6	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS4:** Construct and interpret a range of standard graphical forms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because the distribution of income became more equal* ***C*** *is not correct because there was a reduction in income inequality* ***D*** *is not correct because income inequality decreased by approximately 1.1 percentage points*	**(1)**

4	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because there has been a two percentage point increase in taxes for the highest income earners* ***C*** *is not correct because this type of tax is progressive and burden falls on the highest income earners* ***D*** *is not correct because this would deter people from setting up their business in Spain*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because it will lead to a worsening in Nigeria's terms of trade* ***C*** *is not correct because it will reduce the transportation costs in Nigeria* ***D*** *is not correct because it will increase Nigeria's budget deficit*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because it will increase income inequality* ***C*** *is not correct because it will increase income inequality* ***D*** *is not correct because it will increase income inequality*	**(1)**

5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because net welfare loss areas are ABC and DEF* ***C*** *is not correct because producer surplus has increased by the area P_1 P_2 B A* ***D*** *is not correct because consumer surplus has decreased by the area P_1 P_2 E F*	**(1)**

4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because there is a fiscal deficit in 2021* ***C*** *is not correct because there is a fiscal deficit throughout the given period* ***D*** *is not correct because there is a fiscal deficit throughout the given period*	**(1)**

4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because higher shipping costs are likely to increase production costs* ***B*** *is not correct because global inflationary pressures will increase due to higher costs of production for businesses* ***C*** *is not correct because there are likely to be changes in the patterns of world trade*	**(1)**

5	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because this is associated with relative poverty* ***C*** *is not correct because this is associated with relative poverty* ***D*** *is not correct because absolute poverty is when a person earns less than $2.15 a day at 2017 PPP values*	**(1)**

	forms.	*prices or index of import prices*	(1)
6	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because Uruguay's Lorenz curve shifted away from the line of perfect equality* ***B*** *is not correct because perfect income inequality in Uruguay would imply that the Gini coefficient will be 100%* ***D*** *is not correct because income inequality in Uruguay increased by 1.3 percentage points*	**(1)**

4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because it shows the relationship between exchange rates and balance of payments on current account* ***B*** *is not correct because it shows the relationship between the rate of inflation and unemployment rate* ***C*** *is not correct because this is a graphical representation of income inequality*	**(1)**

5	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because the central bank would sell US dollars* ***C*** *is not correct because this would further depreciate the yen against the US dollar* ***D*** *is not correct because the central bank would buy Japanese yen*	**(1)**

5	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS5:** Calculate and interpret index numbers. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because this is 3.1%/4.8% and does not calculate the index of export prices or index of import prices* ***C*** *is not correct because this is (index of import prices/index of export prices)*100 = 96.9/95.2 * 100* ***D*** *is not correct because this is 4.8%/3.1% and does not calculate the index of export prices or index of import prices*	**(1)**
6	**QS2:** Calculate, use and	**The only correct answer is C**	

5	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because consumer surplus has decreased by the area P_1P_2EF* ***B*** *is not correct because government tax revenue is the area BCDE* ***D*** *is not correct because producer surplus has increased by the area P_1P_2BA*	**(1)**

3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because this relates to a current account surplus* ***C*** *is not correct because this relates to the public finances* ***D*** *is not correct because primary income is a component of the current account*	**(1)**

6	**QS5**: Calculate and interpret index numbers.	**The only correct answer is B** ***A*** *is not correct because 100.0 represents the base year* ***C*** *is not correct because 101.9 is the index number for 2016 using 2015 as base year* ***D*** *is not correct because 102.8 is the index number for 2017 using 2015 as base year*	**(1)**

2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because this would lead to an increase in the rate of inflation* ***B*** *is not correct because this would lead to an increase in debt servicing costs* ***D*** *is not correct because tax revenues are likely to be decreasing*	**(1)**

4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because the trade balance relates to the current account* ***B*** *is not correct because the trade balance relates to the current account* ***C*** *is not correct because the value of imports is less than the value of exports*	**(1)**

6	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because there will be a rise in both unit labour costs and export prices* ***B*** *is not correct because there will be a rise in both unit labour costs and export prices* ***C*** *is not correct because there will be a rise in both unit labour costs and export prices*	**(1)**

Section B

Question	In 2021, the Government of Pakistan made a debt servicing payment of $32.27 billion. With reference to Figure 1, calculate debt servicing payments as a proportion of national debt in 2021. You are advised to show your working. **Answer**	Mark
7(a)	**Application 2** Quantitative skills assessed: **QS1**: Calculate, use and understand ratios and fractions. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • ($32.27 billion / $145.25 billion) x 100 **(1)** • 22.22% **(1)** **NB** Award 2 marks for correct answer (22.22% / 22.2% / 22%) **NB** Award only 1 mark for 22.22 billion / 22.2 billion / 22 billion / 22	**(2)**

Question	Explain what is meant by a 'foreign currency gap' (Extract A, line 12). **Answer**	Mark
7(b)	**Knowledge 2, Application 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for understanding foreign currency gap, e.g.: • Currency inflows are less than **(1)** currency outflows **(1)** • Lack of capital/currency inflows **(1)** to finance the deficit on the current account of the balance of payments **(1)** • Lack of foreign exchange/currency reserves **(1)** • It is a constraint to economic growth/development **(1)** • Difference between the present currency reserves **(1)** and the reserves needed to achieve an increase in economic growth/ development **(1)** **Application** Up to 2 marks for application to foreign currency gap, e.g.: • Significant decline in foreign currency reserves from $16 billion in June 2021 to $10 billion in June 2022 **(1)** • Between June 2021 and June 2022 foreign currency reserves fell by 37.5% / $6 billion **(1+1)** • Rising foreign currency gap would have a negative impact on its ability to import **(1)** • Rising foreign currency gap was likely to increase further because of higher debt servicing payments **(1)** • Suggested a temporary ban on import of non-essential goods **(1)**	**(4)**

Question	With reference to Figure 2 and first paragraph of Extract A, examine **two** likely effects of the depreciation of the rupee against the US dollar **Answer**	Mark
7(c)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 marks for identifying two effects and up to 2 marks for linked explanations, e.g.: • Improvement in Pakistan's current account position of the balance of payments / worsening of Pakistan's terms of trade **(1K)** as its exports become relatively cheaper/its imports become relatively more expensive **(1AN)** • Higher economic growth/lower unemployment in Pakistan **(1K)** due to rise in net exports and AD (can show diagrammatically) **(1AN)** • Inflationary pressures are likely to increase **(1K)** as a result of an increase in aggregate demand/increase in cost of imports leading to a decrease in SRAS (can be shown diagrammatically) **(1AN)** • More inward FDI flows into Pakistan and less outward FDI flows from Pakistan **(1K)** hence improving its financial account **(1AN)** **Application** Up to 2 marks for application to Figure 2 or Extract A, e.g.: • The value of rupee against the dollar depreciated from Rs 175 per dollar to Rs 205 per dollar **(1)** • Between January and June 2022 the rupee depreciated by around 17%/Rs 30 against the US dollar **(1+1)** • This was mainly as a result of rising global inflation rates / the strong appreciation of the dollar **(1)** **Evaluation** Up to 2 marks for evaluative comments: • Impact on current account depends on PED for imports and exports **(1)** and if Marshall-Lerner condition is met (J-curve reference) **(1)** • Aggregate demand may not increase as the effect of increase in net exports can be offset by a decrease in other components **(1+1)** • Firms can repatriate profits, interest and dividends **(1)**: this is an outflow from the primary income component of current account **(1)** • Time period/SR vs LR considerations **(1)**: exchange rate is volatile and is expected to "increase in the third quarter of 2022" **(1)** • Magnitude of depreciation is relatively large (17%) **(1)** hence the impact on Pakistan's economy is likely to be very significant **(1)**	**(8)**

Question	With reference to Extract A, analyse **two** roles of the IMF. **Answer**	Mark
7(d)	**Knowledge 2, Application 2, Analysis 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 marks for identifying two roles and one mark for each linked explanation, e.g.: • Help ease the balance of payments adjustment/reduce a country's current account deficit **(1K)** by providing loans/temporary financial assistance to countries **(1AN)** • Promotes exchange rate stability **(1K)** to maintain confidence in financial markets **(1AN)** • Fosters international monetary co-operation **(1K)** by ensuring orderly exchange rate arrangements to secure financial stability **(1AN)** • Offers debt relief **(1K)** to help reduce absolute poverty **(1AN)** • Encourage economic growth/higher levels of employment **(1K)** by promoting global trade **(1AN)** • Provides capacity development such as technical assistance/policy advice/training of government officials **(1K)** to support developing countries strengthen their economic institutions **(1AN)** • To provide research and monitoring of member countries' **(1K)** to inform policy decisions within those countries **(1AN)** **Application** Up to 2 marks for application to the sources (1+1): • Pakistan's Government borrowed $1.2 billion from the IMF to prevent a further fall in foreign currency reserves **(1)** • IMF required the Government of Pakistan to meet certain conditions and reduce its fiscal deficit, partly by the removal of fuel and energy subsidies **(1)** • The IMF also required Pakistan's central bank to raise its base rate of interest to stabilise the rupee **(1)** • Previous governments of Pakistan have not always met the terms of their loan agreements with the IMF **(1)** • The IMF proposed that high-income households should pay significantly more income tax than low-income and middle-income households **(1)**	**(6)**

<table>
<tr><td>Question</td><td colspan="2">With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of an increase in income tax rates, aimed at high-income households, on the economy of Pakistan.

Indicative content</td></tr>
<tr><td>7(e)</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

Knowledge, Application and Analysis (8 marks) – indicative content
Definition/understanding of income tax
“IMF proposed that high-income households should pay significantly more income tax than the low-income and middle-income households.”
Impact on incentives to work: it could act as a disincentive for Pakistan’s citizens to take higher paid jobs; less overtime hours worked and/or less promotion opportunities sought by high income earners
Tax revenues: these might be expected to increase (reference to Laffer curve analysis); improve Pakistan’s public finances and “help reduce its fiscal deficit”
Could cause an increase in tax evasion (illegal) and tax avoidance (legal); could also lead to an increase in the number of tax exiles
Increased income equality: the tax system is more progressive; if taxes collected are used to redistribute incomes to the low-income households, then income distribution will become more equal
Impact on AD and economic growth, unemployment, and inflation: this can be represented by an AD/AS diagram; reference to the multiplier
Improvement of trade balance: increase in top rate of income tax would cause a fall in disposable income for top earners and this reduces their consumption and imports
Fall in FDI flows: entrepreneurs and senior managers from TNCs would see a fall in their disposable income, assuming they would be based in the country for which the FDI was destined
N.B. Positive effects may be awarded as KAA and negative effects as evaluation (or vice versa)</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.
Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.</td></tr>
</table>

		cause and/or consequence.
	Evaluation (6 marks) – indicative content • Depends on the extent of the disincentive effects of the income tax; high income earners in Pakistan might continue to work hard to maintain their standard of living • Tax revenues may fall if the tax rate is increased beyond the optimal rate; reference to the Laffer curve analysis; also depends on the overall impact on AD and on economic growth • Depends on powers of Pakistan's tax authorities to collect taxes; extent of tax evasion and tax avoidance; income tax is not the only factor influencing a person's decision on where to live • Depends on how the tax revenues are used by Pakistan's Government and whether other fiscal changes offset the impact of this increase in income tax rates • Depends on the elasticity of the LRAS/level of spare capacity; impact could depend on the changes in other components of AD; if savings are reduced to pay for the higher income tax, then the effects will be minimal • Depends on taxpayer's marginal propensity to consume/marginal propensity to import; depends on the PED of Pakistan's imports • Other factors also affect FDI flows and are not just dependent on changes in income tax, e.g. business confidence, rate of economic growth, interest rate • Overall impact would depend on how many people in Pakistan are affected by the top rate of income tax • Impact depends on magnitude of the increase in the top rate of income tax • Pakistan's Government should focus on increasing property taxes as only a small proportion of tax is currently raised from this source; opportunity for significant increases in tax revenue if the proportion of property tax is raised	