

Examiners' Report

June 2019

IAL Economics WEC04 01

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Introduction

The entry for this paper continues to grow with just over 1,600 candidates sitting this exam.

In Section A, question 3 was the most answered question amongst the essays followed by question 1 and question 2, which were attempted by a small number of candidates. In Section B, question 4 proved to be the more popular option than question 5. Slightly stronger performances were seen on question 3 from Section A (mostly driven by part 3(b)). Similar performances were seen across questions 4 and 5 from Section B.

Generally, scripts were of better quality than in previous sessions. Responses to the essay questions in Section A presented very good levels of depth and breadth. It is pleasing to see the candidates taking on board the advice that has been offered to them. However, some candidates struggled to understand the requirements of the question and often did not add relevant evaluation to their answers.

Typically, examiners are looking at three well developed and contextualised analysis points and two well developed and contextualised evaluative points for 15 mark essay questions. Similarly, examiners are looking at four well developed and contextualised analysis points and three well developed and contextualised evaluative points for the 25 mark essays.

In answers to Section B, some candidates did not make appropriate use of the relevant data provided in the extracts. Despite this general trend, there were several good scripts. Candidates were able to integrate most of their analysis with application to context and evaluated their own arguments in detail.

The questions were accessible at all levels and provided good opportunities for candidates to differentiate themselves by ability. Answering the particular question asked, integrating data with analysis and strong evaluation remain the essential ways that the A-grade candidates achieve higher marks.

Moreover, candidates are also highly encouraged to have better structure to their answers. Many had written the essays in bullet points and some had written in extended paragraphs without making a clear distinction between analysis and evaluation. This was also seen in the higher mark questions in the data response section.

Question 1

Q1(a)

Candidates were not always able to analyse their arguments in the context of an economy to answer this question. They did not evaluate the impact of a fall in productivity, but often discussed the effects of a decline in production. The candidates could not access level 5 if they did not refer to an economy in their answer.

Many candidates discussed the impact of a fall in production in their analysis. No reference was made to productivity and hence candidates were not able to access more than level 1 for analysis. Moreover, they were not able to link their arguments to an economy of their choice. This meant that candidates often found it difficult to access level 3.

Only a few candidates discussed the requirements of this question. They were able to explain how a fall in productivity results in deterioration in the trade balance – fall in AD and deters FDI. They also linked this to an economy of their choice. This allowed candidates to access higher levels for analysis.

In evaluation, candidates explained the difficulty in measuring productivity and discussed short run and long run impacts. However, most arguments lacked breadth and the depth of their points were relatively limited. Candidates also struggled to evaluate in context.

Across scripts there was little application to an economy of their choice. Applying answers with country reference may provide candidates with a framework in which to base more in-depth analysis and evaluation. Candidates who answered this question, therefore, found it difficult to access highest levels.

Q1(b)

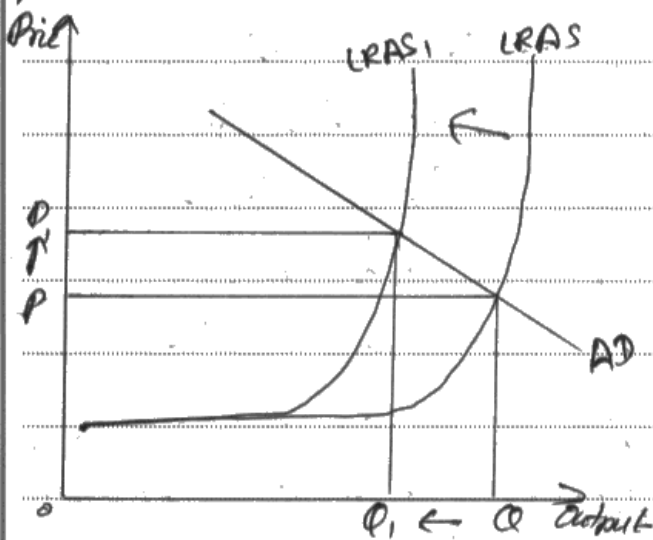
Candidates produced some good answers to this question, and in particular were able to apply their answers to a developed country. It was clear that when the candidates chose to discuss their own countries they were able to include far more detail, and integrate their analysis and application to a greater extent. Candidates could not access level 5 if they did not refer to a developed country in their response.

The majority of candidates were able to discuss policies that a government in a developed economy might pursue to increase the productivity of its working population. They were able to effectively evaluate each of the policies that they analysed in the context of a developed country.

Responses that received higher levels made good analysis points. They showed good depth to their analysis but often lacked necessary depth in their evaluative comments. Some candidates were not able to develop their points on the analysis arguments that they made, often just listing them. There were a few candidates who considered the policies that could be used to increase production. This did not give them access to more than level 1. Many candidates applied their arguments in the context of a developing country and hence did not attain higher levels.

a) Productivity can be defined as the no. of output that can be produced by a given amount of inputs. The UK's labour productivity has fallen nearly 30% than that of USA, France and Germany.

A fall in the UK's labour productivity would mean that the output produced in the UK has fallen which



suggests that the LRAS of the UK economy fell with an inward shift of the LRAS causing inflationary pressure as shown in the diagram. This

fall in ~~fall~~ the UK's LRAS shows that the GDP of UK has fallen which gives rise to a slow down in the economic growth.

Furthermore, a fall in labour productivity, means output of UK is low. This would mean that the exports of the UK will

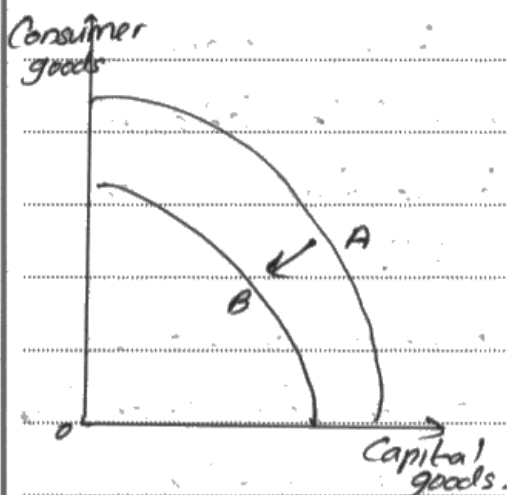
fall which will cause the current account of the balance of payment of UK to have a deficit. This is because when UK's output is low, it may not have sufficient goods to export which causes a fall in the level of exports. This fall in exports is likely to cause a fall in demand for UK's currency which would result in a depreciation of the UK's currency.

Moreover, a fall in labour productivity, will increase costs to firms. This is because, when labour productivity is low, each worker produces a less no. of goods. Therefore, firms will have to demand for a large no. of labour in order to produce more no. of goods. This increases costs to firms which maybe passed down to consumers as high prices for goods, which would create cost push inflation.

Also, when labour productivity is low, new investments are likely to be discouraged because low productivity brings less return. This would cause in a fall in new employment being created which would result in a fall in disposable income of people where they

would have no access to quality consumption and therefore, would have low living standards.

In addition to this, a fall in labour productivity would discourage inward FDI into the UK, because it will be not efficient in operating in the UK.



This would result in a fall in productive potential of the UK economy causing an inward shift in the PPF from A to B as shown in the diagram.

The fall in inward FDI would also mean that the government would face a fall in revenue they earn as tax revenue. Also, fall in labour productivity would cause existing FDI in the UK to leave UK, because it is less efficient in producing in the UK. This suggests there will be a fall in the level of employment in UK causing living standards of people to fall and pushing them down to ~~relative~~ poverty.

However, UK is a developed country and is more specialised in the service sector. Therefore, a fall in labour

in labour productivity in manufacturing sector is less likely to affect the UK's economic growth.

Furthermore, the impact on the UK firms on fall in labour productivity depends on whether they are operating with capital intensive or labour intensive. If UK is mostly capital intensive, productions are most likely to be done with machinery. Therefore, a fall in labour productivity is less likely to ~~affect~~ cause FDI's or investments to fall.

Moreover, the unemployment created due to the fall in FDI depends on the mobility of labour. If labour ~~was~~ ^{had} occupationally mobility, they will be able to change their job easily ~~which~~ ^{Therefore, it} will not affect their living standards.

In addition to this, if the UK exports goods manufactured by capital such as machinery, the current account of UK is less likely to be affected. This is because, the fall in labour productivity of the UK will not affect exports of the UK.

Concluding, the fall in labour productivity was 30% than France,

Germany and USA. This suggests that though there was a fall in labour productivity by 30%, the productivity of labour can be still high.

Also, the impact on the economy depends on how long the fall in labour productivity continued. If the labour productivity fell for a short period of time, impact on the economy would be insignificant.

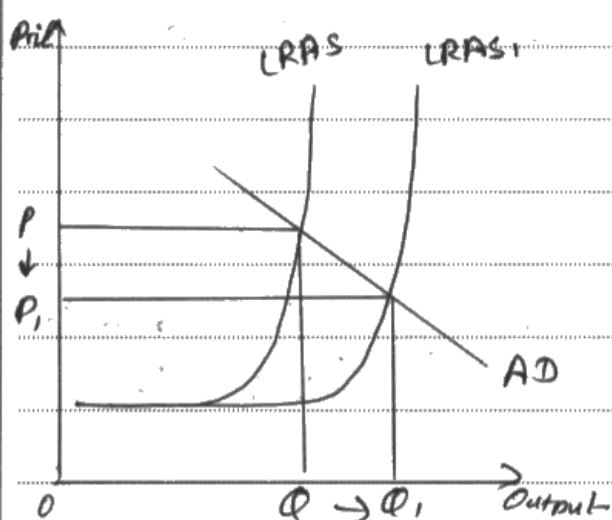
b) Working population of a country ~~are~~ is the no. of people who are eligible to work.

One measure that the government could do to increase productivity of the working population would be by investing in human capital.

When the government invests in human capital such as education and training, people are likely to be more skilled and educated.

This is likely to increase their productivity because they have the knowledge and skills where they could increase production.

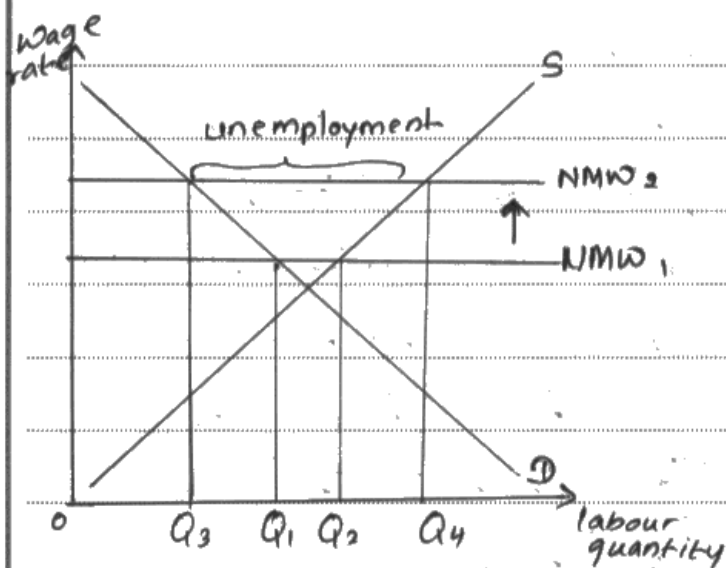
Furthermore, the government could invest in health care in order to increase labour productivity. Investing in health care will ensure that people are healthy. Therefore, the working population does not have to take day offs as they will be



healthy. This will cause a rise in production where the LRAS of the country would increase from LRAS to LRAS₁ as

shown in the diagram.

Moreover, the government could raise the national minimum wage



from NMW₁ to NMW₂ as shown in the diagram.

A rise in national minimum wage is likely create an incentive for

workers to work productively. This is because after the NMW was raised, they will have a rise in the income levels which will encourage them to work more.

This rise in income will encourage people to work more and be productive at their work.

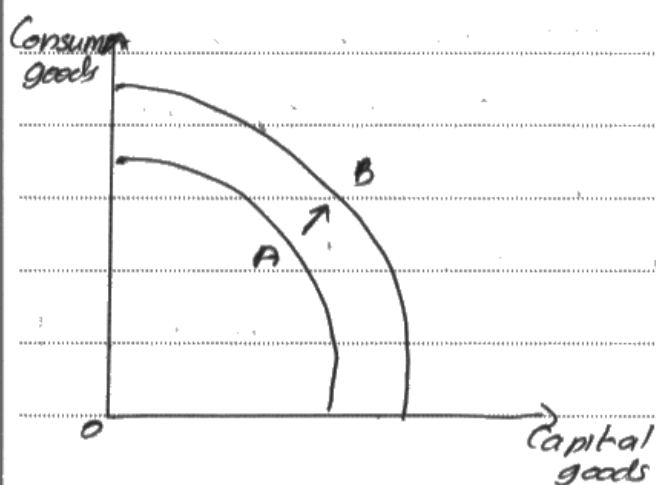
Also, the rise in NMW would increase ~~the~~ demand supply of worker from Q_2 to Q_4 as shown in the diagram. Thus increase the working population as well.

In addition to this, subsidise firms in order to increase labour production.

When firms are provided with subsidies, they will be able to offer fringe benefits to their workers, eg:- uniform, company car, etc. These benefits are likely to motivate employees to work harder where their productivity would rise.

This will cause a rise in GDP levels of the economy where

the productive potential would grow by an outward shift in the PPF from A to B as shown in the diagram.



Furthermore, the government could provide training to the working population. Training will increase the job related skills and knowledge of the workforce which will allow them to perform their task well. As a result, the productivity of the working population will increase causing a rise in the GDP levels.

However, investing in supply side policies like education or training will be costly. Therefore, the government may incur an opportunity cost in investing in education as they could invest in an area such as infrastructure where they could get high return. For example, investing in the infrastructure is likely to attract inward FDI to the economy where the government could raise the tax revenue they collect where they could improve their budget balance.

Furthermore, an increase in the national minimum wage will increase costs to firms. This will cause firms to reduce

the demand for labour. Therefore, there will be a rise in unemployment. This could raise costs to the government because the government will have to pay unemployment benefits such as Job Seeker Allowances which would result in the government to have a fiscal deficit where its expenditure would be greater than revenue.

Moreover, ~~invest~~ there would be a time lag for effects of investing in human capital to be seen.

This is ^{means} because it would take a long time for productivity to rise after improving human capital.



ResultsPlus
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This answer is able to identify and explain the effects of a fall in productivity effectively. Although the answer does discuss the impact of production in some analysis, it made links to costs demonstrating an understanding of the difference in these two terms. The answer also discussed the policies effectively. To get access to the highest level, the answer needed to be consistently applied in the context of a country.

(a) Productivity refers to how much output is put into an economy to increase its GDP. Typically, ~~pro~~ increased productivity leads to economic growth and decreased productivity leads to a decline in economic growth.

Bangladesh is a developing country which is growing drastically day by day. This is due to introduction of modern technology and knowledge.

Bangladesh mostly focuses on its secondary sector providing ^{prossing} garments ~~and others~~. The whole economy would be greatly impacted if there's a fall in productivity.

Productivity could refer to labour productivity which happens due to low much output a labour puts in the economy. As labour productivity falls the businesses may notice an ~~and~~ increase in costs as the efficiency of labour has fallen. As the business costs increase the profit they earn would minimize to certain extent leading to a fall in producer surplus. To cover up high cost of the business they may decide to charge the consumers with higher prices, another

way they could cover the cost is by ^{purchasing} ~~cheapening~~ cheaper raw material which depreciates the quality of the products a customer is getting. Along with lower consumer surplus there would also be an increase in consumer dissatisfaction leading to a fall in AD.

As Bangladesh is a highly populated country, labour ~~or~~ could be employed at much cheaper prices than in other developed countries, thus TNCs choose to locate in these countries to exploit the cheaper ~~to~~ factors of production.

However, as the productivity falls TNCs would be discouraged to set up, this could be a major loss for Bangladesh as they will not be exposed to various benefits TNCs have to offer. Along with TNCs there may also be lack of FDI.

Lastly, due to a decline in productivity the country may not be able to sell off extra units of outputs in the global market. This could harm the ~~or~~ country's balance of payment current account.

However, this problem may occur only in the short run as in the long run the government could use supply side policies ~~to~~ such as education and training or ~~or~~ better infrastructure. This would increase the productivity of the economy.

It depends on how much productivity has declined. If the fall of productivity is drastic it may not be able to go up in short run. However ~~in the long run~~ ^{if the} decline in productivity is not so significant ~~then~~ it could be salvaged with government aid.

Lastly, government could offer TNCs to set up using financial benefits or other aid. By attracting TNCs, they'll bring new technology and methods which could improve the productivity of the economy.

In conclusion, fall in economy could affect the economy in ~~var~~ negative ways but if the right measures are taken it would be fixed after some time.

(b) Government could use various methods to improve the productivity of labour in their country. As a developed country focuses mostly on its tertiary sector the government may want to invest more there.

Firstly, to improve labour productivity they require proper education and training to be able to work in a sector that would be beneficial for the economy. As mentioned above, a developed country focuses mostly on its tertiary sector meaning if the government of that country provides proper education and training on the ~~services~~ ^{sectors} that require services, overall productivity of the economy would go up.

The government may decide to lower unemployment benefits. This would help the economy greatly as those who are currently voluntarily unemployed and living off the benefits provided by the government may be demotivated and choose to look for work. As there's an increase in demand for labours companies or businesses would be motivated to hire more. Overall, there would be both an increase in labour productivity and economic growth.

Another policy the government can take is expansionary monetary policy. If more loan is given out by the ^{banks} ~~gover~~ businesses would be motivated to grow. They may employ new technology that will make the jobs of workers much more easier. This would increase efficiency and increase productivity of labour. As monetary policies are loosened more businesses would open which requires labour. The need for labour would mean more people are being employed. Overall, ~~both~~ output per labour would increase which would improve productivity of labour.

Lastly, government may increase exchange rate. Meaning, if the exchange rate is increased the demand for imported goods will fall, due to the increase in price. Since there's an increase in price for imported goods citizens ^{most likely} ~~may~~ will purchase goods from domestic producers. This will mean the demand for labour will increase within a country. So, there would be an increase in labour productivity.

Education and training requires time. There's a huge time lag ⁱⁿ ~~for~~ government to invest in education and training and finally employing.

Along with this the developed country operates at the full employment point on the LRAC curve. So, government expenditure on education and training may not be beneficial and may cause inflation instead.

Using expansionary monetary policy could cause people to purchase imported products as they now have more money in hand. Due to an increase in MPC the balance of payment may worsen.

As more products are being imported not many labours in the country are needed, so overall there may not be an increase in labour productivity. Rather there may be a decline.

~~Lastly~~, By adjusting exchange rates the economy may be distort globalisation. Along with this if the products have inelastic demand there may not be a change.

Lastly, it depends on how effective government policies are for them to be successful.

In conclusion, it is possible to increase productivity of working population in a developed economy but there may be various constraints.



This answer was not very well developed in terms of analysis and therefore was not able to attain higher levels. Aspects of production were explained but not productivity. The evaluative comments were also generic and did not always carry enough depth. The answer did make reference to a country consistently and this limited the level they could achieve.

Question 2

Q2(a)

Candidates have been able to discuss the policies a government could use to stabilise the external value of its currency. A point well explained related to changes in interest rate. Candidates also discussed other policies such as buying/selling foreign currency and changes in asset purchases as further analysis points, but this was not always well developed. Some candidates were able to provide chains of reasoning linking their arguments to a country of their choice. This gave them a high score, putting them in level 3.

Candidates that listed points and who showed a lack of understanding of the policies were not able to access any higher than level 1. Candidates who were able to explain their points but had weak development, were not able to achieve more than level 2. Their arguments lacked any chain of reasoning and therefore were unable to access level 3.

Many candidates were not able to evaluate the question effectively. They often reversed their analysis point and used it as evaluation which was not credited. A common evaluative comment was around conflicts with other objectives, but this was not always developed.

Q2(b)

Many candidates were able to evaluate possible causes of a current account surplus. Whilst candidates were able to analyse their arguments in detail; their evaluation points were often limited. Hence candidates were not able to access level 5.

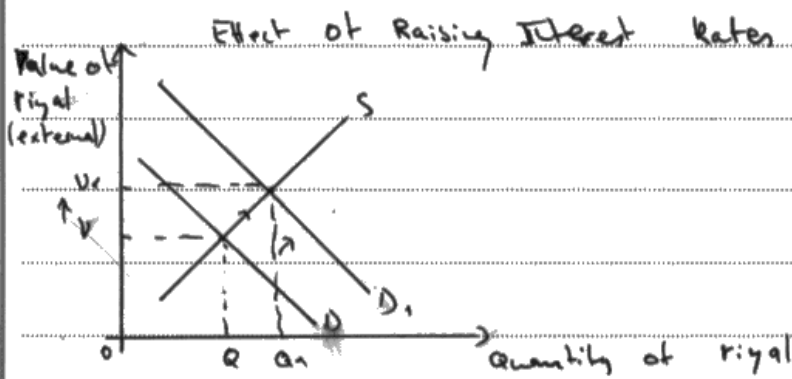
The most common analysis points made by candidates were on productivity, exchange rate, inflation rate and quality. Most were able to explain their arguments in detail. There were a few candidates who were only able to give a couple of points for each analysis and evaluation. Some candidates did not read the question and made points referring to the causes for current account deficit. Therefore, they were not able to access any marks.

The most common evaluation points revolved around issues of measuring productivity and the problems of a weak exchange rate. Candidates evaluated only 2 points and these often tended to be less developed – mostly listed.

Many candidates added depth to answers by using diagrammatic analysis and by referring to a country or countries (which is a requirement of the question) and so were able to achieve level 5. Others were not able to develop their arguments in much detail and thus could not access the higher levels.

(a) The external value of a currency is its value in terms of other currencies on the foreign exchange market.

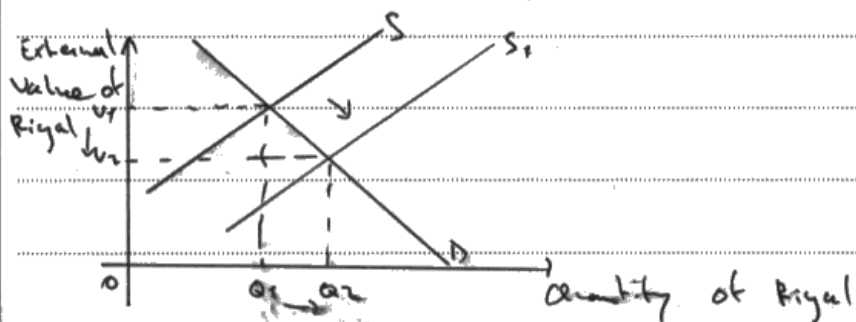
In order to stabilise the external value of its currency, the government could resort to the use of interest rates. For instance, if the government of Saudi Arabia wanted the riyal to become stronger, it could raise interest rates in the economy via the central bank. The effect could be shown diagrammatically:



As shown on the diagram, by raising interest rates, the Saudi Arabian economy would become more attractive to hot money inflows, which could raise demand for the riyal, raising its external value as a consequence. This could help the Saudi Arabian government to stabilise the external value of the riyal.

However, the government may choose not to resort to this policy as it may conflict with other macroeconomic objectives, such as stimulation of positive trend growth as well as full employment due to interest rates ^{rises} making borrowing more expensive, discouraging spending and investment in the economy, thus slowing down economic growth and possibly having adverse effects on demand for labour.

Another way for the Saudi Arabian government to stabilise the external value of the riyal could be increasing supply of the riyal on the world market by purchasing foreign currency reserves. The situation can be shown on a diagram:



As shown on the diagram, the purchase of foreign currencies by the Saudi Arabian government would push up the world supply of the riyal, ~~from~~ from Q_1 to Q_2 , thus, reducing its external value from V_1 to V_2 , helping the government in external value stabilisation, provided

it needed to ~~also~~ achieve a consistently weaker riyal value.

However, in a floating exchange rate, it could be difficult to achieve stability, due to speculative activity which may offset government action to alter the external value of national currency.

Finally, the government could stabilise the ^{external} value of national currency by increasing confidence in the economy. For instance, the Saudi Arabian government creating a relatively more stable macroeconomic environment in the country could encourage business, consumer and also investor confidence to rise, meaning relatively strong and stable external demand for the riyal. Therefore, this could help the government stabilise the external value of national currency.

Yet, the creation of a more stable ~~macroeconomic~~ macroeconomic environment could be relatively costly to create, especially given that the Saudi Arabian economy is already relatively stable, meaning an opportunity cost for government finance, as other alternative uses would be foregone.

(b) A surplus on the current account of the balance of payments is when there is a greater financial inflow into an economy than there is an outflow due to trade in goods, services and income flows, such as remittances.

A country could be a net exporter and thus, achieve a surplus on the current account of the balance of payments. This could be due to significant price competitiveness of the country's exports - for instance, Chinese exports are relatively cheaper than most alternatives on the world market and thus - highly price competitive. This is because of comparatively lower production costs in China due to relatively inexpensive labour-intensive production.

However, the situation may be offset by protectionist measures. For example, in 2019, the USA placed a 25% tariff on \$200 billion of Chinese imports as a protectionist measure to a relatively less price competitive domestic industry, which could offset the surplus of China's current account. Yet, retaliation measures from China could mitigate the situation, as China could also impose protectionist measures, ~~the~~ thus, reducing the amount of imports from the USA and maintaining a surplus of the

current account.

Another cause that may be the reason for China's surplus on the current account of the balance of payments could be a boom in key export markets. This would mean rising consumer incomes and thus, imports ^{from China} being sucked in. For instance, a boom in China's major trading partners like the USA and the EU prior to the credit crunch in 2008 could significantly ~~affect~~ the country's current account on the balance of payments, resulting in a surplus.

Yet, it could be said that Chinese exports tend to be inferior goods, thus, during economic boom times in key exports markets consumers would likely prefer to buy more non-price competitive exports, for instance, preferring German export cars to the Chinese ones. Meanwhile, in a recession in Chinese key export markets, such as the 2008 credit crunch the opposite effect would be likely to occur, with consumers seeking from lower disposable incomes, such as due to wage freezing in the Portuguese public sector at the time, prompting ~~the~~ consumers to switch to relatively cheaper alternatives, such as Chinese exports, reinforcing demand for them and thus, ~~the~~ giving China a surplus on it.

current account of the balance of payments.

Another reason for a surplus on the current account ~~may~~ of the balance of payments in China could be a fall in the price of commodities on the global market, for instance, a fall in the price of crude oil resulting from a decline in OPEC cartel and thus, reducing China's costs of production, but to China being a major importer of commodities, as it usually specialises on the secondary sector - industrial production. This could have an ~~effect~~ effect on the price of Chinese exports, as the producers in China would have the opportunity to lower export prices while still achieving the same profit as before, making exports more price competitive, thus, increasing demand for them, leading to a surplus on the current account of the balance of payments.

Yet, the world commodity prices fluctuate, meaning that this could only be a short term cause of a surplus on the current account for China, as the prices of commodities such as oil would be likely to rise again in the long run.

The surplus on the current account of the balance of payments in China could also be caused due to a devaluation of.

the national currency - the yuan. According to the USA, China has kept the yuan artificially low, to boost the international price competitiveness of its industries. This is because a lower actual value of the yuan would allow the Chinese exports to ~~be~~ be cheaper in terms of other currencies, thus, being more price competitive and serving as a potential cause for a surplus on the current account of the balance of payments.

Yet, a devaluation of the yuan would only ~~cause~~ ~~the~~ cause a surplus on the current account of the balance of payments provided the Marshall-Lerner condition is met - if combined price elasticity of demand for imports and exports of ~~the~~ china exceeds one.



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This answer makes good points and develops them well. This can be seen where the analysis points are backed up with diagrams. There is one strong evaluative comment and one relatively weak point and hence does not access the highest level. The reasons for current account surplus are well explained and in the context of a country. Both the answers needed to show more breadth to gain higher marks.

^{Effective}
 a) Exchange rate of a country helps determine how strong or weak a country's currency is when compared to other countries. There are ways a country may decide to appreciate or depreciate its currency. These policies may involve.

The govt. can go for demand side policy, like ^{tight} ~~loose~~ monetary policy. This policy involves an ^{increase} ~~reduction~~ in interest rates. When interest rates are ~~reduced~~ increased ~~or~~ there is a hot inflow of money as other countries tend to ^{save} ~~invest~~ in the country's currency because of its higher interest returns.

Due to an increase in demand for that currency the value of the currency is ~~forced up~~ may be forced up and a stronger currency is achieved.

Similarly the govt. may go for loose monetary policy to ~~reduce~~ IR which will make countries ~~withdraw~~ ^{countries currency} from that ~~currency~~ and hence reducing the demand of the currency and making the value of currency fall.

Govt. can also force the currency down with its own intervention. China is specially well known

For ^{this} ~~this~~ currency manipulation. The govt. for e.g. will buy other foreign currencies with higher value. This will ~~reduce~~ increase ~~the~~ supply of its currency in the market which will ~~again~~ reduce ^{or} depreciate the value of its currency and while it appreciates the one they buy.

Government can ~~try~~ to increase ~~of~~ or decrease inflation in the economy. If the ^{domestic} inflation is high because of lots of govt. expenditure which increases AD. Consumers will likely import most of the ~~the~~ goods as they will be relatively cheaper when compared to domestic goods. This will increase the supply of the currency in the economy and ~~reduce~~ ~~the~~ ~~to~~ ~~or~~ depreciate the value of the currency.

Government can influence speculators to increase or decrease their activity to increase or decrease exchange rate to stabilize the currency. When the value of the currency goes down speculators tend to purchase the currency and which creates the demand for the currency which increases the value ~~of~~ of the currency and then they sell it to earn a profit. This increases the supply of the currency in the economy ~~reducing~~ ^{reducing} its ~~supply~~ value. Through the help of speculators the exchange rate can be kept floating and in control.

However, different factors are significant in different countries. Not all the factors can be implemented for one country.

When influencing currency exchange rate ~~the~~ it ~~is~~ depend on interest rates, it will depend on the extent to which the ~~govt~~ interest rate ~~is~~ ^{has} raised or ~~is~~ sized or fallen. If the change is not big enough then there may not be any significant change in the currency. Secondly the ~~govt~~ may go for other methods like quantitative easing for manipulating the currency.

In case of currency manipulation there is a chance of a dispute with other countries as it ~~is~~ happened between China and US where US ~~is~~ blames ~~at~~ China for currency manipulation.

Government may not need to intervene as there is a chance of government failure where government intervention ends up in causing negative outcomes. Secondly they may leave it to the market force as ~~they~~ the market force will likely ~~fix~~ the exchange rate its self with time without the need of interventions.

b) Current account is a total of $\text{Imports} - \text{Exports}$ - Imports (including income and net transfers). A current account surplus indicates that the ^{country} ~~country~~ is doing very well and has more exports than imports. As in Saudi Arabia the balance of payment surplus was \$19.1 billion. Possible causes for this surplus maybe:

~~High to~~ ^{exchange rate of} ~~lower value of~~ currency. When the value of the currency is low other countries find it cheap to import ~~for them~~ from that country. Hence the exports are likely to increase when the exchange rates are low. This causes the BOP surplus to rise because there are more exports than ~~imp~~ ^{from} the economy. ~~low exchange rate~~ China is ~~mainly~~ known for currency

~~Marginal propensity to import is less~~ When the ~~marginal propensity to import is less~~ than people manipulation where they ~~forcefully~~ keep the currency low to increase their exports hence they experience a BOP surplus.

Marginal propensity to import is less. When the marginal propensity to import is lower people tend to import less. Specially when the value of the currency is lower because they have to pay more to get less from foreign countries. This maybe

Increase in productivity, ^{due to technological advancement} When the productivity of a country ~~decreases~~ ^{increases}, the cost of production goes down for the ~~country~~ firms. This leads to them being more competitive and they charge lower prices which increase the exports of the country ~~making it more~~ causing a current account surplus.

~~decrease~~ ~~increase~~ in prices of commodities like oil
Increase in economic growth of countries like China leads to a current account surplus in countries exporting commodities. Like Australia's ~~state~~ balance of payment remained in a surplus even in the 2007 world crisis because of China's growth. China's demand for raw materials led to an increase in exports for Australia leading them to experience ~~current~~ BOP surplus.

^{MNC} ~~to~~ increased FDI's into the country. When ^{MNC} FDI's comes into a country they tend to bring in massive ~~to~~ economic growth as well as possible ~~to~~ current account surplus. A country may try to attract ~~some~~ with low interest rates ~~to~~. This increases the ~~to~~ overall output of the country and the ~~setting~~ any selling of goods abroad from the MNC in that country causes an increase in the exports of the particular

@country ~~this~~

~~However~~ However different factors maybe significant for different countries as different countries have different reasons to why they experience a surplus.

MNC's are known for taking back to the profit of the goods they produce and selling it in some other country which will increase the exports of the other country and not causing any significant effect over ~~countries~~ like the country it produced the goods in.

To increase it's productivity the country may need to import more raw material and this may cause the the BOP surplus to go down as the value of imports start to go up rapidly.

Countries like Saudi Arabia have a primary product dependency on oil. If the demand for oil goes down then the BOP surplus might turn into a deficit as it's other sectors are not developed enough to ~~cause an increase in~~ maintain the surplus.

~~tot~~ Over dependency on country like China may

result ⁱⁿ a huge deficit ~~later~~ ^{later} as if China experiences an economic crisis and it reduces or stops its demand for raw materials then countries like Australia may start to experience of a BOP deficit due to a reduction in demand from China.



ResultsPlus
Examiner Comments

This answer does not attain higher levels as there is no consistent application to a country in discussing policies. Although the analysis points are explained well, there is just one developed evaluative comment. For reasons of current account surplus, the analysis points are developed and in the context of a country. However, there is only one developed evaluative comment at the bottom of the penultimate page along with a list of other comments.

Question 3

Q3(a)

This was a popular question among candidates. Many were able to effectively answer the question but there were some candidates who did not add any context to their answer.

The majority of the candidates were able to successfully assess the likely economic effects of a decision by the USA to withdraw from NAFTA. They used impact on inflationary pressures, economic growth and current account position as their main arguments. They were able to provide logical chains of reasoning, often associating their points to an accurately labelled AD/AS diagram. This gave them high scores, putting them in level 3 for analysis.

They also made a few well-developed evaluative comments on why the USA should not withdraw from NAFTA and were able to access level 5. Although some candidates revealed well developed analysis points, they were unable to explain their evaluative comments in depth and could not access any further marks.

A few candidates were able to identify factors but not develop them in the context of the question. Some candidates drew an accurately labelled AD/AS diagram but did not use it in their explanations. This was only credited as level 1 and hence, they were not able to access higher levels.

Q3(b)

Many candidates were able to access higher levels as they presented a sound evaluation of factors, other than the growth of trading blocs, that have contributed to increased globalisation in the last 40 years. A few good answers were seen for this question, particularly where candidates were able to write their arguments in the context of a country (although not required) in a positive way. Many candidates were able to include sufficient detail, and integrate their analysis and application to a greater extent.

Responses that received higher levels had strong analysis and evaluation points. Many discussed points on falling transportation costs, reduction in communication costs, increasing number of TNCs and reduction in trade barriers. These were often well developed.

Evaluation points were not always well written. They provided the negative effects to globalisation and did not examine the possible causes. As a result, they were unable to gain access to any levels. This was seen in the answers of candidates of all abilities. Some candidates drew on these concepts to a lesser extent in their answers. They did not often develop their arguments further and needed to show more breadth and depth to their answers.

Candidates who listed points were not able to access more than level 1. Those who were able to explain their points but had weak development, were not able to achieve more than level 2 for their analysis. Some candidates did present diagrams in their answers, but this was not credited unless it was used in their explanation (which many candidates have demonstrated).

A Free Trade Agreement refers to agreements between two or more countries to lower barriers to entry between them. In some cases these are completely removed. Examples of barriers to entry that could be removed are, tariffs, quotas and embargo's.

Free Trade Agreements such as NAFTA encourage countries to specialise according to the law of comparative advantage. This is when a country specialises in a good or service that it has the lowest opportunity cost in. This can lead to increased output and economic growth.

If the USA leaves the free trade area they may no longer benefit from specialisation and economies of scale, this could potentially lead to lower levels of economic growth. On the

other hand, this could allow the US economy to diversify its economy. This could make it less susceptible to economic shocks.

Adding on to this, the US economy will ~~no~~ have to pay tariffs ~~between~~ to the other members of NAFTA such as produce from Mexico, this will raise the ~~value~~ price of imports, since tariffs are a tax on imports and it may now become more expensive to import. This may have adverse effects on the US Balance of payments current account, the US already has a high current account deficit. The

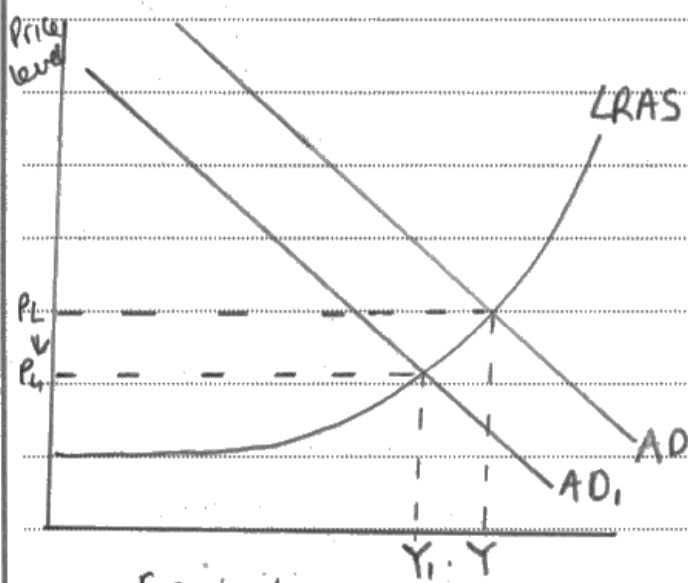


Figure 1

US may see a decrease in its net exports. This may lead to a leftward shift from AD to AD₁, and could lead to

a decrease in the price level depending

On the level of spare capacity in the economy. This is illustrated in figure 1. Adding on to this it is a possibility that the demand for US exports could reduce, ~~this could lead to~~ ~~from~~ this is because members of NAFTA will be less willing to trade with the USA. This could lead to increased unemployment in exporting industries.

However, even though trade will be diverted from members of NAFTA (potentially), trade may be created with more other countries around the world. The effect of this will be to divert trade from less efficient producers within the free trade agreement and create new trade agreements with more efficient ones.

~~This~~ The decision to leave NAFTA may also have a negative impact towards FDI. ~~People~~ Businesses may be less willing to invest in the USA because they cannot export

take advantage of lower trade barriers. A similar effect took place after the UK voted to leave the European Union, investors slowed down investment because of the uncertainty of the vote.

However, this may not be the case with the USA, or it may not happen to a similar degree because many transnationals originate in the USA. Adding on to this, investors may be interested in accessing a market with many consumers.

In conclusion, the decision to leave NAFTA may have both positive and negative effects. In the short run, the effects may be more negative because the USA will have to ~~make~~ negotiate new trading deals with other countries.

b) Globalisation refers to the process by which the world is becoming more interconnected as a result of increased trade and cultural exchange. A BBC reporter once said it's the ability to produce anything, anywhere with low costs. Many factors over the past 40 years have led to an increase in globalisation, this has ranged from political change such as the fall in communism, lower transportation costs as well as international specialisation.

Over the past 40 years, there has been a reduction in the transportation costs, with the reduction in fuel prices, more efficient jet engines as well as the introduction of containerisation which allows bulk shipping, and freight. This reduction in cost has been a factor that has led to increased globalisation because there is a greater incentive to trade over long distances. This has led to more cultural exchange, as people from different areas around the world exchange goods and

services. Before containerisation, people would have to unload and load packages as they arrive. However, ~~the~~ international container standards has helped simplify trade. Even though transportation costs have decreased globally, some countries such as Chad still have difficulties with transport and it takes over 40 days to receive a package, landlocked countries may not fully enjoy the decreased shipping costs either.

Another factor that has led to increased globalisation is the improvement in technology. The introduction of instant messaging, ~~the~~ and the internet means that messages can be spread across the world in a seconds. This has led to more awareness and cultural exchange. Additionally, the ~~increase~~ ^{introduction} of online stores such as Alibaba and Amazon has ~~decreased~~ simplified the ease of trading and changed the way in which people exchange goods and services. However, this

may have not been possible without the reduction in transportation costs.

Furthermore, the fall in communism in China is a factor that has arguably led to an increase in globalisation. China with the Belt and Road Initiative has made global links with areas around the world, and has played a huge role in globalisation. By reducing their protectionist measures and investing in different countries such as Malawi and Zambia, more cultural exchange has taken place. China has also introduced many ~~foreign~~ transnational companies such as Alibaba and Huawei and is one of the fastest growing countries in the world.

Furthermore, the growth of multinationals such as Apple and Samsung has led to an increase in globalisation. These are companies that ~~are~~ operate in many different countries although ownership is based in

one country. Companies such as these have many global value chains which has led to increased cultural exchange as well as trade.

For instance, Ampe Nutella sources its cocoa from Ghana, its sugar from Brazil and its hazelnuts from Belgium which increases the way in which the world is interconnected. The

Multinationals engage with people in local areas which leads to more cultural exchange. This has led to globalisation because the international division of labour is encouraged.

In conclusion, a combination of factors have led to an increase in globalisation. Lower transportation costs may have encouraged MNCs to set up. The improvements in technology may

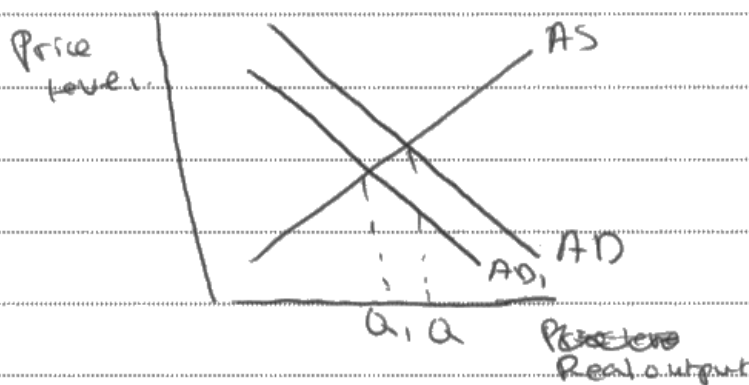


ResultsPlus
Examiner Comments

This answer was well developed and in context. The analysis points were well integrated with the application and this gave it access to higher levels. Diagrammatic analysis also added depth to the answer. Evaluative comments were in detail and both answers showed good depth and breadth to the points made.

a) NAFTA is a trading bloc where the participant countries have come to mutual decision to abolish, or ^{reduce} trade of trade restrictions between each other, such as in this case between USA, Canada and Mexico.

Firstly, by the ~~us~~ USA withdrawing from NAFTA it will experience possible high levels of protectionism from other member nations such as Canada thus the price of its exports will increase which will result in a fall in net exports falling and AD falling from AD_1 to AD_2 causing lower economic growth. However, such reduction



in trade can lead to increased trade between the USA and other countries if ~~there is~~ ^{there are} common external tariffs and

trade restriction while in the Trade Bloc or as these countries are close trading partners. ~~and such relationship trading relationship doesn't want to neglected~~ therefore trade is diverted from countries outside the bloc to inside the bloc. By the USA leaving the bloc it will result in trade creation with those low-income countries with low production costs that

lower prices for US customers leading to improved standard of living as goods become cheaper and their disposable income increases.

Secondly, US business might suffer as while the USA is the trade block US firms are able to sell their goods and services to a wider range of customers and much larger customer base. This is because transport between countries in a trading block is made easier and cheaper as well as expanding business operations.

However when the USA leaves as demand falls for exports businesses might leave the market thus resulting in increasing unemployment and a de-multiplier effect. This is because as unemployment increases, tax receipts by the government fall, this less and spending increases as more unemployment benefits need to be given out which reduces spending on public sector services which further reduces the living standard of the citizens.

On the other hand, as USA is no longer so interconnected with trade with its trading partners like Mexico and trade restrictions are being put up, leaving the trade block might not have such a strong de-multiplier.

Lastly, the trading partners will suffer financially as USA is still considered to be the world's biggest and most wealthy market thus if it leaves NAFTA -

it will result in Canada's and Mexico's economic growth falling significantly if trade restrictions are put with one of their prior biggest trading partners. This will result in North America falling back in ^{terms of} development levels with the ~~in~~ comparison to the global market. ~~Now~~ This will be further emphasized through the fall in dynamic efficiency as USA leaves the trading bloc and profit margins for firms fall. This will further reduce international competitiveness if USA leaves NAFTA. Therefore it all depends on the ability of countries to enter into trading agreements with other countries after ^{USA} leaving the trading bloc.

b) Increasing globalisation is the increasing integration of the world's economies.

It has been caused by rapidly improving technology such as laptops, mobile phones and ~~internet~~ online markets like Amazon. This has allowed people to ~~be~~ have wider and better knowledge of different cultures, goods and services as well as making trade easier and faster as such online markets do not even require in-person shops. However, such rapidly increasing integration has resulted in loss of cultural taste and traditions of some countries thus some historians theorise argue that all cultures will be merged into one. ~~Thus~~ therefore cultural and traditions might become

neglected and forgotten.

Secondly, globalisation has increased due to increasing containerisation which has allowed goods to be transported twenty times faster than 100 years ago and at a much lower cost as tankers are becoming larger, faster and more resilient to weather conditions. The same goes for travel making trade even easier. However, it has resulted in rapidly increasing pollution and emission of greenhouse gases which contributes to climate change and destruction of natural habitats which can in turn reduce globalisation through tourism levels falling as natural scenery is destroyed.

Furthermore, in the past 30 years the number of multinational companies has increased (MNC's).

It is when a firm has operating business in ~~an~~ two or more countries. This has become increasingly popular as there are great production cost savings being made as some countries have a comparative advantage in producing one product in comparison to another and vice versa. Therefore trade become even more integrated and globalisation increases.

On the other hand, such countries have been found to part in labour exploitation, environmental destruction in host countries, thus causing some countries like Thailand putting up trade restrictions

to protect domestic labour and environment resulting in decreasing globalisation levels.

Lastly, globalisation has increased due to countries opening up their borders. For, example in 1978 China opened up their borders to international trade and since then it became the fastest industrialising country resulting in high levels of economic growth but ~~now~~ rapidly increasing trade with various countries making the world economy even more interconnected.

Ultimately, as we can see globalisation has increased due to a multitude of factors leading to much more interconnected society and economies, but it has also led to widespread negative impact in terms of social, environmental and economic exploitation.



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Examiner Comments

This answer does not access the higher levels as the analysis and evaluative comments are not well developed. Although it shows sound understanding of the concepts, it only offers a two-stage chain of reasoning. It would have been able to gain higher levels if there was more integrated application throughout the arguments made. More breadth and depth needed.

Question 4 (a)

This question was generally well answered and candidates were able to outline two roles of the IMF. Some candidates offered the roles of the World Bank and hence, did not obtain marks for knowledge. Examiners are looking for two pieces of data reference and nearly all candidates were able to access both application marks as they correctly identified it from the extract.

(a) With reference to Extract 1, outline **two** roles of the IMF.

(4)

The International Monetary Fund (IMF) is an organisation which advises countries on their monetary policy, gives out loans and grants to help developing countries. Example in Extract 1 it is stated that, "the devaluation of the currency was one of the demands of the International Monetary Fund (IMF) in order for Egypt to receive a loan of \$12 billion between 2017 and 2020." This shows that the IMF is aiding Egypt to have a better monetary policy and provide funds of \$12 billion.



This answer gets full marks – 2 for knowledge and 2 for application.

(a) With reference to Extract 1, outline **two** roles of the IMF.

(4)

~~IMF IMF~~ IMF which is the International Monetary Fund is an international organisation that ~~helps~~ manages the balance of payments difficulties and international financial crisis.

When ~~the~~ a country is in crisis, the IMF borrows the money to the country. All of the money is a fund which is given by other countries.

The IMF allows the countries to have a sustainable economic growth, reduce poverty, have financial stability and promote high employment.



This answer gets full marks for knowledge but no marks for application. It makes no explicit link to extract 1.

Question 4 (b)

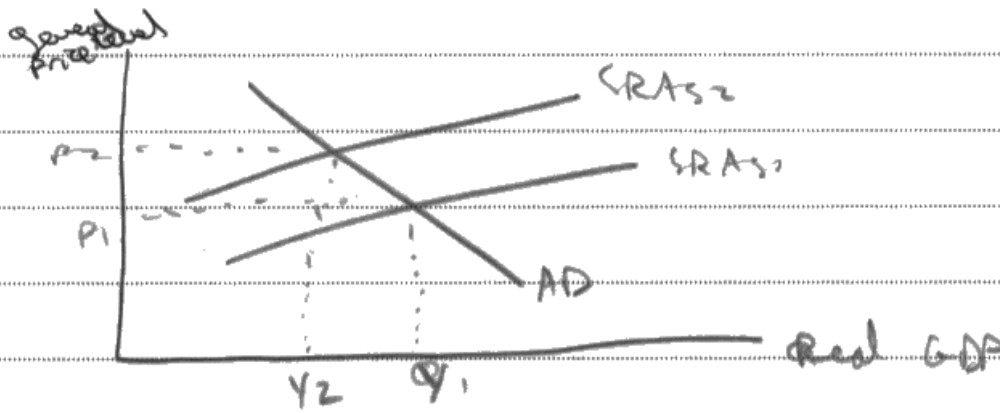
Not all candidates were able to analyse two likely macroeconomic effects of the introduction of the 'indirect tax'. Most were able to only identify one effect from the extract, and only a few made reference to the data provided. Some candidates answered this question well. They made some good analysis points. For further development, many candidates used other pieces of data as their analysis, and this gave them access to 3 marks per point made.

Almost every candidate was able to access the two application marks as they referred to 13%. Some candidates made reference to their own knowledge and this was not credited.

(b) Analyse **two** likely macroeconomic effects of the introduction of the 'indirect tax'
(Extract 1, line 9).

(8)

An indirect tax is a regressive tax set in order to decrease supply. The 13% tax implemented in Egypt had resulted in the cost of building materials being too high and hence as a result delayed multiple projects. This results in a fall in supply



The fall in supply of the business can result in ~~the~~ higher unemployment as the businesses will have to make many workers redundant as a result ~~in the~~ of the higher costs. It becomes too pricey to keep all the workers. Also another effect is the change in inequality. ~~So~~ The tax is regressive which means the higher the income the proportionately less you spend on the tax. This means that people with lower incomes are affected even more which results in the widening of the income gap. Government will experience a decrease in tax revenue hence they will be able to invest in the economy or improve their budget surplus which can help the ~~strong~~ economy in the long run. The government can spend it on things like education which will encourage more young people to get an education and in the long run create a more productive and efficient workforce.



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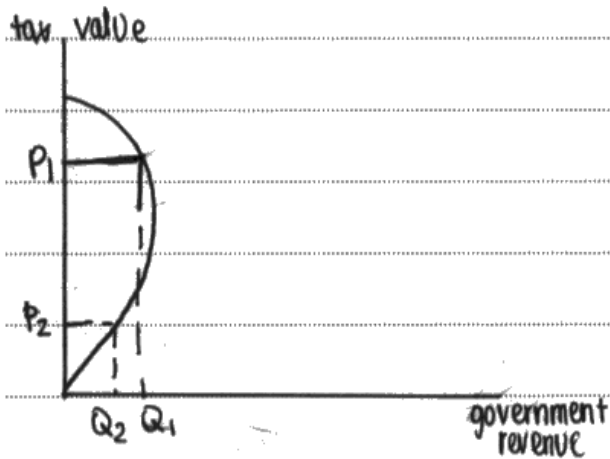
This answer gets full marks for knowledge, application and analysis. The answer is well analysed and uses the extract to explain points mentioned.

(b) Analyse **two** likely macroeconomic effects of the introduction of the 'indirect tax'
(Extract 1, line 9).

(8)

Fuel subsidies were removed and a 13% indirect tax was added.

~~This an indirect tax is a tax added to a good which increases~~



The aim of the tax was to increase government revenue. In general, the ~~opposite~~ an indirect tax makes the goods more expensive so less people buy them, if the tax is too high it could slow down the market since

people can't afford the product anymore. In the case of fuel which is like a necessity, if people can't afford it there would be a lot of knock on effects that will damage the economy. ~~which would~~ Government revenue might not even increase enough to cover the demand loss of a product.



This answer gets full marks for application. The answer identifies one effect and offers limited analysis of the point made. It does not provide another macroeconomic effect, as required by the question.

Question 4 (c)

Most candidates have been able to evaluate the effects, apart from the impact on tourism, of the devaluation of the Egyptian pound on Egypt's economy and have added reasonable depth to all their answers. For listing various points, they could only access level 1. Many candidates were able to add development of their points but did not get level 3 if they did not write it in the context of the question given. Hence they were only able to get level 2. For any 16 mark question, 8 marks are available for knowledge, application and analysis and 8 marks for evaluation.

Level 1 would be identification of a reason, level 2 would be identification of a reason and use of data from the extract OR development of the point, and level 3 would be identification of a reason, use of data AND development of their point. For arguments which do not contain relevant data in the extract, candidates needed to develop their point effectively to access the higher level.

Candidates used a wide range of points – improvement in the current account position, attracting more FDI and increase in AD/economic growth.

Evaluation points were similarly well written, mostly discussing issues of the devaluation. Many candidates made an attempt to evaluate the analysis points they had argued but those who listed their points without any development accessed only level 1. To access higher levels, candidates need to show sound levels of both depth and breadth in answers.

Typically, examiners are looking for 3 well developed analysis points and 3 well developed evaluation points in 16 mark questions. This suggests that additional practice in reading and understanding the kind of extracts found in data response questions would be beneficial, as would practice in how to integrate application with candidates' own analysis to make a complete and well explained argument.

(c) Evaluate the effects, apart from the impact on tourism, of the devaluation of the Egyptian pound on Egypt's economy.

(16)

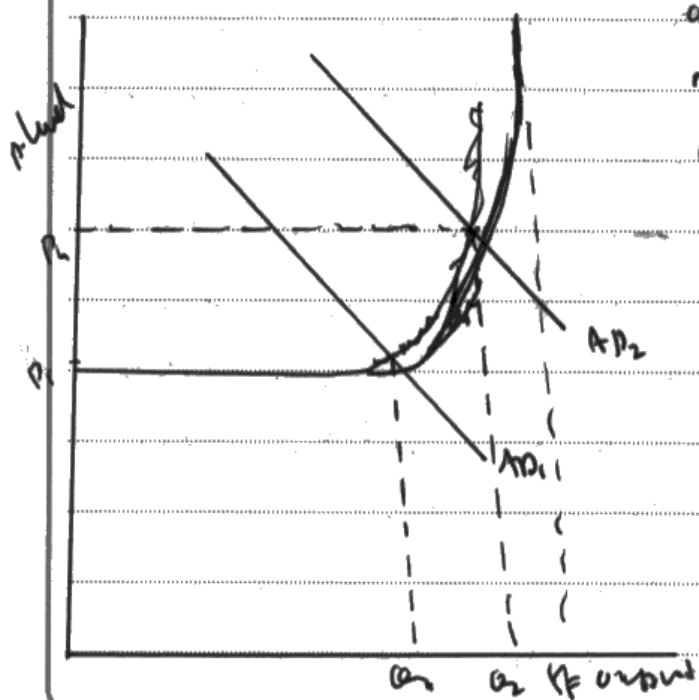
A devaluation in the Egyptian Pound occurs when its price falls relative to that of other currencies and it is likely to have several impacts on the economy.

The devaluation of the currency has been a significant factor in attracting new investors to the ~~economy~~ ^{country} ".

~~This is one of the~~ FDI 'gradually increased between 2016 and 2017'. This suggests that there is an inward flow of money into the Egyptian economy as firms set up operations in Egypt or purchase other firms. This is likely to ~~and~~ increase the output of the Egyptian economy as more production takes place and consequently increase exports that will positively affect the country's trade position. The inward FDI as a result of the devaluation is likely to increase the ~~quality of the~~ productive potential of the economy and lead to an increase in employment in Egypt.

as firms need labour. However the impact that the inward FDI has on the Egyptian economy's current account may be offset by the fact that Egypt has "traditionally been ~~an~~ import-dependent". At the same time the firms that set up in the country may repatriate profits thus limiting the positive impact that such a change will have on the economy. At the same time, firms may not positively affect the employment level if they bring their own labour.

Moreover, the devaluation of the currency is likely to increase the price competitiveness of Egypt's exports, stimulating growth. The devaluation



at the currency also results in exports becoming cheaper to foreign consumers who prefer them, thus increasing demand for Egyptian exports. At the same time, domestic consumers are likely to find ~~an~~ imports more expensive,

which is likely to result in them preferring domestically produced goods. The export industries are likely to experience an increase in demand for their products, leading in an increase in the Egyptian economy's output. This results in $AD_1 \rightarrow AD_2$, and output increasing from $Q_1 \rightarrow Q_2$. The impact on the level of AD is likely to be even greater due to the Multiplier Effect that suggests that a change in an injection to the circular flow of the economy is likely to have an even greater final impact on the income level in the economy, thus the AD level across the economy is likely to shift outward even more. At the same time, the devaluation has a negative impact on inflation as $(P_1 \rightarrow P_2)$ which in 2012 reached -2.9% (CPI). This will have a negative impact on the domestic economy as the level of inflation has high costs, such as the erosion of the real purchasing power of money and shoe-leather costs ~~Further~~.

The unemployment rate is reduced as a result of this measure as, $Q_1 \rightarrow Q_2$, closer to the output level Y_F , where

there is no spare capacity. This is reflected in the fact that unemployment has fallen from 13.7 to 12.0% in 2015-2017.

However, the impact that the economic growth has on the inflation rate may be eliminated. The 'Bank of Egypt increased the base interest rate from 11.75% in 2016 to 18.25% in 2017', a significant increase in the interest rate is likely to reduce the price level of MP in the economy. At the same time, the impact that the devaluation had on the Egyptian economy may not be as great as unemployment was only reduced by 1.7%, a small amount. Another point to consider is that some goods may still be imported as they are needed in export and Egypt has been an import dependent country. The consumers may import not because goods are cheaper but because they want more choice.



This answer accesses the highest levels for both analysis and evaluation. The points are identified and well developed, consistently backed up with data from the extract. It also uses diagrammatic analysis to support the explanations given.

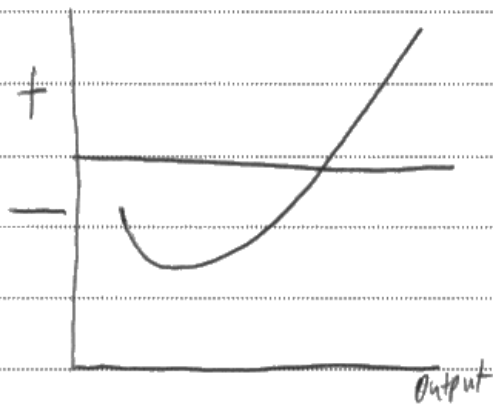
(c) Evaluate the effects, apart from the impact on tourism, of the devaluation of the Egyptian pound on Egypt's economy.

(16)

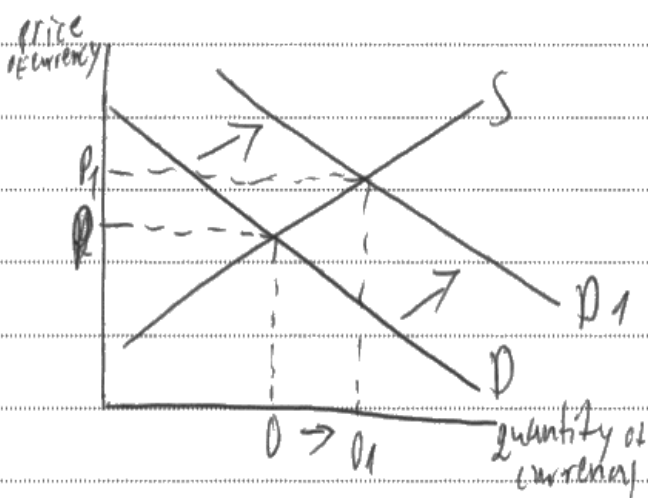
Devaluation → a lowering of the ~~country's~~ value of the certain countries currency.

Firstly, a devaluation of the Egyptian pound could lead to an improvement in terms of trade. The reason for this is that the countries exports are going to be more price competitive due to the lower value of the currency. This makes them more price competitive on the global market and therefore the demand for them would rise. Additionally, the devaluation of the currency would lead to imports becoming more expensive, therefore discouraging people from buying them. Overall, this could help to decrease the countries "budget deficit which has been over 10% since 2013".

However, according to the J curve principle shown below it would actually take some time until the trade deficit would start to improve. Therefore the country would still have a ~~the~~ growing trade deficit for a period of time.



Furthermore, the country increased the base interest rate from "11.75%" to "18.75%" in an attempt to limit the inflation following the exchange rate. This would be a good thing as the increased interest rates lead to a higher demand for the country's currency. Therefore the demand shifts from $D \rightarrow D_1$ and this concept is called hot money flow.



Moreover, it should be noted that a higher demand will eventually lead to the currency becoming a higher value. Therefore, the country's imports on which it heavily depends on

as stated in extract 1 would increase.

Lastly, the devaluation of the currency no matter what will lead to inflation. As seen in figure 1, the inflation has dramatically increased

~~from~~ after July 2016 from around 15% to more than 30%. This could lead to a decrease in consumption as now it is more expensive for people to purchase things.

However, this would only be short term as it takes time for the currency to stabilize itself after becoming a floating currency. Furthermore, the inflation wouldn't lead to a slower economic growth, ~~because~~ in fact it would be a sign of a bigger economic growth. This can be seen even in figure 2 where the annual unemployment rate fell from 13.4% in January 2014 to 12% in July 2017.

Overall, the devaluation of the currency would help the country's economic growth to increase.



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Examiners Comments

This answer makes a range of points with two-stage chains of reasoning but these are not consistently applied in context. There is only one reasonably developed evaluation comment at the bottom of page one. This gets low level 3 for analysis and low level 2 for evaluation.

Question 4 (d)

Although the candidates were able to use the extract to assess the potential economic benefits of increasing 'the number of visitors coming to Egypt', they struggled to account for suitably detailed explanations to earn level 3 marks for knowledge, application and analysis. For every 12 mark question, 8 marks are available for knowledge, application and analysis and only 4 marks for evaluation.

Level 1 would be identification of a benefit, level 2 would be identification of a benefit and use of data from the extract OR a development of their point, and level 3 would be identification of a benefit, use of data AND development of their point. For arguments which do not contain any relevant data in the extract, candidates needed to develop their point effectively to access the higher level.

Some candidates' answers, however, included sufficient depth and breadth. They were able to apply data from the extracts with further development and this got credited at level 3 if mentioned along with identification of a benefit. Most common points included employment, tax revenues and the impact on AD/economic growth.

Evaluation was limited and candidates could not explain their arguments well. Some candidates listed basic evaluation points without development and this gave them access to level 1 only. Typically examiners are looking for 3 well developed analysis points and 2 very well developed evaluation points in 12 mark questions.

This question could not be fully or meaningfully answered without reference to the data provided, and many candidates failed to appreciate this and tried to write answers solely from their own knowledge. Those who tried to make reference to the data were able to offer sound analysis of the evidence.

(d) Assess the potential economic benefits of increasing 'the number of visitors coming to Egypt' (Extract 1, lines 35-36).

(12)

The potential economic benefits of increasing number of visitors coming to Egypt are as follows:

An increase in the employment opportunities in Egypt. As stated in Extract 1, the tourism industry accounts for 11.4% of GDP of Egypt. 4 million tourists travelled to Egypt in 2017. More visitors visiting Egypt would increase the circular flow of income as well as contribute to positive multiplier effect in Egypt. ~~Job~~ Job opportunities are likely to be created by ~~to~~ created for vehicle drivers and trip advisors. ~~As a~~ Furthermore this would create more invisible inflows to Egypt balance of payment account.

Increasing number of visitors also would account for an ~~the~~ improvement in the infrastructure of Egypt. Since the government is implementing strategies such as improving heritage sites and organising international sporting events and also plans to develop shopping centres, hotels and restaurants. As a result of this even domestic consumers will have access to these to spend on their leisure

time. As a result of this ~~this~~ would increase the standard of living for these people and also this would increase the income levels for hotels workers, etc... which would also increase the GDP level.

However, there is an opportunity cost for the government to implement these strategies. The Egypt government would have to forgoe investments on healthcare and education in order to achieve this.

More tourists into the economy would contribute to an increase in the level of negative externalities to the economy. The government should increase their spendings to clean out the damage done by the visitors

It could also be a huge cost to the government to implement these strategies which would ~~instead~~ increase their budget deficit.



This answer accesses the highest levels for both analysis and evaluation as it demonstrates a good understanding of the question asked. The analysis points are identified and well developed, consistently backed up with data from the extract. The two evaluative comments after the analysis are well explained.

(d) Assess the potential economic benefits of increasing 'the number of visitors coming to Egypt' (Extract 1, lines 35-36).

* ↑ GDP
* investment ↑
* ↓ Budget Deficit
(12)

The first economic benefit would be the increase in the country's GDP. The more visitors the country gets the better because after all their economy heavily depends from money that this industry is bringing. For instance, this sector used to account for "11.4% of the GDP" which is a massive part of GDP.

However, it is very hard to stimulate this industry due to the political instability in the country. This would result into a decrease of visitors coming into the country, and therefore the country's GDP would fall if they don't decide to find another way to stimulate it.

Secondly, the increased number of tourists would lead to higher employment. This is because more people would be needed to work in a tourist sector especially now that Egypt is increasing the number of its flights to and from Egypt and organising international sporting events.

On the other hand, the increased amount of tourism can lead to increased pollution or even destruction of heritage sites. This is because ~~the~~

an over increased amount of tourists ~~would~~ could damage the environment if the government is not imposing strict fines for ruining ~~nature~~ the historical sites which are very prone to damage due to its old age.

Lastly, the higher amount of tourism can help the country decrease its budget deficit. The reason for this is because the more tourists come, the more money is being poured into the economy which would ~~increase~~ improve our deficit. Moreover, many of these tourists later on decide to comeback and invest into the country which would not only ~~stimulate~~ decrease the deficit but also stimulate the economic growth.

Overall, the growth of tourism would be more beneficial for Egypt because after all it is a sector in which they specialize in.



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Examiner Comments

This answer accesses mid-level 2 for analysis and full marks for evaluation. The analysis points are identified and backed up with data from the extract. However, they are not developed. The evaluative comments are sound and well explained.

Question 5 (a)

This question was well answered and the candidates were able to explain the meaning of real GDP growth rate. Most candidates were not able to gain full knowledge marks as they were not able to explain the term real or growth rate. Examiners are looking for two separate pieces of data and almost every candidate used Figure 1 effectively to access both application marks.

(a) With reference to Figure 1, explain what is meant by the *real GDP growth rate*. (4)

real GDP growth rate looks at the percentage of growth on the GDP per year and is adjusted to inflation. GDP stands for gross domestic product and looks at the total value of goods produced in a country over a period of time. Thus real GDP growth rate is the percentage change in GDP adjusted to inflation.

Looking at figure 1 we can see that Nigeria's annual ^{real} GDP growth rate increased from 5.5% ^{in 2013} to around 6.3% in 2014.

from 2014 to 2016 the real GDP growth rate fell from 6.3% to -1.8%. however, it has increased ~~to~~ to 0.8% in 2017.



This answer gets full marks – 2 for knowledge and 2 for application.

(a) With reference to Figure 1, explain what is meant by the *real GDP growth rate*.

Real GDP growth rate refers to the rate of increase⁽⁴⁾ of the value of total output of a country ~~over~~ after inflation has been accounted for.

Nigeria's annual real GDP growth rate fell from 6.2%^{in 2014} to -1.8% in 2016 meaning in 2016 they were producing less[^] than they were producing in 2015.



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Examiner Comments

This answer gets 1 mark for knowledge – defining real – and both marks for application.

Question 5 (b)

Candidates were able to analyse two reasons why Nigeria's 'foreign currency reserves fell by nearly US\$2 billion in 2017', but often found it difficult to develop their points. They had to refer to the information provided and hence, were expected to either explain current account deficit as a result of lower oil revenues, an increase in capital flight and an increased use of foreign currency reserves to support the naira.

However, some candidates explained other points which were not given in the extract and did not receive any marks. Most candidates added sufficient depth to their answers and they explained them well. This allowed them to get all 3 marks for each point. Few candidates made references to other data from the extract and this was not awarded as it was not in the context of the question given.

(b) Analyse **two** reasons why Nigeria's 'foreign currency reserves fell by nearly US\$2 billion in 2017' (Extract 1, line 14).

(8)

Foreign currency reserves refers to the amount of other
~~country~~ countries currency that the country holds.

Firstly, Nigeria is highly dependant on the export
of oil. This is shown ^{in extract 1} by, ~~95%~~ and it states that
95% of ~~oil exports~~ total exports is contributed by export
of oil in Nigeria. ~~In 2017~~, Oil prices have ~~gone~~ an overall
trend of falling prices, ^{from 102 US\$ per barrel} as shown by figure 2 and prices
of oil in July 2017 was 50 US\$ per barrel. This leads

to low export values since demand for oil is inelastic. A fall in price leads to a less than proportionate rise in demand ~~causing~~ causing a fall in export revenues. This leads to a ~~current account de~~ fall in foreign exchange earnings since foreigners ~~exh~~ exchange less of their currency for each barrel of oil. In addition, fall in export values leads to a current account deficit ~~as shown by~~ and to finance the deficit the country has to use up its foreign exchange currency.

In addition, Nigerias naira has depreciated against the dollar. In ~~order~~ ^{order} to avoid the naira to fall significantly the government intervenes by ~~set~~ creating demand for the naira by supplying the dollar. This appreciates the naira ~~and~~ against the dollar hence avoiding further rise in inflation. The usage of foreign currency to ~~keep~~ ^{strengthen} the naira has lead to a fall in Nigerias foreign currency reserves.



This answer gets full marks for knowledge, application and analysis. The answer is well analysed and links back to demand and supply of currency to explain points mentioned.

(b) Analyse **two** reasons why Nigeria's 'foreign currency reserves fell by nearly US\$2 billion in 2017' (Extract 1, line 14).

(8)

Firstly, there was current account deficit ~~from~~ that caused Nigeria's foreign currency reserves to fall. The ~~to~~ Current account deficit was a result of lower oil revenue. This ^{expenditure} could be because there could be higher imports and lower export revenue which could lead to a current account deficit.

Secondly, there was an increase in the use of foreign currency reserves to support ~~naire~~. The increase ~~foreign~~ currency reserves could cause the ~~naire~~ to be lower in value which would lead to a fall in foreign currency reserves.



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Examiner Comments

This answer identifies the 2 reasons but offers very limited explanation of these points. There is no relevant use of the data or extract to get application marks.

Question 5 (c)

This question was answered reasonably well in terms of analysis, with the candidates showing good evaluation of factors that may constrain economic growth and development in Nigeria. Many candidates used extract 1 for their analysis and evaluation arguments. Common points explained were on primary product dependency, weak infrastructure and lack of human capital. For a 16 mark question, 8 marks are available for knowledge, application and analysis and 8 marks for evaluation.

Level 1 is the identification of a factor, level 2 would be the identification of a factor and use of data from the extract OR a development of their point, and level 3 would be identification of a factor, use of data AND development of their point. For arguments which do not contain any relevant data in the extract, candidates needed to develop their point effectively to access the higher level. A few candidates copied paragraphs from the extract as their points and this meant they were unable to access higher levels.

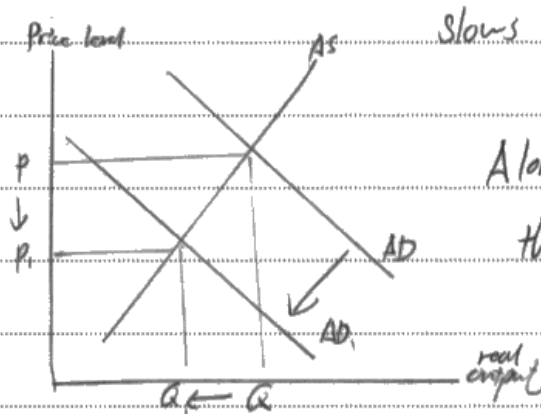
Evaluation was a little generic but a few candidates offered the drawbacks of each point they discussed. These candidates were able to access the higher levels as they answered their questions in context. To get access to higher levels, candidates need to be consistent with the context in terms of both growth and development. Typically, examiners are looking for 3 well developed analysis and 3 well developed evaluation points in 16 mark questions.

This suggests that additional practice in reading and understanding the kind of extracts found in data response questions would be beneficial, as would practice in how to integrate application with candidates' own analysis to make a complete and well explained argument.

(c) With reference to the information provided, evaluate factors that may constrain economic growth and development in Nigeria.

(16)

With reference to the extract 1, Nigeria's economy is highly focusing on the production of oil. Over 95% of Nigeria's total exports are oil and the tax revenue generated by the government is 70% of the total tax revenue, as the world oil price fall \$102 per barrel to \$50 per barrel, there is a huge fall in price, ~~and~~ which is up to 50% fall. As Nigeria export oil and ^{net} export is one of the component of aggregate demand, a fall in price lead to a fall in aggregate demand in value, $f_m(AD \rightarrow AD_1)$, thus leading to a contraction of the Nigeria's economy and $f_m(Q \rightarrow Q_1)$ and hence the economic growth



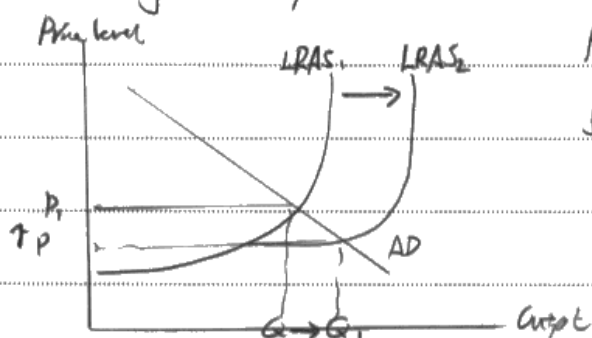
Slows down.

Along with the fall in revenue of oil sales, the Nigerian experiences a budget deficit which is the government is unable to cover up the government spending with tax revenue. as a fall in sales in oil, business that trade oil reduce in sale revenue, leading to a fall in Corporation tax that are based on the revenue generated by the company, moreover, in order to cut the cost for running the firm, firms may lay off inefficient labor, causing a rise in unemployment level, not only the government is unable to receive income tax from the unemployed. The government has to in turn provide unemployment benefit which rise the

Government expenditure, with an overall effect of worsening the budget deficit, according to extract 1 a fall in tax revenue lead to a budget deficit which account for up to 3.6% of the GDP. When government do not have tax revenue to back up its expenditure, it is unlikely that the government would even spend more to boost economic growth, ^{thus} the and the development shall worsen in this case.

Furthermore, the poor implication of law and corruption, according to extract 1: Nigeria ranks 136 out of 176 countries in corruption, this worsen not only the regulation in government which is vital for economic growth measure, but also reduce the confidence of foreign direct investment and the possibility of setting up multinational company which boost investment, hence the aggregate demand of the country and boost economic growth and development.

Nigeria's human development index is 0.51 which is a low HDI, education and training is a vital part in supply side policy for the government to rise the production capacity of the country in a long run, hence a rise in economic growth.



From the diagram, supply side policy is important in long term, however, a low HDI meaning that

Nigeria's government has not yet achieved the outcome a supply side policy has hence constrained the economic growth.

Although Nigeria may be suffering from the fall in oil price in the world, from figure 2, there is a likely increase of oil price in the future, in short term it is hard for government to completely deal with the problem that the country is facing, but in a long run, the supply-side policy of education and implementation of law and regulation shall post a positive impact on its development.

However, the problem shall be considered in its magnitude, if the corruption in the Nigeria government is small scale, we cannot assume that the effect of a single case will cause a huge impact to the whole economy of Nigeria, thus a careful look into the problem is needed before judging the constraint on economic development.



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Examiners Comments

This answer accesses low level 3 for both analysis and evaluation. Although the points are well analysed, it needs to consistently link to both economic growth and development to access the highest level. Sound evaluative comments mentioned but these could be further developed in context.

(c) With reference to the information provided, evaluate factors that may constrain economic growth and development in Nigeria.

(16)

Nigeria is an example of a developing country which has a potential for growth as they have access to crude oil and one of the most youthful populations in the world. This gives them potential for economic growth.

Firstly, Nigeria has a high level of bureaucracy which makes firms hard to operate within the country. Bureaucracy is slowing down growth and development or sometimes even preventing it. Red tape and paper work discourage many people from opening their own business. This situation can be shown by ranking of World Bank which listed Nigeria at place 169 out of 190 countries.

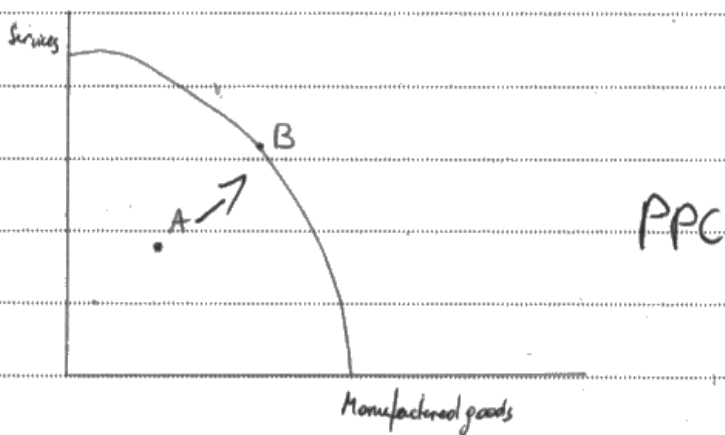
Secondly, Nigeria has to deal with the problem of significant corruption and poor law enforcement. This is something that is really discouraging for potential FDI as there are no stable conditions within the country which makes investment riskier. Even local business owners are worse off from the high level of corruption as there is no fair competition.

Furthermore, there are very weak institutions in Nigeria which brings the problem of how to solve problems mentioned above as institutions are not functioning properly. These problems have to be dealt with in order to ensure further growth and development in the

country.

Moreover, Nigeria have low human development index which means that they have low public investment in both healthcare and education. Education is a crucial factor in the country which wants to observe economic growth and develop. If people will not be provided with the proper education nothing might change.

Aditinally in Nigeria there are many people which are unemployed, which means that they are not using efficiently all of their available resources. They could use resources more efficiently by finding employment for unemployed workers.



They could potentially produce B however with current level of unemployment they produce only A.

Next constrain is the fact that there is a high income inequality which means that small group of people possess most of countries wealth whereas the rest of population lives in poverty. Around 62% of Nigerias population lives on \$1.9 per day which is the level of poverty. They have to live below their means. This leads to people not being able to function properly which creates constrain from further growth and development.

To sum up, N. Nigeria potentially is able to further develop, however they have exceptionally ^{huge} high problems mentioned above which they have to deal with in the first place. Government have to ^{take} ~~the~~ actions in order to solve problems which Nigeria is currently facing or they can ask for help of NGO's and other countries governments.



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Examiner Comments

Although this answer provides sound explanation of the factors, it does not link them to both economic growth and development; hence does not access level 3 for analysis. There is no evaluation offered, hence no marks awarded for it.

Question 5 (d)

This question required candidates to assess the case for stimulating Nigeria's economic growth through industrialisation. Candidates were not able to answer this question well; most candidates copied the information from the given extract and did not develop these points. This gave them access to level 1 only.

A few candidates were able to provide sufficiently detailed explanations of the reasons to earn them a level 3 mark for knowledge, application and analysis. For every 12 mark question 8 marks are available for knowledge, application and analysis and 4 marks for evaluation.

Level 1 is the identification of a point, level 2 would be the identification of a point and use of data from the extract OR development of their point, and level 3 would be identification of a point, use of the data AND development of their point. For arguments which do not contain any relevant data in the extract, candidates needed to develop their point effectively to access the higher level. Some candidates did not refer to economic growth in the answer.

Evaluation points were relatively weak across all scripts. Many candidates were able to draw upon environmental considerations but this was not always developed. Some candidates listed points and only accessed level 1.

This question could not be fully answered without reasonable understanding of industrialisation. Many candidates failed to appreciate this and tried to write answers solely from the extract. Those who did try to analyse their points and use the data provided were able to offer sound analysis of evidence.

(d) Assess the case for stimulating Nigeria's economic growth through industrialisation.

(12)

Economic growth refers to the total output of goods + services an economy can produce in the period of 1 year.

Industrialisation refers to the process of turning to the production of manufactured goods for an economy and this has begun in England through the Industrial Revolution in the 1700s.

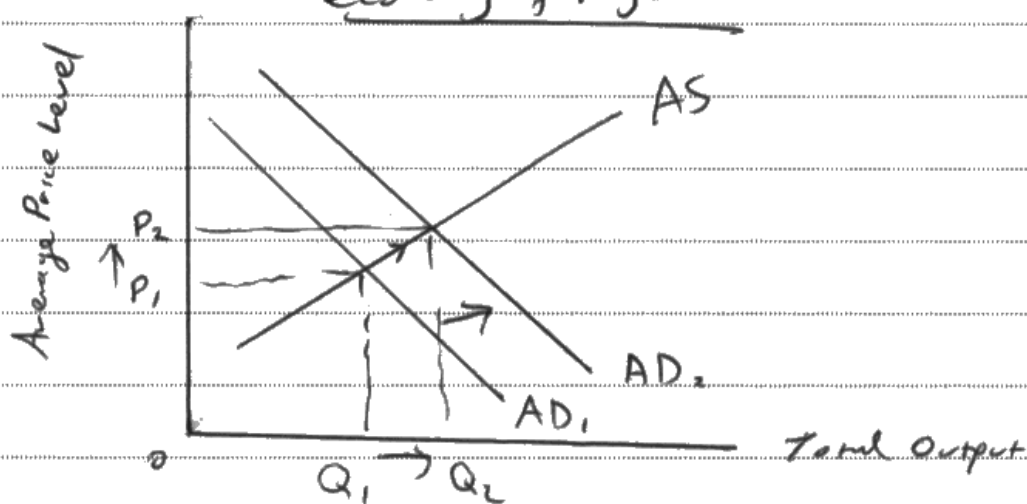
It would be beneficial, arguably, to stimulate the Nigerian economy through industrialisation because it would fix the primary product dependency that Nigeria faces with "95% of its exports" according to the source being from oil. Manufacturing goods, for example shoes like China, would help Nigeria develop a new comparative advantage in the global economy, a theory developed by David Ricardo that states that a country should produce something with the least opportunity cost and specialise. So far, primary product dependency has decreased Nigeria's comparative advantage because world market prices for oil are falling and it can't keep up.

According to the Lewis model of the "dual economy" a country can develop economically if it moves from the primary sector to the manufacturing one.

In addition, industrialisation would improve economic growth because it would create new jobs for

Nigerians which could be low-skilled to work for if firms produce through division of labour of easy tasks so that even the less skilled from the workforce can find a job and expand the productive possibility frontier of the economy. Such industrialised work would arguably be more beneficial in the world economy since globalisation has increased demand for low cost manufactured goods.

If more jobs are created and exports increase then this could shift the Aggregate Demand curve of the economy to the right through its components and workers would have more money from disposable income to consume. As shown on the diagram below from AD_1 to AD_2 economy of Nigeria



However, as shown above, the increase in quantity from Q_1 to Q_2 would also cause an increase in inflation which could in the long run cause ~~inflation~~ recession and stifle economic growth.

Another reason could be that in addition to economic growth, economic development would also likely occur due to better standards of living and working conditions in healthier environments.

In addition, industrialisation would also likely spark foreign direct investment that could help the economy to grow because foreigners would want to invest in the economy and maybe multinational companies would want to move factories in Nigeria. This would increase foreign currency reserves and tax revenue that could cause economic growth through more possibilities for investment by the state.

However, to discuss, it can be argued that industrialisation is difficult to occur in Nigeria without foreign aid or loans to open factories in the first place and so economic growth might not occur.

Also, due to high levels of corruption, according to Extract 1, it is unlikely that foreign multinationals would want to come and so economic growth is again restricted.

To conclude, it can be argued, that for industrialisation to be effective in sparking economic growth Nigeria has to firstly deal with bureaucratic and corruption problems in order to attract foreign investment in its industrialised country and benefit fully from industrialisation.

(Total for Question 5 = 40 marks)



This answer gets the highest levels for both analysis and evaluation as it demonstrates a good understanding of the question asked. The analysis points are identified and well developed, consistently backed up with relevant application. It also supports the point with an accurately labelled diagram. The evaluative comments after the analysis are well explained.

(d) Assess the case for stimulating Nigeria's economic growth through industrialisation.

(12)

Industrialisation is giving attention and supporting the manufacturing industries in a country.

Nigeria's economic growth can be stimulated through industrialisation. This is mainly due to the ^{most number of} young population that Nigeria has from the whole world. ~~Government~~ As a result more youth will engage in the manufacturing sector in Nigeria causing an economic growth to the country.

Moreover Nigerian government could subsidize different industries and deregulate different monetary policies in order to attract investors from all around the world. Government reduce the interest rates on borrowing for the use of manufacturing sectors for e.g. Mining, clothing and footwear. This could attract investors to invest on causing and economic growth. This ~~will~~ also create job opportunities for people which will create a good standard of living to the people in Nigeria.

However the currency is depreciated, industrial firms will find it expensive to import raw materials for their production. As a result they will pass down their burden to the customers as higher prices.

Moreover government expenditure will increase creating high opportunity cost to the government.



ResultsPlus
Examiner Comments

This answer does not develop the analysis points on page 1 in terms of economic growth. It only identifies the case for and thus attains top of level 1. The evaluative comment on the following page gets low level 2 as it is relatively better explained.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Candidates must read all the questions carefully, and make sure that they have addressed all parts of a question in their response. On a few questions on this paper, not understanding the requirements, in terms of depth and breadth, was the main reason for low scores.
- Application is a key assessment objective, and a skill that all candidates should aim to show throughout their responses, even when a question does not explicitly ask for it. Particularly in response to essay questions in Section A, reference to particular countries and examples would help to improve the quality of responses and allow candidates to add depth and breadth to their points.
- Evaluation is the highest level assessment objective and on this paper in particular, the ability to evaluate was the main discriminator between weaker and stronger responses. Indeed in some cases, candidates did not even attempt any evaluation which immediately constrained their scores on the questions that required this.
- There are no evaluation marks for 8 mark questions. Please use the time given effectively and avoid assessing the analysis points made. Candidates need to be aware that they need to use the information as indicated by the question to get application marks, wherever applicable.
- To access the highest level, candidates must show sufficient depth and breadth to their analysis and evaluation points. These points must be consistently written in context to the question. Material also needs to be presented in a relevant and logical way.
- Candidates are highly encouraged to have better structure to their answers. They must avoid writing essays and higher mark questions in bullet points or in long blocks/paragraphs without making a distinction between their analysis and evaluation points.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

