequality such as wealth inequality, and it may not take into account the full extent of inequality in societies with large informal economies.

(a) Describe what is meant by the Gini coefficient and its possible range of values. [3]

(b) Distinguish between absolute poverty and relative poverty. [3]

(c) Consider whether Table 1.1 supports the conclusion that greater inequality of incomes is linked to poor literacy ratios of females to males and leads to greater poverty. [6]

(d) Use one example of a supply-side policy and one example of a fiscal policy to assess how a government might be able to achieve greater equality in the distribution of income. [8]

46. In many countries increased government spending is regarded as a cause of economic growth. It is sensible, therefore, for a government to spend more to increase economic growth as it is good for its country.

To what extent do you agree with this argument? [20]

47. National income statistics are often used as a measure of the standard of living. Consider to what extent national income statistics can be used to compare the standard of living between low-income countries and high-income countries. [20]

48. The economic impact of extracting natural resources

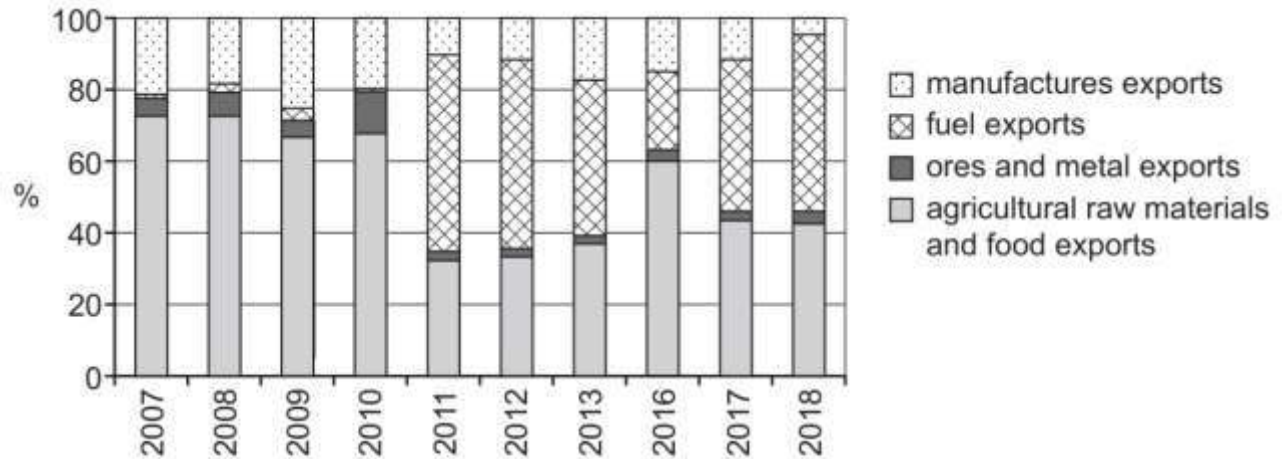
Many low-income countries have high unemployment and large deposits of unused natural resources. In 2007, Ghana discovered a new offshore oil field and extraction started in 2010. The discovery and extraction of such natural resources can create new jobs, that increase incomes and consequently gross national income (GNI). The additional income will lead to an increase in spending on both domestic and imported goods and services, creating further employment in other sectors through the multiplier effect.

However, the extraction of oil may 'crowd out' other sectors of the economy. Workers might move, for example from agriculture and manufacturing to the mining sector due to higher wages. Also, the prices of houses, land and locally produced goods may increase. This could increase the cost of living and discourage businesses from operating in the affected region.

The export of oil from Ghana causes an inflow of United States dollars (US\$), increasing the exchange rate of Ghana's currency, the cedi. This appreciation reduces the competitiveness of Ghana's agricultural and manufactured goods, leading to an increased demand for imports. This loss of competitiveness is referred to as the 'Dutch disease', reflecting the experience of the Netherlands following the exploitation of their natural gas reserves.

Oil provides the Ghanaian government with revenue from the tax on each barrel of oil produced. This revenue can be used to provide transfer payments and goods and services such as roads, health facilities, and public water supply. These can benefit both households and businesses. Alternatively, the presence of such revenues can create corruption and conflict as political groups compete for them.

Between 2011 and 2018 agricultural products and food as a share of Ghana's exports have decreased, as shown in Fig. 1.1.



Source: World Bank database, 2019

Fig. 1.1: Structure of exports of goods from Ghana 2007 to 2018

The extraction of natural resources has also affected Ghana's economic performance, as shown in Table 1.1.

Table 1.1: Selected economic data for Ghana, 2007 and 2019

	2007	2019
Human Development Index (HDI)	0.55	0.61
GNI per capita (US\$) ppp	2478	5484
exchange rate (cedi per US\$)	1.06	0.17

(a) With the aid of a diagram, explain the effect of natural resource development on the potential growth of Ghana. [4]

(b) Explain how the extraction of natural resources in Ghana will 'create further employment in other sectors through the multiplier effect'. [4]

(c) Explain what the information means by the 'Dutch disease' and using Fig. 1.1, consider to what extent Ghana suffered from this problem. [4]

(d) Use the information to assess the impact of the extraction of oil on the standard of living in Ghana. [8]

49. Economic decline in 2020

In 2020, Japan suffered its third quarterly decline in gross domestic product (GDP) in a row. The size of its real GDP shrank to its lowest level since 2011 when the country was suffering from 20 years of deflation and economic stagnation. In 2020, the economy was not helped by a previous increase in sales tax, the COVID-19 pandemic and the trade war between the world's biggest economies, the United States (US) and China. They were Japan's two most significant trading partners; 19.9% of exports went to the US and 19% to China. Table 1.1 gives some economic indicators for Japan for selected years.

Table 1.1 Selected economic indicators for Japan, 2016–2019

	2016	2017	2018	2019
Central bank rate of interest (% per year)	0.1	0.1	0.1	0.1
Change in industrial production (% per year)	0.0	3.1	1.1	0.1
Change in retail sales (% per year)	0.6	1.9	1.7	0.1
National debt (% of GDP)	236	234	236	237
Economic growth (% change in GDP per year)	0.5	2.2	0.3	0.7

In 2020, the International Monetary Fund (IMF) warned that the global economy was facing its worst recession since the world depression in the 1930s. Japan's economy shrank by 7.8% between April and June of 2020, while the US economy contracted by 9.5% and China's by 3.2%.

Japan, which was the world's fourth largest exporter, incurred an overall trade deficit of US\$15.2 billion for 2019, an increase of almost 50% on the trade deficit for 2018. In 2020, exports fell by a further 18.5% in the third quarter, mainly caused by a decline in Japan's motor vehicle exports.

In that quarter, its main car producer, one of the world's biggest car companies, made its smallest quarterly profit in nine years as sales halved. The government of Japan used expansionary fiscal and monetary policies to try to stimulate the economy. Low interest rates had been used by the central bank since 2016. In August 2020, economists said that despite this stimulus to encourage growth there was a chance economic activity may stagnate even further if major nations again adopted more restrictive measures, such as lockdowns, to combat any reoccurrence of the pandemic.

Source: 'Japan's economy slides into record decline under pandemic pressure', Martin Strydom, The Times, 18 August 2020

(a) With reference to Table 1.1, what indicates that Japan's government had borrowed substantially? [2]

(b) Although Japan was the world's fourth largest exporter, it had suffered trade deficits.

Explain how this might have happened. [4]

(c) Consider whether the evidence provided shows that Japan's economic decline in 2020 was caused by the COVID-19 pandemic. [6]

(d) Low interest rates have been used by Japan's Central Bank since 2016.

Analyse how low interest rates might stimulate an economy and evaluate whether their use has been successful in stimulating Japan's economy since 2016. [8]

50. Consider the relative merits of gross national income (GNI) and the multidimensional poverty index (MPI) as measures of the standard of living. [20]

51. The decline of South Africa's economy

South Africa is the most industrialised country in the continent of Africa but it is also an economy with much economic inequality.

Recently governments in South Africa have aimed to reduce economic inequalities by redistributing incomes and increasing both job and investment opportunities for all sections of society. Unfortunately, the reforms have been undermined through poor organisation and management. State railways, port facilities, airways and electricity production have been affected.

Government statistics for the first quarter of 2020 show that South Africa's economy contracted by 3.2%, the biggest quarterly decline of actual economic growth in a decade (see Fig. 1.1). Gross domestic product (GDP) per capita was US\$6130 in December 2019, 5.8% lower than in December 2018.

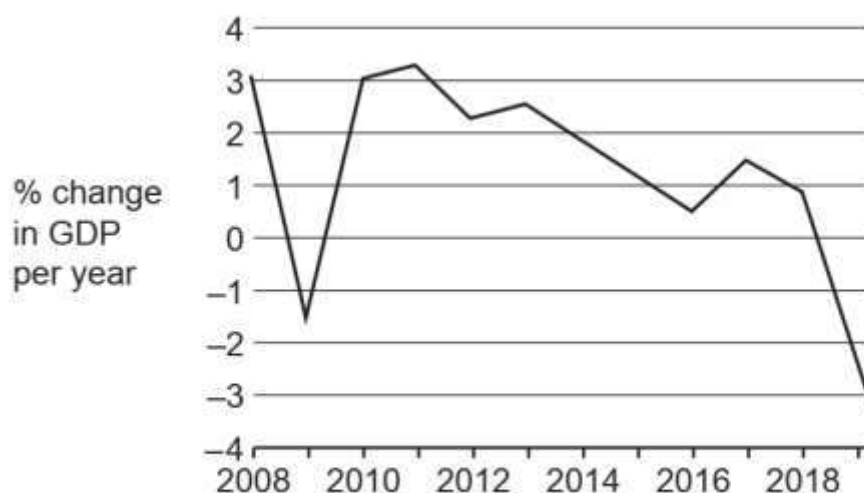


Fig. 1.1 South Africa annual growth rate, 2008 to 2019

This economic decline is reflected in the electricity supply industry, which is a state-owned monopoly. It is struggling to survive mainly due to mismanagement. For several months it rationed electricity consumption and introduced regular power cuts for households and industries. The rationing policy led to decreases in production and increases in unemployment. The company's debts added significantly to South Africa's current national debt to GDP ratio of 56% and are seen as the biggest threat to the economy.

Further evidence of economic difficulties can be found in the mining industry, a significant part of South Africa's economy. A controversial reform was introduced to give more equality of ownership. Already facing rising costs and growing bureaucracy, many mining firms, including multinational companies, stopped investing altogether which reduced potential economic growth. The mining industry declined. Thousands of jobs were lost despite South Africa having significant deposits of platinum, gold and iron ore.

For South Africa's economy to grow it needs to address major infrastructure issues. Also, in disadvantaged communities the education system is weak contributing to a skills shortage and a rise in the unemployment rate to 27% (see Fig. 1.2). Increased production is further hindered by restrictive trade union practices.

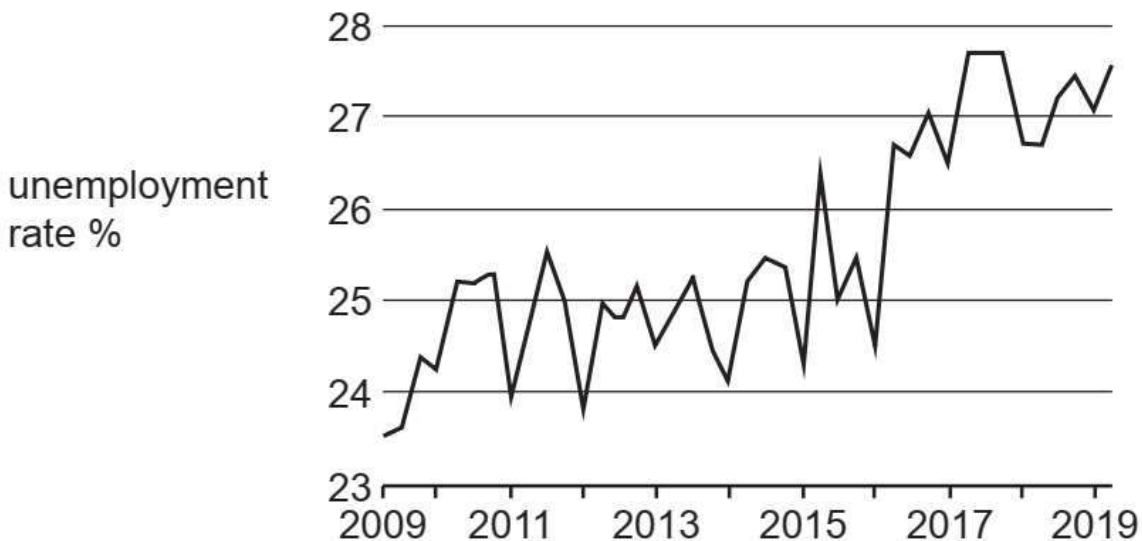


Fig. 1.2 South Africa's unemployment rate

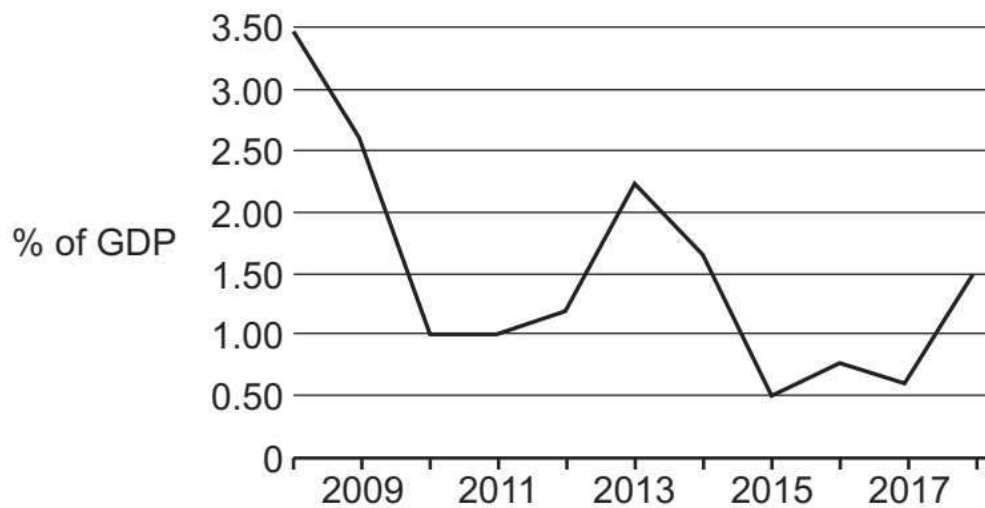


Fig. 1.3 South Africa's foreign direct investment (FDI) net inflows

An analyst said: 'A critical reason for low economic growth has been a lack of private sector investment and FDI (see Fig. 1.3). The lack of investment wasn't just due to the political policies but also to uncertainty and mismanagement which led to continued inequalities.'

Sources: The Daily Telegraph, 6 July 2019 and ceicdata.com

(a) Describe what is meant by economic equality and distinguish it from equity. [3]

(b) Define what is meant by actual economic growth and analyse the relationship between economic growth and unemployment as illustrated by Fig. 1.1 and Fig. 1.2. [5]

(c) Assess the evidence provided about the significance of the performance of the state-owned electricity monopoly as a contributor to the decline in South Africa's economy. [5]

(d) Evaluate whether attracting investment and managing uncertainty are the most effective ways to improve the prospects for South Africa's economy. [7]

52. The table below contains some key economic data for Mexico in 2020.

Gross National Income (GNI)	18.5 billion pesos
nominal wages	+2.8%
disposable income	+1.2%
unemployment rate	4.2%
population growth rate	1.1%
inflation rate	3.4%

Source: knoema.com

Evaluate the use of these statistics in assessing the standard of living in Mexico in 2020. [20]

MARK SCHEME

1 (a) The rate of output per unit of input, (which may be capital, labour or a combination of factors of production) for a given period, usually one hour. Ratio of GDP to hours worked.

The efficiency of production—how inputs are used to produce outputs in a given period.

(b) Innovation is one of three strategies given to improve productivity along with investment and infrastructure. (1)

The percentage of GNP devoted to R&D is high for most of the countries with the highest productivities: Germany, France and USA. (1)

The exception is Japan which has the highest percentage of GNP devoted to innovation (3.4%) but the lowest index of productivity (93) in 2016. (1)

Fig. 1 not entirely consistent. (1)

(c) US has relatively high productivity in 2015/16, figures from chart. (2)

R&D is a strong element in productivity (1): 2.7% of GDP allocated to R&D,(1)

3 of the top 10 companies investing in R&D are based in the USA.(1) US dominates the world's hardware and software engineering, accounting for 7% of GNP.(1)

(d) Seems unlikely to improve in the short-term (1) because:

- low levels of investment over a 20 year period (1)
- R&D as a % of GNP is only 1.3% & well below some other G7 countries (1)
- poor management practices and lower skills levels generally (1)
- FDI balance—latest figures show foreign investment in UK is declining caused by economic uncertainties, e.g. car industry (1)

But there are some factors which may lead to improvement in the long term (1)

- world-renowned R&D in digital technology and biomedical research (1)
- increased government investment in transport infrastructure (1)

2. Export led growth is dependent on an outward growth strategy which relies heavily on openness and increased international trade. Successful growth should lead to an increase in national income, output and employment.

Concentration on the expansion of exports should be a key factor determining an increase in aggregate demand, output and employment. This can be clearly illustrated, using a circular flow diagram which shows all withdrawals, all injections and the change in national income equilibrium achievable via export led economic growth. This diagram should be clearly labelled and accurate showing an increase in injections (exports) producing a bigger increase in output/income/employment via the multiplier. These increases should lead to a real increase in GDP per capita which should provide the potential for a rise in living standards by increasing access to more goods and services.

However, a developing economy is likely to rely heavily on the export of primary goods for which it would have a comparative advantage. The demand for such goods is likely to be income inelastic and the supply of such goods will be volatile because supply of such goods will vary significantly dependent upon changes in the weather. This means that changes in the growth rate might not be significant and the subsequent impact on the standard of living much reduced. Also it should be recognised that an increase in output, income and employment might not necessarily result in a significant increase in living standards. For example, it would depend upon how the additional income is distributed, possible loss of leisure time, might lead to lower long term economic growth due to focus on production and sale of primary products.

L4 (18–25 marks): For a sound explanation of how export led growth can be analysed using an accurately labelled circular flow diagram. Links between the export led growth and potential benefits on the standard of living in developing countries should be clearly established. Evaluative comment should then be

provided which questions the extent of the beneficial impact of this type of growth on the standard of living in a developing economy. A conclusion should be provided.

L3 (14–17 marks): For a clear analysis of the impact of export led growth on a developing economy, using a circular flow diagram. An attempt will be made to show how this growth might impact on living standards. Some attempt might be made to discuss the overall impact of export growth on living standards but points raised will be brief and not fully developed. Similarly, a brief, undeveloped conclusion might be provided.

L2 (10–13 marks): For a response which is descriptive rather than analytical. Answers might focus on factors which affect living standards in developing countries. A circular flow diagram will not be provided and there will be only a very limited attempt to link export led growth to changes in the standard of living in developing countries.

L1 (1–9 marks): For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

3. Explanation of indicators such as HDI, MEW, GDP per capita; comment on why they are relevant to measuring well-being.

4. HDI is said to be a measure of well-being. Countries are ranked by HDI. Some countries with low HDI also have low GDP, but some with higher HDI do not have highest GDP. Examples should be given. But the GDP is not by per capita and does not use PPP. There is no real evidence that GDP is a comparable accurate measure of well-being.

5. (a) Candidates should provide clear explanation of the terms productivity and dependency ratio. It is essential that the characteristics of both terms are established within the context of undeveloped countries. Responses might suggest that the two terms are linked, for example high dependency ratio might be associated with low productivity or an increase in productivity might lead to a reduction in the death rate and a reduction in the birth rate, due to its effect on the overall level of increase of GDP. Alternatively, it could be argued that the two are not necessarily related. A range of alternative responses would be acceptable provided they are supported by an acceptable economic rationale.

L4 (9–12 marks): an answer that clearly explains both characteristics in the context of an underdeveloped country and then discusses how each characteristic might be linked. Responses should examine links which work both ways, for example, why an increase in productivity might affect the dependency and vice versa. Different approaches are acceptable but a conclusion should be provided.

L3 (7–8 marks): For a clear explanation of both characteristics and their relation to an underdeveloped economy. Some attempt to establish links between these characteristics but the argument will not be fully developed.

L2 (5–6 marks): For a limited attempt to describe the two characteristics but only provides a brief explanation of their relevance to an underdeveloped economy. A brief outline of potential links might be described but not discussed.

L1 (1–4 marks): For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

(b) Foreign direct investment should be explained referring specifically to the role of private multinational corporations (MNCs) including references to improving labour skills, building factories, promoting research and development. Economic growth should be clearly defined as the increase in real GDP in a specific time period. Alternative growth strategies such as export led growth, direct government investment, structural change might be considered. The importance of foreign direct investment should then be compared with the alternative strategies identified.

L4 (9–13 marks): For an answer that clearly explains both characteristics in the context of an underdeveloped country and then discusses how each characteristic might be linked. Responses should examine links which work both ways, for example, why an increase in productivity might affect the dependency and vice versa. Different approaches are acceptable but a conclusion should be provided.

L3 (7–8 marks): For a clear explanation of both characteristics and their relation to an underdeveloped economy. Some attempt to establish links between these characteristics but the argument will not be fully developed.

L2 (5–6 marks): For a limited attempt to describe the two characteristics but only provides a brief explanation of their relevance to an underdeveloped economy. A brief outline of potential links might be described but not discussed.

L1 (1–4 marks): For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

6. (a) Answers should clearly identify what is meant by foreign direct investment (FDI) and should demonstrate an awareness of its special importance regarding developing economies. Links between FDI and multinational corporations should also be referred to. The focus should be upon the impact of FDIs on developing economies. This focus would examine both positive and negative impacts on key areas of a developing economy such as: growth; employment; infrastructure; balance of payments; environment.

L4 (9–12 marks) For an attempt to evaluate how far FDI proceeds to create a net positive effect on relevant key indicators of development such as economic growth, productivity, employment and foreign trade. A conclusion should look at whether the overall net effect of FDI could be considered beneficial

L3 (7–8 marks) For a detailed analysis of the how foreign direct investment might impact on undeveloped economies. Analysis should focus upon a comparison between the potential positive and potential negative effects of FD

L2 (5–6 marks) For a brief, undeveloped answer which describes the potential impact on a few economic issues but does not provide any supporting analysis

L1 (1–4 marks) For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.

(b) A clear explanation of the connections between low incomes, low savings, low investment and low growth rates should be provided. Responses might also refer to the cycle of poverty relating to development which refers to links between low income, low levels of education, low productivity. The effectiveness of alternative measures introduced to break these cycles should be discussed.

L4 (9–13 marks) For a comparison of alternative solutions and some attempt made to evaluate the likely effectiveness of different approaches. A wide range of measures might be discussed including: supply side policies; use of overseas aid; promote export led growth; increase productivity in the primary sector; incentives to increase savings; direct government intervention.

L3 (7–8 marks) For a more detailed examination of the nature of a cycle of poverty should be provided with an attempt to analyse why the cycle continues and why it is difficult to introduce policies which might break the cycle. Possible solutions based on analysis should be provided

L2 (5–6 marks) For knowledge and understanding of what is meant by a ‘cycle of poverty’ in relation undeveloped countries but no attempt to analyse why the cycle occurs.

L1 (1–4 marks) For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.

7. (a)

- No definite conclusion (1);
- Generally positive but there are anomalies in the table, e.g. Greece has highest proportion who smoke but has a life expectancy, higher than Germany which has lower proportion smoking. UK has lowest proportion smoking but not the highest life expectancy (2).

(b)

- If minimum price were above equilibrium price it would reduce demand;
- The extent would depend on elasticity/ alcohol likely to have a relatively inelastic demand;
- There could be a danger of price undercutting in an informal market;
- Wider issues about effect on tax revenues/unemployment/welfare payments/possible export effects should be mentioned briefly.

(c) Positive supportive factors: Table shows countries with high per capita incomes do have high life expectancy rates at birth. Assumption is that higher life expectancy increases well-being. The information mentions higher levels of education, housing, health care – development of medicine to lower heart disease, diabetes and lung disease.

Negative factors: Life style of richer countries – high smoking rates, high alcohol consumption, high sugar intakes leading to poorer health and a reduction in life expectancy.

Conclusion: Wellbeing not just linked to income though too little income negates it. Income level of \$10 000 is arbitrary and subjective. Higher satisfaction maybe due to socio-economic factors such as strong family support, growing own fruit and vegetables, healthier lifestyles.

(d) Indifference curve analysis states that as income increases consumers move to a new, 'higher' indifference curve and this gives more satisfaction. For normal goods the consumption would also increase as incomes increase. A diagram is not required but it is likely that candidates would explain the analysis with a diagram.

Evidence is that higher incomes do not necessarily result in a higher proportion of

the population smoking. The evidence is inconclusive whether a higher level of income for an individual resulted in an increased demand (as would be expected by the theory) as the figures are overall averages and show differences between countries rather than an increase in income in any one country.

8. The statement refers to developed and developing economies and some performance indicators. Candidates should clearly explain the difference between these terms. Answers should also recognise the links between developed and developing economies and the indicators. It should be recognised that although key performance indicators might be similar, it is often for different reasons and these reasons should be explained. Key elements of developing economies should also be identified to support the conclusion that significant differences between the two types of economy remain, regardless of the similarity of the performance indicators.

L4 (18–25): for an answer that attempts to discuss key differences between developed and developing economies which do not necessarily relate to performance indicators. A conclusion should be produced which emerges out of the discussion

L3 (14–17): for an answer that analyses the relation between different indicators and different types of economy. For example, causes of balance of payments deficits in developing economies are likely to be significantly different from those in a developed economy. This should be examined in relation to at least two indicators mentioned

L2 (10–13): for an answer that provides a basic description of the terms developed and developing and the possible differences in inflation unemployment and balance of payments deficits

L1 (1–9): for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant

9. (a) Explanation of characteristics of developing countries with comment on GDP, industrial/agricultural structures, infrastructure, distribution of income, trading position, role of exports/imports, social indicators such as housing, health, education and a comment on the likely increase in population, population structure and use of resources.

Level 4 (9–12 marks): for a sound explanation with good illustrations and a clear understanding of the principles involved and a reasoned conclusion.

Level 3 (7–8 marks): for a competent comment on both development and population.

Level 2 (5–6 marks): for a correct explanation but undeveloped comment with only a brief mention of the problem of population growth.

Level 1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

(b) Discussion of health programmes, education programmes, income re-distribution, and structural change achieved through government spending, borrowing, taxation, multinational development, aid.

Level 4 (9–13 marks): for a reasoned and clearly structured answer covering a range of policies.

Level 3 (7–8 marks): for a fair but undeveloped answer with limited number of policies considered.

Level 2 (5–6 marks): for a limited but acceptable attempt to consider policies.

Level 1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

10. (a) Primary down, secondary and tertiary up; candidates should give figures to support this; (3) comment on likely changes as countries develop – need to give reason why it might be typical (2)

(b) Businesses suffer – profits could be reduced, investment limited, incomes and employment therefore reduced, consumers disadvantaged, government revenue reduced. But falling input costs are not necessarily bad. Export revenue may decline – depends on elasticity; balance of payment affected. It depends on whether there is a general price fall or a limited price fall. (one side, up to 4)

(c) China consumes large proportion of imports of raw materials, (10 x as much as a % of GDP than other countries) so a fall in price of materials (suggested 50%) and fall in demand would support that opinion. Imports have declined. However not all manufacturing has declined and some imports of consumer durables will increase particularly if consumption spending increases. China might improve in the long run but the article does not stress this.

(d) Candidates should make a reasoned attempt to consider any likely changes, not necessarily from the article, on employment, different incomes, standards of living, government tax revenue, rate of growth in the economy. Suggest up to 2 marks for each relevant suggestion.

11. (a) Explanation of the equilibrium level of income in terms of aggregate demand and supply or injections/withdrawals. Equilibrium can be at less than full employment.

L4 (9–12) For a sound explanation of the analysis and a clear understanding.

L3 (7–8) For a competent comment but with limited development of the analysis.

L2 (5–6) For a brief explanation of the elements of equilibrium but poor clarity in the answer.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Candidates should explain the meaning of the growth rate of an economy and consider what benefits it might bring in terms of employment, incomes, standards of living, trade and wealth. They should also comment on possible drawbacks in terms of environmental change, resource use, distribution of income. [13]

L4 (9–13) For a sound explanation of the analysis and a clear understanding with a conclusion (no conclusion 9 max).

L3 (7–8) For a competent comment but with limited development and a weaker conclusion (no conclusion 7 max).

L2 (5–6) For a brief explanation of the meaning of growth and a one-sided presentation of its effects and results with no conclusion.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

12. Candidates should explain what they would consider to be important to include—for example, output, health, housing, education, crime, income distribution. They should comment on the merit of using the value of GDP, HDI or MEW as indicators of quality of life. [25]

L4 (18–25) For an clear explanation of the issues to be included and a discussion of the Merits and drawbacks of using alternative indicators and a reasoned conclusion.

L3 (14–17) For a competent explanation of the issues but which do not provide a developed comment on alternative indicators. There will be some discussion but the evaluation will not be extensive.

L2 (1–13) For an accurate though undeveloped explanation of the issues and a limited reference to alternative indicators.

L1 (1–9) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

13. (a) For a brief comment on a rise in output or shift in production possibility curve (1), further mark for an elaboration. Growth: an increase in the real level of net national product (national income) which can be indicated by an increase in GNP per capita. 2 marks for reasons – electricity shortage, low production, weak infrastructure, regulations, opposition by environmentalists.

(b) Brief comment on problems reported by businesses,(1) not overcome as there was an even bigger gap between demand and supply in 2011–12, (1), evidence from figures (1).

(c) Coal India is forced to sell coal at 70% below the market price. This results in an unprofitable situation and a lack of investment in new mines and technology despite massive coal reserves. Investment multiplier, and thus potential growth, is reduced. (3) Low price encourages demand – in 2012 10.3% or 12.9% above supply – but is not met. Imports are required. These are expensive (Indonesia doubled prices) and again cause another leakage to the economy lowering growth. (2) The excess demand is due to artificially low prices and may be reduced if prices were increased. However, this may not be detrimental as the increase in price would generate more spending and more injection into the economy.(2)

If answer is about disadvantages only max 6.

14. (a) Analysis and explanation of the working of the multiplier showing the link between investment and national income, recognising that there would be no leakages to taxes and imports in the closed economy. However, it may also be the case that if there were taxes the proportion of the taxation spent may be higher than the proportion of the private income spent.

L4 (9–12) For a sound explanation with clear understanding of the principle involved.

L3 (7–8) For a competent explanation but with limited development.

L2 (5–6) For a general explanation probably in descriptive form.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) The government might wish to influence the investment by using fiscal or monetary policy. It might also influence the investment of the private sector by regulation. It can use taxes or subsidies, interest rates, regulations or controls.

L4 (9–13) For a reasoned discussion and clearly structured answer with several alternative policies

L3 (7–8) For a competent discussion but with a more limited range of policies.

L2 (5–6) For a weaker attempt which may concentrate on only one type of policy, not present any drawbacks of that policy or not develop any wider analysis.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

15. (a) Explanation of three main ways of calculating GDP; GDP by expenditure method measures the value of the goods and services produced in a country in a given time period (usually one year). Net national income by the income method is the sum of incomes to the factors including incomes earned abroad. Factor Cost + taxes – subsidies gives market prices. Gross – depreciation gives net.

L4 (9–12) For a sound explanation of the methods clear understanding of the principles. The three differences should be mentioned – between domestic/national; between factor cost/market price; between gross and net.

L3 (7–8) For a competent explanation with limited development and with a clear explanation of only one or two of the differences; or a weak explanation but three differences mentioned.

L2 (5–6) For an undeveloped explanation and with a mention of only one of the differences.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

(b) Consideration of the characteristics of a developing country – it may be poor in level of infrastructure, level of health care, education, sanitation as well as in the average income level. The access to these may be because they are limited and the population is large, but a large population is not the main criterion of developing countries. Reducing the size of the population is not, therefore, necessarily the solution.

L4 (9–13) For a reasoned and clear consideration with the analysis logically presented and a conclusion drawn.

L3 (7–8) For a fair but undeveloped account possibly concentrating on limited range consideration of the meaning of 'poor' but still with a conclusion for 8. No conclusion, 7 max.

L2 (5–6) For a more descriptive account with little evaluation and no conclusion.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

16. (a) An explanation of the multiplier; it might fall because injections decrease or withdrawals increase, or a combination of the two with a net decrease in the value of the multiplier.

L4 (9–12) For a sound explanation with good application and a clear understanding of the principles involved. An explanation of changes to two of the components; C, G, T, I, S, M and E should be given and a comment on the overall balance on the multiplier should be mentioned.

L3 (7–8) For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance.

L2 (5–6) For a weaker explanation of the multiplier and poor comment on the overall change.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

(b) A discussion of the link between income levels and standard of living; decreased national income, decreased spending, possibly more unemployment, lower government revenue, lower feeling of well-being, fewer government services, lower profits for firms more closures.

L4 (9–13) For a reasoned and clear discussion with the analysis logically presented with at least three consequences and a conclusion drawn.

L3 (7–8) For a fair but undeveloped discussion, possibly dealing with only two consequences, although still with a conclusion.

L2 (5–6) For a limited discussion with little comment and no conclusion.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

17. (a) Some developing countries have large populations, some do not. What is more significant is the rate of growth of the population. However, distinguishing features are more often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population.

L4 (9–12) For a sound description with clear understanding of the characteristics and a clear conclusion.

L3 (7–8) For a competent description but with limited development, although some attempt will be made at a conclusion.

L2 (5–6) For a general description of only some of the factors and no conclusion.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Economic growth involves greater production measured by changes in GDP/GNP. This could cause an increase in the standard of living, improved health, education and employment opportunities. There may be disadvantages. Poor working conditions, the growth of externalities, the careless depletion of resources. There may also still be questions of inequality in the distribution of income or whether the increased GDP is spent on things which might not give direct benefit e.g. military research.

L4 (9–13) For a discussion of the overall effect of growth on development, presenting both positive and negative aspects, with a conclusion.

L3 (7–8) For an analysis of the contribution of growth to development, but with a concentration on either the positive or the negative aspects, with a conclusion.

L2 (5–6) For a more descriptive account without much evaluation and without a conclusion.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

18. The indicator mentioned is GDP. Rising GDP is used to suggest that the standard of living has risen. However, GDP does not include – non marketed items (jobs done yourself), this is in MEW; the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being.

L4 For a thorough explanation of the difficulties of using GDP. There should be a conclusion which should refer to the stimulus. (18–25)

L3 For a competent explanation which does not fully analyse the difficulties of using GDP but makes some attempt at evaluation and a brief conclusion should be stated. (14–17)

L2 For an accurate though undeveloped explanation with some attempt at analysis but no real attempt to draw a conclusion. (10–13)

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant. (1–9)

19. (a) Description of the different economic characteristics in terms of an increase in national income, productive capacity, occupational distribution, or in terms of HDI and standards of living with a mention of population growth, education, health, income distribution.

L4 For a sound description with clear understanding of the principles involved and a clear explicit distinction drawn. (9–12)

L3 For a competent description but with limited development and explicit distinction. (7–8)

L2 For a general description of only some of the factors and vague distinction. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–4)

(b) Candidates should mention the likely possibility that developing countries rely on the primary sector and this can cause wide fluctuations in income and disguised unemployment. Industrialisation might increase employment, make a more secure base for income, encourage the use of resources, decrease poverty in urban areas. Developed countries, by contrast, have a desire to preserve rural areas, are concerned about externalities of production in some areas, wish to use the advantage of economies of scale in urban areas.

L4 For a good explanation with a reasoned discussion of the different approaches and clearly structured answer which reaches a conclusion. (9–13)

L3 For a fair discussion but undeveloped answer which does not present a well-structured reasoned response. (7–8)

L2 For a limited but acceptable attempt to consider the different approaches but with little development and no conclusion. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–4)

20. Explanation of comparison of a fall in interest rates against prospective yields of investment, short-term v long-term considerations. Show link between investment and national income with an explanation of the multiplier.

L4 For a sound explanation of both parts of the question, – interest/investment; investment/income – and a clear understanding of the principles involved. (9–12)

L3 For a competent comment but with limited elaboration of the analysis although the multiplier should be mentioned. (7–8)

L2 For a correct explanation of either the link between interest and investment but with no mention of the multiplier process; or a very poor link between interest and investment but a brief description of the multiplier. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–4)

21. (a) Economy size is higher but no information on population. Possibly better off as unemployment is lower and negative growth is lower but not able to be definitive. Conclusion required for full marks (3)

(b) (i) Theory suggests that negative growth would have an impact, on output and hence on unemployment. With negative growth it would be expected that unemployment would rise. Candidates could explain briefly how the changes in income and employment occur. (4)

(b) (ii) There is unemployment with negative growth but larger negative growth

doesn't necessarily mean larger unemployment. For example, Italy's negative growth is higher than Greece, Portugal and Spain but its unemployment rate is lower than that in all three countries. We do not know what the growth and unemployment rates were in the previous year so cannot really conclude how the change in growth affected unemployment in the year shown. (3)

(c) Unemployment and the negative growth are both below the average of the other countries so Greece is in a better position and not a worse position. The information does not support the concern. However with a relatively smaller negative growth it still has a government debt of 124% of GDP which is the highest of the countries shown. This is why there was so much concern and the information does support that worry. (4)

(d) Spain proposed (i) raising the retirement age, (ii) reducing public spending (iii) increasing taxes and (iv) increasing measures to stop tax evasion

(i) Raising retirement age increases labour supply. Changes in the labour supply have an uncertain effect on growth. Increased labour supply might result in lower average wages. Spending may then not change overall, or, if the increased labour is employed at the lower ends of the pay scales, spending may go up as lower wage earners spend a higher proportion of income. Increased spending may increase growth. Or alternatively the increase in labour supply may increase unemployment and this will not increase growth.

(ii) Reducing public spending may have the effect of reducing incomes and reducing spending which affects growth.

(iii) Increased taxes may reduce investment and reduce growth, may increase unemployment which is already high.

(iv) Increasing measures to stop tax evasion might increase government revenue and allow additional government spending (6)

22. (a) Description of the nature of a developing economy in terms its GDP, GDP per capita, productive capacity, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population.

L4 For a sound description with clear understanding of the characteristics and a clear conclusion 9–12

L3 For a competent description but with limited development. 7–8

L2 For a general description of only some of the factors and no conclusion. 5–6

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–4

(b) Candidates should present a reasoned argument about what they consider to be the most important, or main, aim a government should follow. They should consider the importance of controlling the population growth and discuss what might happen if population increased very fast, but they should also comment on other aims and hopes and discuss which is the more significant.

L4 For a reasoned discussion and clearly structured answer mentioning various alternative together with a conclusion 9–13

L3 For a discussion, but without such a full development or probably not mentioning a range of alternatives and with weaker conclusion. 7–8

L2 For a limited but acceptable attempt to discuss one policy with brief comment on population and without any conclusion. 5–6

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–4

23. (a) Explanation of meaning of GDP and description of methods of calculation.

L4 For a sound explanation with good application and a clear understanding of the principles involved in the three methods of calculation. (9–12)

L3 For an accurate reference to the question but with a more limited explanation or minor errors in the analysis of three methods or a full account of two methods of calculation. (7–8)

L2 For an explanation of two methods perhaps with minor errors not necessarily logically presented. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

(b) Evaluation of comment. Consideration of the value of GDP but also of other factors which might be important but which are not included directly in GDP – health, housing, education, crime, income distribution etc. [13]

L4 For a reasoned and clear discussion, logically presented. (9–13)

L3 For a fair but undeveloped discussion but with accurate reference to the question. (7–8)

L2 For a limited discussion with little comment. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

24. (a) Explanation of the multiplier.

L4 For a sound explanation with good application and a clear understanding of the principles involved. An explanation of G and T and I and E should be given and a comment on the overall balance on the multiplier should be mentioned. (9–12)

L3 For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance once G, T, X, M are included. (7–8)

L2 For a weaker explanation of the multiplier or with either G (but not T) or X (but not M) and no comment on the overall change. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

(b) Discussion of the effect of a change in the equilibrium through an injection. An increased injection could increase demand and put pressure on the use of resources which could cause inflation. A decrease in injections could reduce demand resulting in fall in sales and a possibility of increased unemployment.

L4 For a reasoned and clear discussion with the analysis logically presented and a conclusion drawn. (9–13)

L3 For a fair but undeveloped discussion (possibly concentrating in one direction only). (7–8)

L2 For a limited discussion with little comment and no conclusion. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

25. (a) government spending/investment, private investment,

(b) The information says 4% per year, rise in 3 months, therefore, is 1% (The question does not required an explanation but award 1 mark if there is an attempted explanation of annual equivalent rate, but an incorrect answer).

26. (a) Explanation of the characteristic differences between a developing country and a developed country.

L4 For a sound explanation and explicit comparison of the characteristics giving a good range of indicators both economic and social. [9–12]

L3 For a competent explanation but with a limited development, or a fuller development of only a few characteristics but still with an explicit comparison. [7–8]

L2 For a correct but weak explanation of the characteristics and little development. No explicit comparison given and reader is left to draw conclusions. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

(b) Discussion using information given. Fair Trade might promote specialisation and, therefore, a better use of resources which overall, might lead to some 'conservation'. The use of home products could well cost more to produce especially if they require use of extra heat or fertilisers. The weather may not be as suitable for them and the saving in transport cost could be outweighed by extra production costs.

L4 For a reasoned and well argued discussion with accurate development of the discussion and a reasoned conclusion. [9–13]

L3 For a clear but undeveloped discussion but one which still tries to make a conclusion. [7–8]

L2 For a limited attempt to consider the information but with no conclusion. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. [1–4]

27. Analysis and explanation of the working of the multiplier showing the link between investment and national income, recognising that there would be no leakages to taxes and imports in the pure market economy.

L4 For a sound explanation with clear understanding of the principle involved. [9–12]

L3 For a competent explanation but with limited development. [7–8]

L2 For a general explanation probably in descriptive form. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

28. (a) GDP value of output produced within a country during a year. The income was not earned by production in the home country.

(b) Candidates could contrast the possible situation at home with limited job opportunities, concentration on primary products, especially in rural areas, and poor pay, with the situation in developed countries. It would be thought by those who travel that there would be better pay, better prospects, more skilled training and wider variety of jobs available.

(c) There is some reference to individual cases involving education. However to expand that to a national situation the evidence is limited. In one country, China, private initiatives are stated to have had a significant effect. In the other countries the evidence consists of figures for two countries in one year, and a reference to two other countries – and it is not clear in these two countries whether the ‘partnership’ agreement is the result of private initiatives or the public sector. There are no figures for government expenditure, no comparative figures between other countries or with other years. Also one other country, Mexico, is stated as using government initiatives as well. Overall the evidence is not strong.

(d) Discussion of the use of measures such as GDP and the difficulties of comparisons year by year. Up to 5 marks. Candidates could mention that the strict use of GDP or even GDP per capita has now been augmented by the use of other measures such as the HDI, MEW. Up to 2 marks. Conclusion 1 mark.

29. Explain of how an increase in spending causes a rise in national income through the multiplier process. (No multiplier: max. L2)

L4) For a sound explanation with clear understanding of the principle involved. (8–10)

L3) For a competent explanation but with limited development. (6–7)

L2) For a general explanation probably in descriptive form. (4–5)

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

30. (a) Comment on the number of jobs, income generation, spending and investment will rise. All increase national income. There will be an effect on the trade balance, either from income earned from exports, or from reduction in imported oil due to domestic use of home oil. This will also affect national income. 4 separate points are not required for 4 marks: 2 marks can be given for a point if it is developed and explained.

(b) Evidence for expansion:

- the number of jobs – may be for exploration though
- the investment increases, technological advances continue
- possibly the government encouragement
- the fact that large profits are made

Evidence for decline:

– production levels falling – maybe though only from more accessible fields. Text unclear on this.

– Need extra measures to boost new firms.

Overall text uncertain. Look for conclusion.

(c) – the most important thing is that prices are rising. This is not mentioned in the text. It has to be deduced from the diagram. 2 marks for recognising this.

– profits increasing – supported by view of chancellor increasing taxes

– small firms have advantage

– changes in government rules

– possibility of new oil fields.

31. (a) Explanation of economic development in terms of an increase in GDP, GDP per capita or increase in national income, productive capacity, or in terms of HDI and standards of living. Reference may be made to the way in which this is achieved.

L4) For a sound explanation with clear understanding of the principles involved and a clear conclusion. (8–10)

L3) For a competent explanation but with limited development. The conclusion may be weak or missing. (6–7)

L2) For a general explanation of only some of the factors and no conclusion. (4–5)

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

(b) Candidates should discuss the relevance of each of the suggestions, the reliance on theory, the scientific advances and the market forces. They should conclude whether each is necessary.

L4) For a reasoned discussion and clearly structured answer mentioning all three suggestions together with a conclusion. (12–15)

L3) For a discussion, but without such a full development or probably not mentioning all three suggestions, and with weaker conclusion. (9–11)

L2) For a limited but acceptable attempt to discuss one or two of the suggestions without any conclusion. (6–8)

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

32. (a) Explanation of the link between a rise in taxation and national income. Direct tax increases would lead to a reduction in income and possibly to a fall in spending and national income. It might depend on whom the increase in tax is levied and whether it is progressive or regressive. Indirect tax increases may lead to a fall in spending but it depends on the elasticity of demand for the product or service. It also depends on whether expenditure is switched to other goods/services.

L4) For a sound explanation with clear understanding of the principles involved and a clear conclusion. (8–10)

L3) For a competent explanation but with limited development and no real conclusion. (6–7)

L2) For a more general explanation which presents quite a simplistic approach and has no conclusion. (4–5)

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

(b) Discussion of the importance of the link between national income and standards of living. Consideration of the income per head, the distribution of income and other factors some of which are measures by the HDI and some which are of a more social nature.

L4) For a structured discussion and clearly structured answer together with a reasoned conclusion. (12–15)

L3) For a discussion, but without such a full development and with weaker conclusion. (9–11)

L2) For a limited but acceptable attempt to discuss the relevance of national income with limited alternatives and without any conclusion. (6–8)

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

33. (a) Identification of letters (1) together with explanation of meaning (2).

(b) Traditional unpaid work; informal economy; poor use of labour resources expressed as inefficient government, high unemployment, poor education especially of females; poor use of resources in agricultural sector.

(c) Movement from agriculture, which has relatively low productivity into industrial employment. Those in employment will have larger incomes, spending will rise, with resulting effect on growth and GDP. However, the workers may be inefficient so the increase in incomes may not be large. Also output, if it were recorded, would be lower in rural areas as labour migrates with negative effect on GDP. Overall uncertain result.

(d) Evidence for: amount of traditional unpaid work; inequalities in education; % employed in agriculture compared to other known developed countries, % given on those below poverty line, on problems in the economy. All of these fit the description of a developing economy. However, these alone are not sufficient and other information should be provided, for example, on levels of GDP and change in the GDP, on distribution of income, on income levels per head, on information about health provision. There is information about % of GDP from employment in

manufacturing and services but there is no comparison given with other countries.
[One side of argument 4; + 1 for conclusion.]

34. Discussion of ways of measuring whether people are 'better off'. Consideration of indicators that might be used both quantitative and qualitative. Discussion of difficulties of comparing even the quantitative indicators in different cultures, climates and economic structures.

(L4) For a thorough explanation of the terms, a competent coverage of data, and a reasoned conclusion.

[18–25]

(L3) For a competent explanation but with a more limited range of data and less developed discussion.

[14–17]

(L2) For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation and no mention of alternative measures (HDI, MEW).

[10–13]

(L1) For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory.

[1–9]

35. Explanation of differences in birth rates, death rates, migration, health policies, education, illness and change caused by AIDS.

(L4) For a sound explanation with clear understanding of the principles involved and a reasoned conclusion.

[8–10]

(L3) For a competent explanation but with limited development and limited conclusion.

[6–7]

(L2) For a correct explanation but without concluding comment.

[4–5]

(L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

[1–3]

36. (a) Identification of the letters and brief explanation of the term, including comment about the relevance of 'per capita'.

(b) (i) The reasons for the situation in Africa mentioned in the article should be stated, exports fallen, foreign aid fallen, increased illness, subsidies in other countries to support industry there.

(ii) There should then be a discussion on any possible link between Africa and the other countries. A link may be possible for foreign aid, and for the fall in prices of exports if subsidies have encouraged home production in Europe. It may also be possible that the lack of aid has prevented medical care and hospitals and thus led to increased illness. These possible links to other countries need not have been caused simply because there was a boom there though.

(c) Comment on changes in output, prices, income, employment, investment, government revenues, imports.

(d) Information includes GDP per capita which is useful, and on government support for local industries. A comment on the value of economic indicators is required and the difficulty of relying on GDP alone for a comparison of living standards. Comment on other measures and the condition of housing, education, employment, medical care would be relevant. Some indication of this could be

gained from the HDI index which is given, but only selected countries are stated, and there is no average for Europe. The index figures are a guide however.

37. Discussion of ways to improve equality of incomes and wealth. Policies which could be mentioned include tax changes, implementation of different transfer payments, subsidies, foreign aid, government expenditure on employment, industry.

L4) For a reasoned and well argued discussion with accurate development of the alternative policies.

[9 - 13]

L3) For a clear but undeveloped discussion but one which still deals with more than one type of policy.

[7 - 8]

L2) For a limited attempt to consider the theory with a concentration on one policy only, probably tax changes.

[5 - 6]

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial.

[1 - 4]

38. (a) Explanation of benefits of rural development: employment, income generation, prevention of decline of area, regional cohesion, community ties.

L4) For a sound explanation and a clear understanding of the different elements involved.

[9 - 12]

L3) For a competent comment but with limited elaboration.

[7 - 8]

L2) For a correct explanation of some of the elements involved.

[5 - 6]

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

[1 - 4]

(b) Discussion of the extent to which exploitation would destroy existing environments, cause overcrowding, congestion, pollution, negative externalities. A consideration of the short-run/long-run position and a comment on the possible differences between rural and urban areas or between the situation in developed/developing countries could be given.

L4) For a reasoned and well argued discussion with accurate development of the characteristics. [9 - 13]

L3) For a clear but undeveloped discussion but one which still deals with both economic and social indicators. [7 - 8]

L2) For a limited attempt to consider the theory with a concentration on the economic indicators reflecting output etc only. [5 - 6]

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. [1 - 4]

39. (a) any two from
educated workforce
profit can be sent back to home country
no exchange controls
low taxation
can be financial hub of area
commitment to free market principles

(b) Candidates could use the following as evidence:

mining – primary industry, – accounts for 77% export earnings, 45% GDP,
diamonds
lack of water
need for foreign developers
possibly existence of low wages
life-expectancy
poor infrastructure leading to high transport costs

(c) Internal advantages could include wider choice of products, possible greater income and employment, increased standard of living from increased income and use of resources. International aspects could include less reliance on imports, less dependence on trading in primary products. Some discussion required for full marks.

40. (a) Description of two methods from income, expenditure or output method. This is GDP so not necessary to have net income from abroad or net depreciation. Taxes and subsidies could be used to show the link between two measures.

L4 For a sound explanation with clear understanding of the principles involved and a comparison presented

8 – 10

L3 For a competent explanation but with limited development of the detail of the calculation

6 – 7

L2 For a correct explanation but undeveloped comment

4 – 5

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial

1 – 3

(b) Discussion of use of the statistics when making comparisons within a country over time. Limitations of the statistics and alternative measures should be mentioned.

L4 For a reasoned discussion and clearly structured answer	12 – 15
L3 For a fair discussion but undeveloped answer	9 – 11
L2 For a limited but acceptable attempt to consider a range of limitations but with little about alternative measures	6 – 8
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial	1 – 5

41. (a) Overtime reduced, health insurance taken from wages, higher unemployment, some on strike, stock market decline. [1 each, to a max. of 3]

(b) (i) employers wished to reduce costs, or profits were reduced or employers could pass on extra cost to employee because of increase in unemployment. [1 each, to a max. of 2]

(ii) company may have had higher profit levels, company may have produced product with inelastic demand so could raise price cost of labour may have been a low % of total cost there may have been an increase in demand for product there may have been an increase in productivity there was an effective trade union there was a wish to end the strike. These are alternatives. Not all are required. [1 each, to a max. of 3]

(c) There is uncertainty of the overall effect of the reduction in the incomes.

- It depends on whether a wider view of incomes is taken, including social security and other benefits.

- If the wider view is taken gains from stock market have to be included and these have declined.

- Depends on whether workers regard the change as short or long term. Depends on the proportion of workers that the change has affected.

- Do know that most of those affected were below management level – may therefore have been on lower incomes.

- Do not know level of unemployment before 2001, only that it is now 5.9%
- Do not know whether any jobs have been created, and what wage levels they paid.

(d) Headline is concerned about lower earnings because of the likely reduction in consumer spending. Can explain effect of reduction in spending using the analysis of the multiplier showing how national income will change as a result. Maximum of 3 if no development of multiplier.

42. (a) Explanation and description of economic indicators such as GNP/GDP, use of other indicators connected with social provision, education, health, (human development index)

Level 4) For a sound description with good illustrations and a clear understanding of the principles involved together with good critical comment. 9 - 12

Level 3) For a competent comment with limited critical comment. 7 - 8

Level 2) For a correct description but undeveloped comment with limited attempt to elaborate the description. 5 - 6

Level 1) For an answer that has some basic correct facts but includes irrelevancies and errors of theory. 1- 4

(b) Policies in developed countries can affect developing countries through trade, or aid, or political agreements. Candidates could comment on import/export agreements, exploitation of labour for cheap production, international aid, voluntary aid in terms of skilled workers, medical help, governments encouragement of multinational companies in promoting development of resources.

L4) For a reasoned and clear evaluative comment.

9 - 13

L3) For a fair but undeveloped comment.

7 - 8

L2) For a limited but acceptable attempt to consider the possible results of a developed economy's policies.

5 - 6

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

1- 4

43. (a) Explanation of the use of GDP, industrial/agricultural structures, population structures, infrastructure provision, comparative distribution of income, trading position, role of exports/imports, social indicators such as health, housing, education.

L4 For a sound explanation with good illustrations and a clear understanding of the principles involved and a reasoned comparison presented (8-10)

L3 For a competent comment with limited development of a reasoned comparison (6-7)

L2 For a correct explanation but undeveloped comment with limited attempt to make explicit comparisons (4-5)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-3)

(b) Discussion of health programmes, education programmes, income redistribution achieved through government spending, borrowing, taxation, multinational development, aid.

L4 For a reasoned discussion and clearly structured answer (12-15)

L3 For a fair discussion but undeveloped answer (9-11)

L2 For a limited but acceptable attempt to consider a range of policies (6-8)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-5)

44. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- An increase in productivity will occur when there is an increase in output per unit of input in a given time period.
- Key characteristics of low-income countries would include: low levels of productivity, relatively low levels of GDP per capita and a significant proportion of the labour force working in the primary sector
- Low-income countries often fail to generate a sufficient level of savings to generate sufficient investment to promote an increase in productivity
- Access to material goods and essential services such as health and education is frequently used as a measure of living standards in low-income economies.
- Globalisation can lead to economic dependency and significant imbalances of trade which, in the long run, might have a negative effect on living standards in low-income countries.

AO3 Evaluation

- Low-income countries might increase productivity due the transfer of new technology from high income countries, however this might lead to a substitution of capital for labour thus increasing the level of unemployment.
- An increase in Foreign Direct Investment (FDI) might lead to the exploitation of the indigenous raw materials, thus leading to a long run decline in economic growth.

- Increases in productivity might provide opportunities to create more real wealth but it will still depend upon a government in a low – income country to ensure that any increases in wealth lead to equitable outcomes.
- It is relatively easy to link an increase in productivity to the availability of more goods, however living standards are also influenced by an increase in the provision of services such as health and education. It is not easy to measure change
- In conclusion, it is clear that there is a potential role for an increase in productivity to influence living standards in low re – income countries but this will depend on many factors which have been referred to above, some of which might have a less direct positive impact.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 14

AO3 Evaluation 6

45. (a) The Gini co-efficient, measures income inequality or, less commonly, wealth distribution among a population. (1)

The co-efficient ranges from 0 (or 0%) to 1 (or 100%),(1) with 0 representing perfect equality and 1 representing perfect inequality. (1)

(b) Absolute Poverty is used to describe a condition where an individual does not have the financial means to obtain commodities to sustain life. (1) It is sometimes expressed as being below the ‘poverty line’ which gives a level of income per day.

(1) Accept World Bank definition of absolute poverty (1)

Relative Poverty refers to the level of income compared to income levels of other groups within the same surroundings (1)

(c) No apparent link to poor literacy ratios. (1) Better literacy ratios are in countries with greater inequality of income distribution (1) Cannot determine a cause/effect (1) Higher Gini coefficients are also in countries with a lower % below the poverty line. (1) No link to absolute poverty. (1) cannot tell about relative poverty-no information (1)

Up to 2 marks for correct use of data

(d) Fiscal policy

Correct example (1) development (2) Link to equality (1)

Supply-side policy

Correct example (1) development (2) Link to equality (1)

46. AO1 and AO2 out of 14 marks.

AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Comment on the meaning of economic growth and its measurement and a discussion on the effect of increased government spending. Extra government spending should increase total demand by consumers and businesses, which could allow investment, research, further production and economic growth.
- Distinguish between actual and potential growth
- Reference to the multiplier.
- However, if there is limited spare productive capacity, extra spending might not result in further output but in rising prices, or increased imports with consequent effects on the balance of payments and long-term international competitiveness.
- Also depends on the amount of capital, education and skills of work-force, size of work-force, availability of resources. The ability to combine the factors of production. Access to finance, types of business structure available FDI. Access to new technology.

AO3 Evaluation (max 6 marks)

- Some evaluation would be included in the above discussion. For the evaluation marks there should be a recognition of both sides of the argument and a final conclusion as to which is dominant.
- Issues may include higher prices; potential for income inequality; environment degradation; over consumption of scarce resources.

AO1 Knowledge and understanding and AO2 Analysis 14
AO3 Evaluation 6

47. AO1 and AO2 out of 14 marks.

AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Definition of standard of living
- Distinction between high/low income countries eg per capita income
- The answer should provide reasons for the difficulties of comparison of different countries due to culture, climate, subsistence sector, informal economy, difficulty of data collection, distribution of income, exchange rates, purchasing power. Comment on which measures of national income should be used.

AO3 Evaluation (max 6 marks)

Assessment of the link between using national income figures and the standard of living.

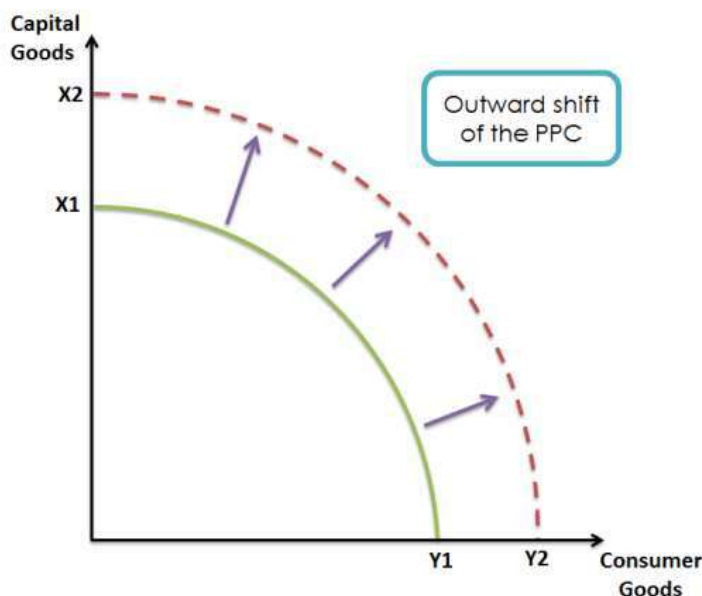
Alternative measures to develop the extent national income statistics can be used in relation to low/high income and countries

AO1 Knowledge and understanding and AO2 Analysis 14

AO3 Evaluation 6

48. (a) Natural resource development will increase the potential growth of Ghana. (1)

The production possibility curve or LRAS curve will move outwards. (1)



Axes/labels (1)

Shift in PPC or shift in LRAS (1)

(b) The multiplier is the total increase in national income/output (1)

from an increase in injections into the circular flow of income (1)

The article identifies new jobs and their associated incomes (1)

This in turn creates a further round of spending/jobs/income (1)

2 marks for understanding of the multiplier

2 marks for application using case study

(c) When natural gas was discovered and exported from the Netherlands this caused the exchange rate to rise (1), and

made manufactured exports more expensive (1)

which led to a fall in manufacturing output/exports. (1)

Manufactured exports fell from about 25% to less than 10%. (1)

Chart 2 would support the claim. (1)

(d) Definition of the SoL: material and non-material well-being. (1)

A wide range of data to choose from:

- increase in jobs in oil and related industries (1) and increased income (1)
- wider range of goods and services available (1)
- job losses in other parts of the economy (1)
- improvement in GNI more than double (1)
- human development rating improved which cover education and health(1)

But

- no data on distribution of income (1)
- working hours/leisure (1)
- levels of pollution often significant in the oil industry (1)
- chart 2 shows percentages so not possible to know if employment has increased or decreased in different sectors (1)

Note: One-sided argument max 4

Conclusion

A good deal of information suggests SoL has improved but data not definitive.
(1)

Note: max 4 marks for list

- 49.** (a) Since 2016 Public Debt (1) has been more than twice the size of GDP (1)
(b) 1 mark for identification of reason + 1 mark for development (2 x 2)

Value of imports must have exceeded value of exports – could have been affected by different price elasticities for exports and imports (1)

Loss of export sales reflected in declining industrial production in Japan eg. Toyota cars. (1)

Tensions between trade giants, USA and China, could have also affected their trade partners – 19% of exports go to each of these countries. Lower world trade volumes caused by virus (2)

Accept any other relevant reason.

(c) Answers need to see Japan's economic decline in 2020 exaggerated by the coronavirus (1)

IMF figures on the global economy (1)

2020 lockdown worsened domestic consumption and export trade in industrial goods such as cars. (1)

But the decline was part of a much longer-term decline in the economy. Quote figures from table. Reference to two decades of decline before 2011 due to deflation and economic stagnation. (2)

Sales tax imposed in 2019 could help to explain declining retail sales; table 1 (1)

(d) Up to 4 marks for theory response

Up to 4 marks for application of data

In theory, low interest rates would boost the economy by encouraging consumers and investors to take more risks when borrowing. (2)

In theory the low interest rates should discourage saving and increased consumption but the pattern of retail sales seems to contradict this expectation. (2)

Also, low interest rates should encourage borrowing for industrial investment to expand capital assets but industrial production has declined significantly after 2017 (2)

Policy appears to have worked best in 2017 when industrial production and retail sales improved significantly linked to the highest rate of economic growth year-on-year.

However the fall in exports, trade wars (US – China) and high levels of public debt have continued to lead to more stagnation. This has been made worse by the coronavirus pandemic in 2020 (2)

50. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

AO1 Knowledge and understanding and AO2 Analysis

- Definition of GNI: the total income earned within a country in a year plus net receipts from abroad of compensation of employees, property income and net taxes less subsidies on production. This is an aggregate measure of an economy's income.
- GNI measures in monetary terms.
- For many developing countries which rely on remittances from overseas workers, this will boost the value of GNI.
- Other countries that have invested overseas will receive a stream of dividends and interest that boosts their GNI.
- Definition of the MPI
- Some explicit breakdown of the categories which are involved in the construction of MPI
- Health: 1/3rd weighting includes child mortality and nutrition (1/6th each);
- Education: 1/3rd weighting includes years of schooling and school attendance (1/6th each); and
- Standard of living 1/3 weighting includes cooking fuel, sanitation, drinking water, electricity, housing and assets (1/18th each).
- The measures are fundamentally different in their approaches GNI is concerned with money values whilst MPI is concerned with the adequacy of provision of a number of essential services and goods linked to the Millennium Development Goals.

AO3 Evaluation

Evaluation may be by individual measure or by comparing the measures.

- GNI The comprehensiveness of the data collection:

- The GNI figures need deflating for the effects of price increases and changes in the population to achieve real GNI per head, which allows for comparisons over time.
- The range of incomes which are included 'the dark economy', illegal activity – drugs crime etc. the ability to count all income flows between countries
- Incomes from activities that produce negative externalities or are the result of monopoly profits increase the GNI but reduce the level of economic efficiency.
- Real GNI per head can be used as a simple measure of economic growth but lacks a distributional measure. Additional measures such as the Gini coefficient need to be calculated to gain a measure of the distributional effect of a given GNI. Both these measures are averages which disguise a wide range of individual circumstances.
- The data collection for MPI is more complex than for GNI. The criteria for GNI are well established and are given.
- Monetary-based poverty measures can omit a lot. The overlap between monetary and non-monetary measures of poverty is not perfect. In most cases, not all individuals who are income-poor are multidimensionally poor and not all multidimensionally poor individuals are income-poor. Both monetary and non-monetary measures of poverty are needed to better inform the policies intended to address the needs and deprivations faced by poor populations.
- Economic growth does not always reduce poverty or deprivation. Several studies have found that economic growth is not strongly associated with a reduction in other deprivations, such as child malnutrition or child mortality.
- Real GNI per head data is available for 188 (most) countries of the world whilst MPI data is only available for 103 poorer countries.
- MPI for education measures inputs not outputs, attending school is not the same as learning to read.

AO1 Knowledge and understanding and AO2 Analysis 14
 AO3 Evaluation 6

51. (a) Economic equality is the equal distribution of income, wealth and opportunities between across all sectors of society. This could affect job prospects, earnings, education. (2)

Equity is fairness/justice/any relevant comment (2)

Up to maximum 3

(b) Actual economic growth is measured by the percentage change in a country's real national output (GDP) (1) in a period of time (1).

General trend: employment fluctuates but there is a general rising trend. (1).
declining rates of growth are linked with increasing levels of unemployment or
there is an inverse relationship between growth and unemployment (1)

Specifically: negative rates of growth in GDP (depression) correspond to highest levels of unemployment (1) The general growth trend is falling (1)

Up to maximum 5

(c) Electricity supply is fundamental to the functioning of an economy. The company has been unable to meet national demand for electricity and has used power cuts to ration consumption. (1)

Article mentions other industries in decline but states that the electricity company is the biggest threat. (1)

Lack of electricity has had an effect on the outputs of mining and manufacturing that have led to unemployment. (1)

General uncertainty has led to reduced investment and has also contributed to the situation that South Africa's actual growth is well below its potential growth in view of its well-endowed natural resources. (1)

No similar figures for the other industries so a definite conclusion about the exact significance of the electricity industry is not possible. (1)

The company's debts added significantly to South Africa's national debt (1)

Up to maximum 5

(d) Various government reforms and poor performances of some state industries have undermined confidence in the entire South African economy. (1)

This can be illustrated by the lack of investment by the private sector in the mining industry leading to increasing unemployment. (1)

The South African economy has also been diminished in the international economy as indicated by the fall in FDI (Figure 3) (1)

High unemployment means low consumer expenditure and low growth in AD. (1)

Future prospects for improvement seem limited in the short run (1). Longer term it needs to overcome a skills shortage by reforming education (1) and restrictive trade union practices. (1) Nevertheless, there is some increase in FDI (1). Longer term increase in infrastructure (1). An increase in employment/economic growth in the economy (1)

52. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

SoL within Mexico

- Definitions of material and non-material standard of living (SoL) and GNI explanation of the difference in their meanings.
- Definition and explanation of the other data given.

- The meaning and development of the data and the implication of the value given for SoL.
- A developed analysis of the links between each of the data given and the SoL.

AO3 Evaluation

- Data does not specify precise time periods, therefore it's not possible to tell whether the position has improved or not with respect of GNI or the other data given.
- Can point out that population size rather than population change would be a better measure together with a base year price index to allow real GNI per capita to be calculated to indicate the material SoL.
- Wages and disposable income and the unemployment rate would indicate the change in the material SoL.
- The changes in wages in comparison with inflation suggests there is a fall in real income.
- The need for other measures: education, health, life expectancy, hours worked etc. which influence the non-material SoL e.g., HDI, MEW or MPI.

Accept all valid responses.