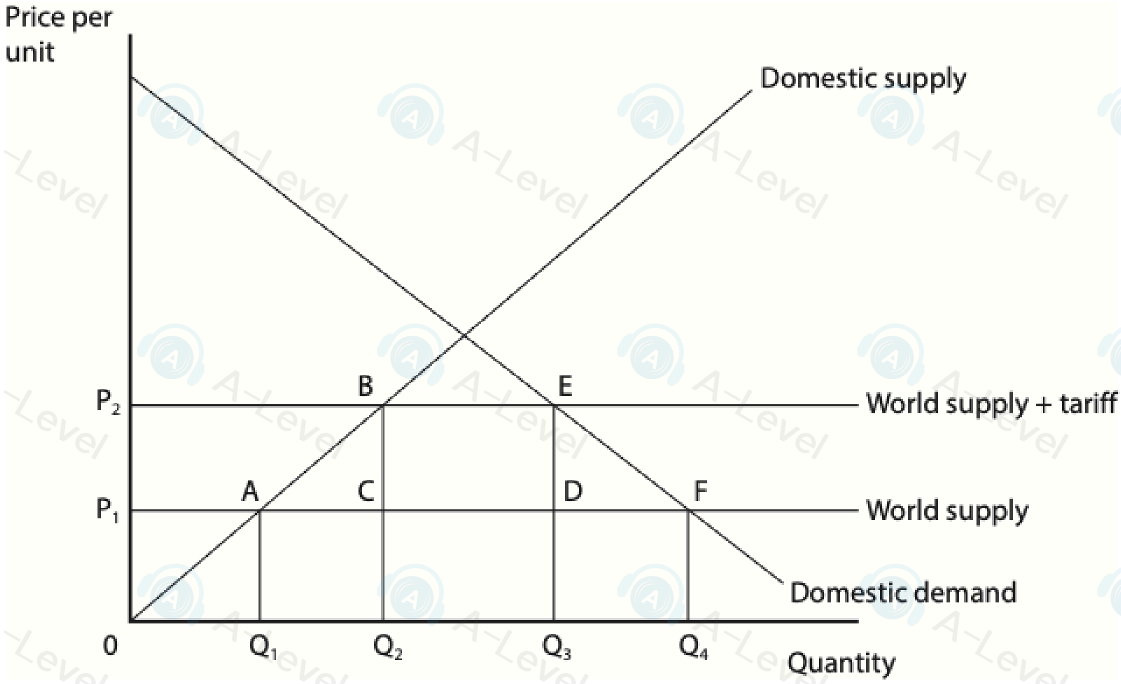
6 The diagram illustrates the imposition of a tariff on steel.



Which **one** of the following statements is true?

☒ **A** Imports of steel decreased from Q_1–Q_4 to Q_2–Q_3

☒ **B** Government tax revenue is area A B E F

☒ **C** Producer surplus increased by the area P_1 P_2 E F

☒ **D** Consumer surplus decreased by the area P_1 P_2 B A

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

1 Between 2009 and 2018 Argentina's national debt increased from approximately \$186 billion to nearly \$447 billion.

Which **one** of the following is the most likely effect of an increase in national debt of a country?

☒ **A** A decrease in its comparative advantage

☒ **B** A decrease in its interest rates

☒ **C** An increase in its debt servicing costs

☒ **D** An increase in the external value of its currency

(Total for Question 1 = 1 mark)

4 The table shows the maximum production possibilities for Country X and for Country Y using all available resources.

Country	Watches		Batteries
X	26 000	**OR**	13 000
Y	12 000	**OR**	12 000

Which **one** of the following can be deduced from this table?

☒ **A** Country X has a lower opportunity cost in the production of watches whereas Country Y has a lower opportunity cost in the production of batteries

☒ **B** Country Y has an absolute advantage over Country X in the production of watches and batteries

☒ **C** Country X has a comparative advantage over Country Y in the production of watches and batteries

☒ **D** Neither country will benefit from specialisation and trade

(Total for Question 4 = 1 mark)

4 The UK pound sterling exchange rate is allowed to float freely. The value of the pound sterling changed from £1 = $1.53 in January 2015 to £1 = $1.26 in January 2019.

This means that the value of pound sterling against the dollar has

☒ **A** devalued

☒ **B** revalued

☒ **C** depreciated

☒ **D** appreciated

(Total for Question 4 = 1 mark)

3 In 2022 Romania's labour productivity increased at a faster rate than that of its main trading partners.

Ceteris paribus, which **one** of the following can be deduced from this statement?

☒ **A** Average export prices of Romanian goods and services increased relative to the average export prices of its trading partners

☒ **B** Unit labour costs in Romania decreased relative to the average unit labour costs of its trading partners

☒ **C** Romania's goods and services became less internationally competitive relative to its trading partners

☒ **D** Romania experienced an improvement in its terms of trade

(Total for Question 3 = 1 mark)

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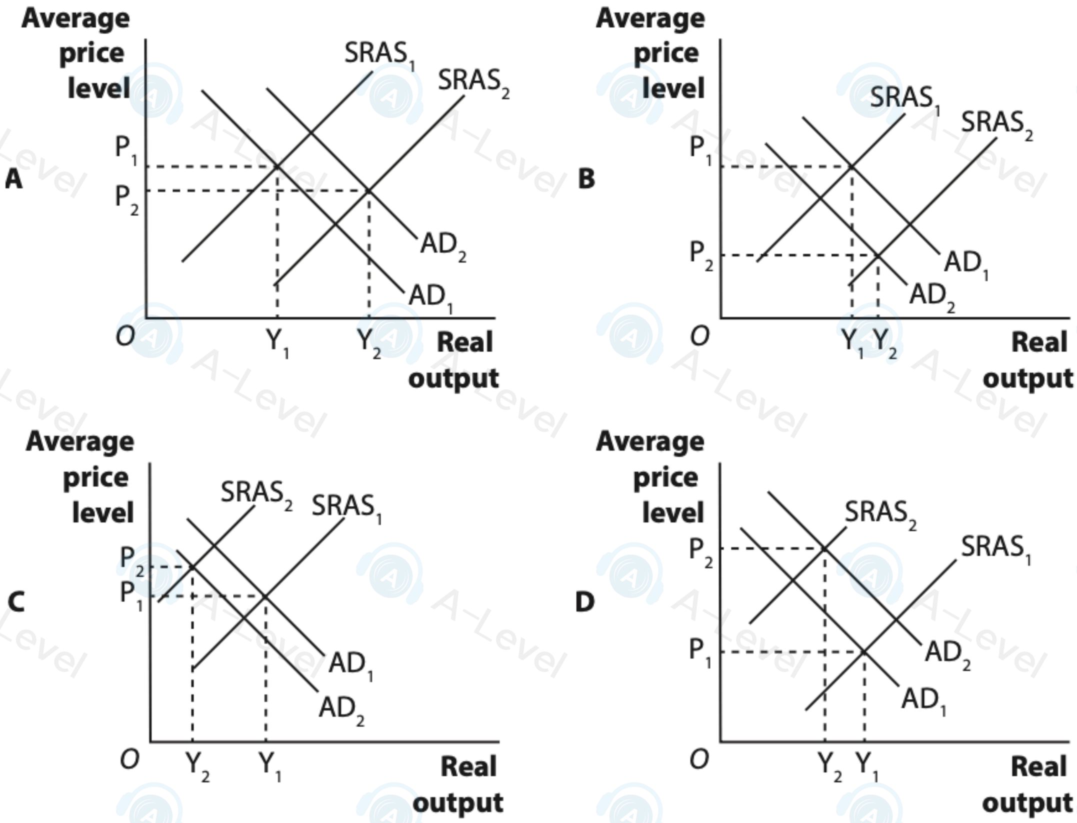
6 Which **one** of the following aggregate demand (AD) and short-run aggregate supply (SRAS) diagrams represents the likely effect of a substantial currency appreciation?

In each diagram the original equilibrium is represented by P_1 and Y_1.



☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 6 = 1 mark)

2 Between 2020 and 2022 Sweden's national debt decreased from $184.4 billion to $180.2 billion.

Which **one** of the following is the most likely effect of a decrease in the national debt of a country?

- ☒ **A** An increase in debt servicing costs
- ☒ **B** An increase in the rate of inflation
- ☒ **C** A decrease in the rate of interest
- ☒ **D** A decrease in absolute advantage

(Total for Question 2 = 1 mark)

4 Globalisation has been associated with an increase in real GDP per capita in many countries. However, some economists consider that there are costs associated with globalisation.

Ceteris paribus, which **one** of the following is a possible cost of globalisation on the global economy?

- ☒ **A** Lower prices and higher consumer surplus
- ☒ **B** Lower rates of unemployment
- ☒ **C** Higher long-run average costs for transnational companies
- ☒ **D** Higher external costs arising from increased trade

(Total for Question 4 = 1 mark)

(Total for Question 4 = 1 mark)

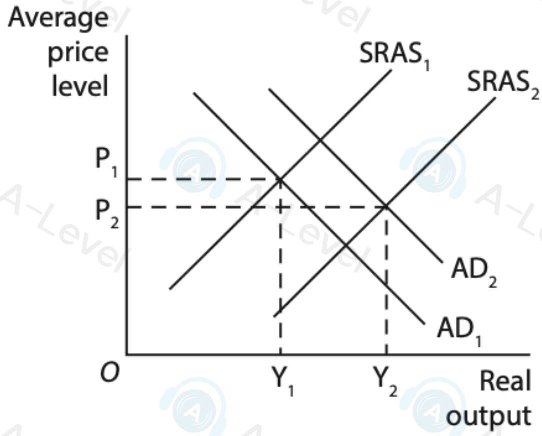
5 In 2022 the value of Japan's currency, the yen, depreciated significantly against the US dollar. Japan's central bank intervened in the currency markets to increase the external value of its currency.

Which **one** of the following combinations of foreign currency transactions would Japan's central bank be most likely to use if it wanted to raise the value of the yen against the US dollar?

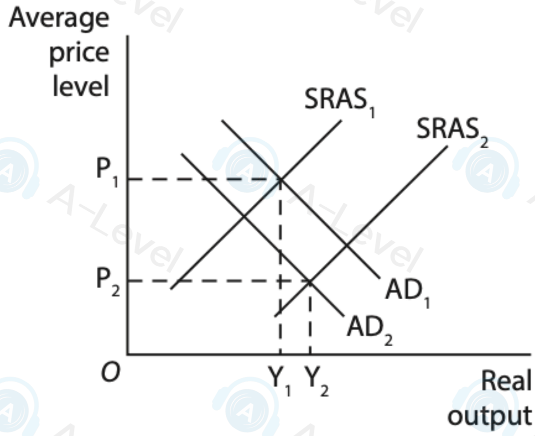
		Japanese yen	US dollar
☒	**A**	Buy	Buy
☒	**B**	Buy	Sell
☒	**C**	Sell	Buy
☒	**D**	Sell	Sell

4 In each of the diagrams the original equilibrium is represented by P_1 and Y_1.

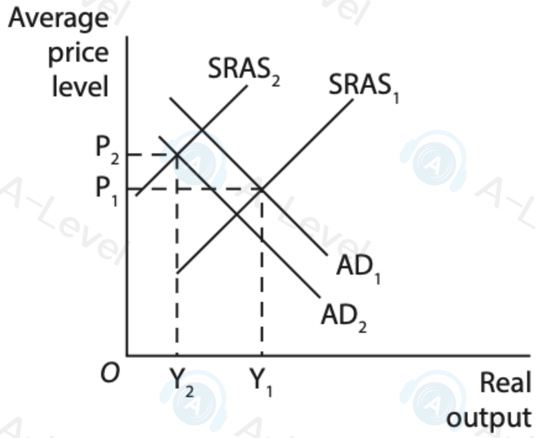
A



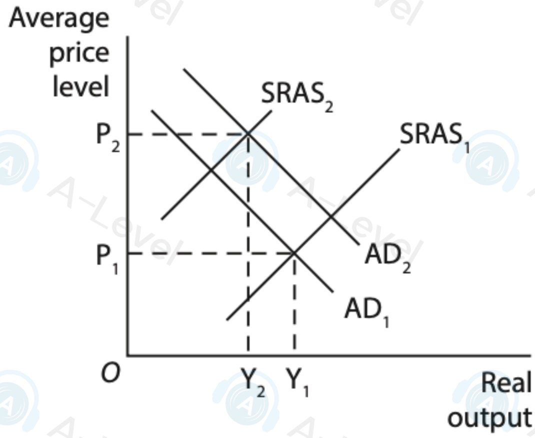
B



C



D



Which **one** of these aggregate demand (AD) and short-run aggregate supply (SRAS) diagrams represents the most likely effect of a substantial currency depreciation?

☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 1 = 1 mark)

2 The exchange rate of the United Arab Emirates (UAE) currency, the dirham, is fixed against the US dollar. Assume that the UAE Government instructed the country's central bank to reduce the exchange rate of the dirham against the dollar.

Which **one** of the following would best describe the impact of this policy?

☒ **A** The exchange rate would appreciate

☒ **B** The exchange rate would be devalued

☒ **C** The exchange rate would depreciate

☒ **D** The exchange rate would be revalued

(Total for Question 2 = 1 mark)

DO NOT WRITE IN THIS AREA

3 Ireland specialises in services while Japan specialises in manufacturing.

Ceteris paribus, if each country specialises and trades in the sector in which it has a comparative advantage, which **one** of the following is likely to occur?

☒ **A** A fall in the volume of exports and imports

☒ **B** A fall in the standard of living

☒ **C** An increase in world output

☒ **D** An increase in absolute poverty

(Total for Question 3 = 1 mark)

3 In 2021 the governments of 136 countries agreed to set a global minimum corporation tax rate of 15%. The aim of this agreement was to make it more difficult for transnational companies (TNCs) to avoid paying corporation tax.

Which **one** of the following is also a measure that governments may use to control TNCs?

☒ **A** Cutting costs of bureaucracy

☒ **B** Improving access to banking

☒ **C** Increasing indirect taxes

☒ **D** Regulation of transfer pricing

(Total for Question 3 = 1 mark)

DO NOT WRITE IN THIS AREA

2 The Government of Hungary operates an income tax system in which the proportion of income paid in tax by individuals remains constant as incomes increase.

Which **one** of the following can be deduced from this information?

☒ **A** Hungary has a progressive tax system

☒ **B** Hungary has a regressive tax system

☒ **C** Hungary has a proportional tax system

☒ **D** Hungary has a specific tax system

(Total for Question 2 = 1 mark)

DO NOT WRITE IN THIS AREA

6 Between 2000 and 2020 Pakistan's terms of trade decreased by 43.4%.

Ceteris paribus, which **one** of the following factors is most likely to have caused this decrease in Pakistan's terms of trade?

☒ **A** A higher rate of inflation in Pakistan relative to other countries

☒ **B** The prices of imports into Pakistan increased at a faster rate than the prices of its exports

☒ **C** An appreciation of Pakistan's exchange rate

☒ **D** The prices of Pakistan's exports increased at a faster rate than the prices of its imports

(Total for Question 6 = 1 mark)

(Total for Question 3 = 1 mark)

4 The table shows global GDP per capita in 2002, 2012 and 2022.

Year	GDP per capita ($)
2002	5 537
2012	10 576
2022	12 647

If 2022 is the base year, what will be the index number for 2002?

☒ **A** 43.78

☒ **B** 83.62

☒ **C** 119.58

☒ **D** 228.41

(Total for Question 4 = 1 mark)

6 The table shows Bosnia and Herzegovina's index of export prices and index of import prices between 2018 and 2020, (2000=100).

Year	Index of export prices	Index of import prices
2018	379.7	219.1
2019	354.4	214.2
2020	331.8	191.9

Ceteris paribus, which **one** of the following can be deduced from this table?

☒ **A** Between 2000 and 2018 Bosnia and Herzegovina's terms of trade worsened by 73.3%

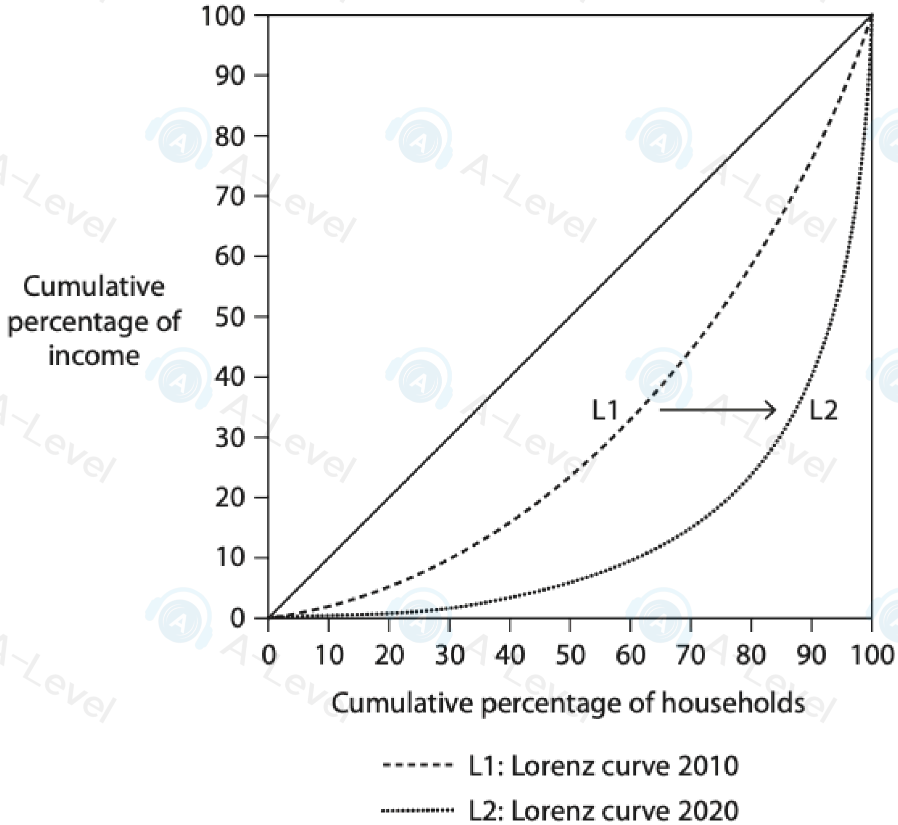
☒ **B** Between 2000 and 2020 Bosnia and Herzegovina's terms of trade improved by 72.9%

☒ **C** Bosnia and Herzegovina had to export the same amount of goods and services to purchase a given quantity of imports each year

☒ **D** Bosnia and Herzegovina's index of import prices exceeded its index of export prices each year

(Total for Question 6 = 1 mark)

4 The diagram illustrates the Lorenz curves for an economy in 2010 and 2020.



Which **one** of the following is most likely to have caused the shift in the Lorenz curve from L1 to L2?

☒ **A** A decrease in public expenditure on transfer payments

☒ **B** A decrease in the rate of unemployment

☒ **C** An increase in the national minimum wage

☒ **D** An increase in spending on training for unskilled workers

(Total for Question 4 = 1 mark)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the spaces provided on the following pages.

7 (a) With reference to Figure 1, calculate the change in India's real GDP growth rate between 2020 and 2021. You are advised to show your working.

(2)

(b) With reference to Figure 2, explain what is meant by 'rate of inflation'.

(4)

(c) With reference to Extract A, examine **two** external shocks that could constrain India's rate of economic growth in 2025.

(8)

(d) With reference to the last paragraph of Extract B, analyse **two** likely effects of a decrease in the base interest rate on the Indian economy.

(6)

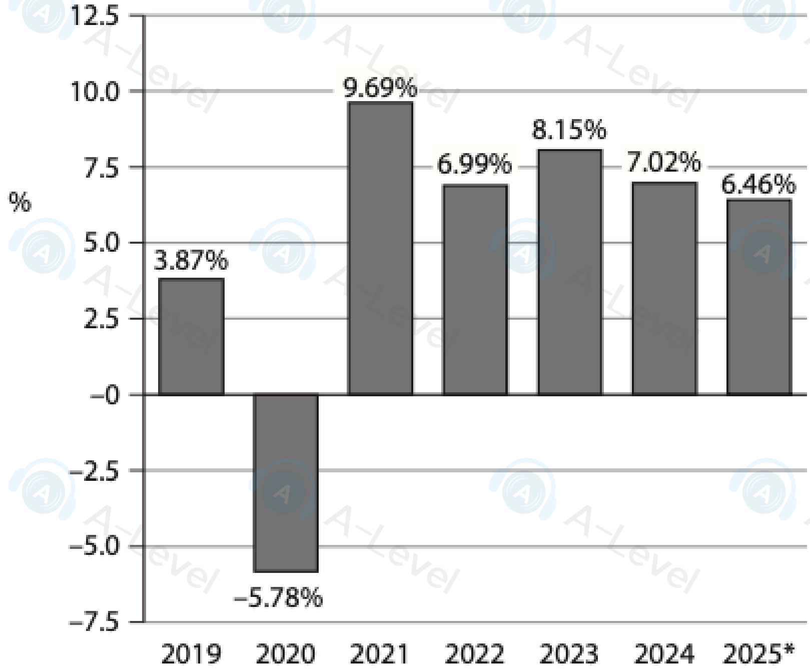
(e) With reference to the information provided, discuss the supply-side policies that the Government of India plans to introduce to increase the country's rate of economic growth **and** economic development.

(14)

Sources for use with Section B

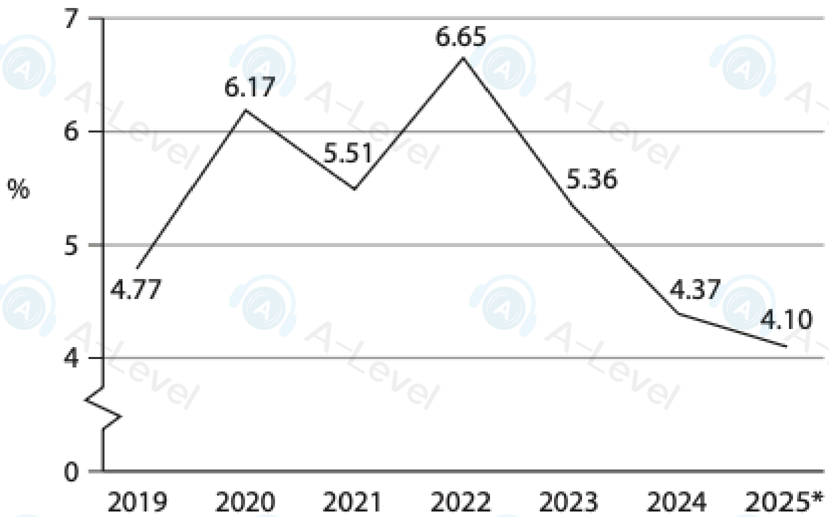
The Indian economy

Figure 1 Real Gross Domestic Product (GDP) growth rate, %, 2019–2025*



*denotes forecast

Figure 2 Annual rate of inflation, as measured by consumer price index (CPI), 2019 to 2025*



*denotes forecast

Extract A External shocks in the global economy

According to India's central bank, external shocks were the most significant constraints to the country's rate of economic growth in 2025. These external shocks included the threat of protectionism by the USA, rising commodity prices and supply chain shocks. If the USA imposes high tariffs on goods produced in India it would negatively impact India's export industries, especially IT and pharmaceuticals. Rising commodity prices would also increase the country's rate of inflation. This is because India is a net importer of commodities. Supply chain shocks include frequent natural disasters, such as cyclones and flooding, and transport disruptions arising from poor road and rail infrastructure.

However, the central bank suggested that the country was 'well placed' to respond to external shocks in the global economy. India's foreign exchange reserves amounted to \$676 billion and the country had the fastest rate of growth of any major economy.

Extract B Economic growth and economic development

In October 2024 the Government of India announced plans to introduce supply-side policies to increase India's rate of economic growth and economic development. It promised to improve the skills of its young workforce, encourage greater innovation and increase investment in infrastructure.

The Government also aims to cut the high costs of bureaucracy for businesses. This will simplify the process of obtaining finance for domestic businesses and transnational companies. It will also make it easier to set up and close a business. The Government hopes that the reduction in costs of bureaucracy will result in an increase in investment, including foreign direct investment.

To ensure that it can fulfil its promise, the Government set aside a capital expenditure budget of Rs 15 trillion for 2025. This is expected to be 3.4% of India's GDP. This budget is twice as much as it was in 2014.

These supply-side policies are likely to improve economic development by raising per capita incomes. Between 2025 and 2030, economists forecast that per capita incomes will increase by \$2 000.

In January 2025 the base rate of interest in India was 6.5%. The central bank reduced the rate to 6.25% in February 2025 and to 6% in April 2025. India's central bank has a target rate of inflation of between 4% to 6%.

(Total for Question 9 = 20 marks)

10 In Libya the HDI was 0.80 in 2010 and it was 0.72 in 2019.

Evaluate interventionist strategies that a government in a developing country of your choice might use to increase *economic development*.

(Total for Question 10 = 20 marks)

10 In 2022 Pakistan's currency, the rupee, fell by 27% against the US dollar.

Evaluate factors that might cause a depreciation of the exchange rate of one currency against another currency. Refer to a developing country of your choice in your answer.

(Total for Question 10 = 20 marks)