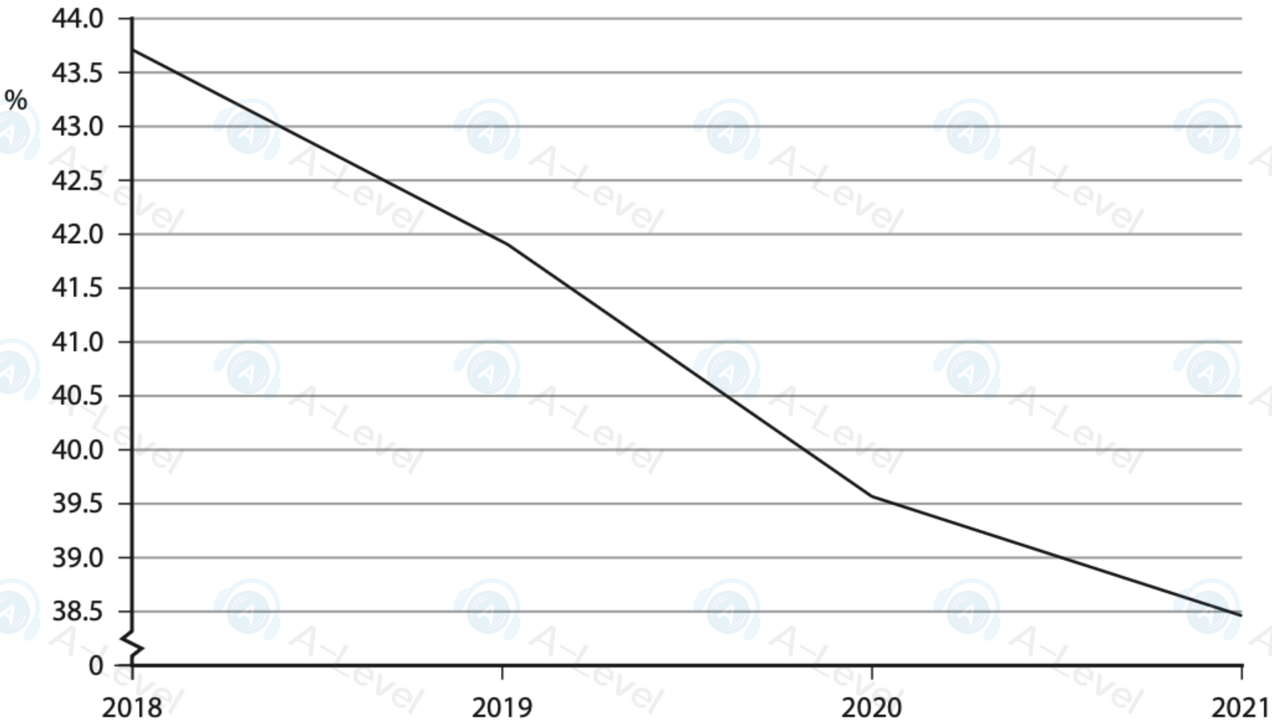
6 The chart shows the Dominican Republic's Gini coefficient, expressed as a percentage, between 2018 and 2021.



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

☒ **A** Between 2018 and 2021 the Lorenz curve shifted closer to the line of perfect equality

☒ **B** Between 2018 and 2019 the distribution of income became more unequal

☒ **C** Between 2019 and 2020 there was perfect income inequality

☒ **D** Between 2020 and 2021 income inequality increased by approximately 1.1%

(Total for Question 6 = 1 mark)

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4 In December 2020 the Spanish Government announced that it was increasing the highest rate of income tax from 45% to 47%.

Which **one** of the following is the most likely impact of this change?

☒ **A** The Government will receive an additional 2% tax from all workers in Spain

☒ **B** The value of Spain's Gini coefficient will fall and the country's Lorenz curve will shift inwards

☒ **C** The burden of tax will fall mostly on low income households, as the tax change is regressive

☒ **D** There will be an increased incentive for people to set up businesses in Spain

(Total for Question 4 = 1 mark)

3 In 2018 the value of oil exports accounted for 85% of Nigeria's GDP.

Which **one** of the following is most likely to result from a fall in world oil prices?

☒ **A** A deterioration in Nigeria's current account deficit

☒ **B** An improvement in Nigeria's terms of trade

☒ **C** An increase in transportation costs in Nigeria

☒ **D** A reduction in Nigeria's budget deficit

(Total for Question 3 = 1 mark)

2 Armenia's Gini coefficient increased from 0.28 in 2009 to 0.34 in 2017.

Which **one** of the following is most likely to reduce Armenia's income inequality?

☒ **A** A reduction in the national minimum wage

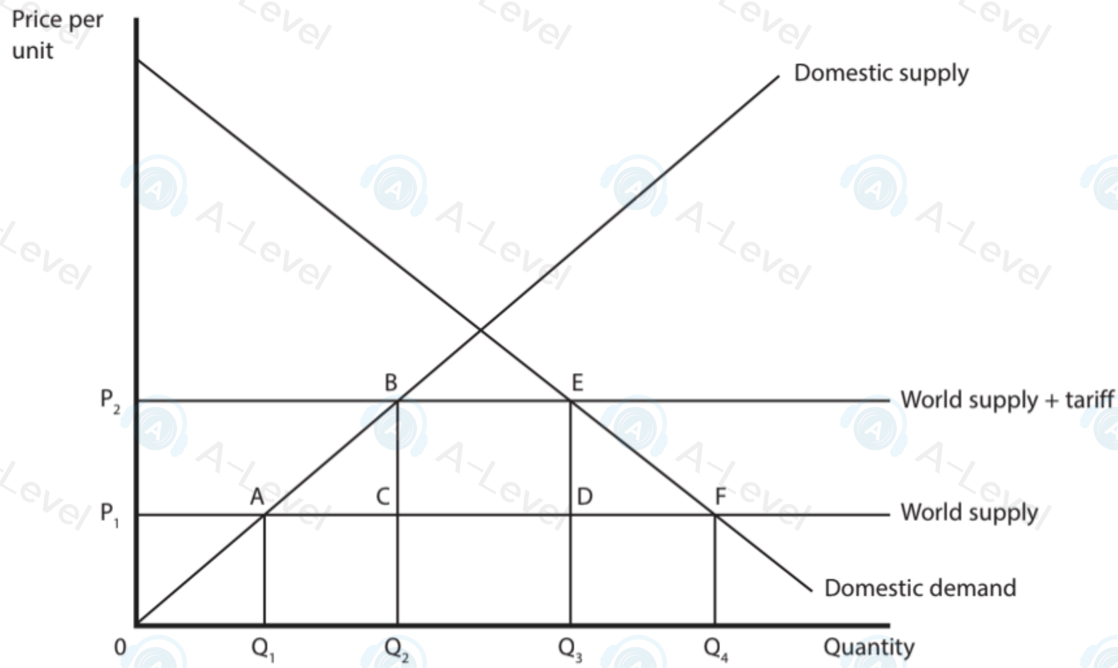
☒ **B** An improvement in education and training

☒ **C** A decrease in progressive tax rates

☒ **D** An increase in regressive tax rates

(Total for Question 2 = 1 mark)

5 The diagram illustrates the imposition of a tariff.



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

☒ **A** Government tax revenue is area BEDC

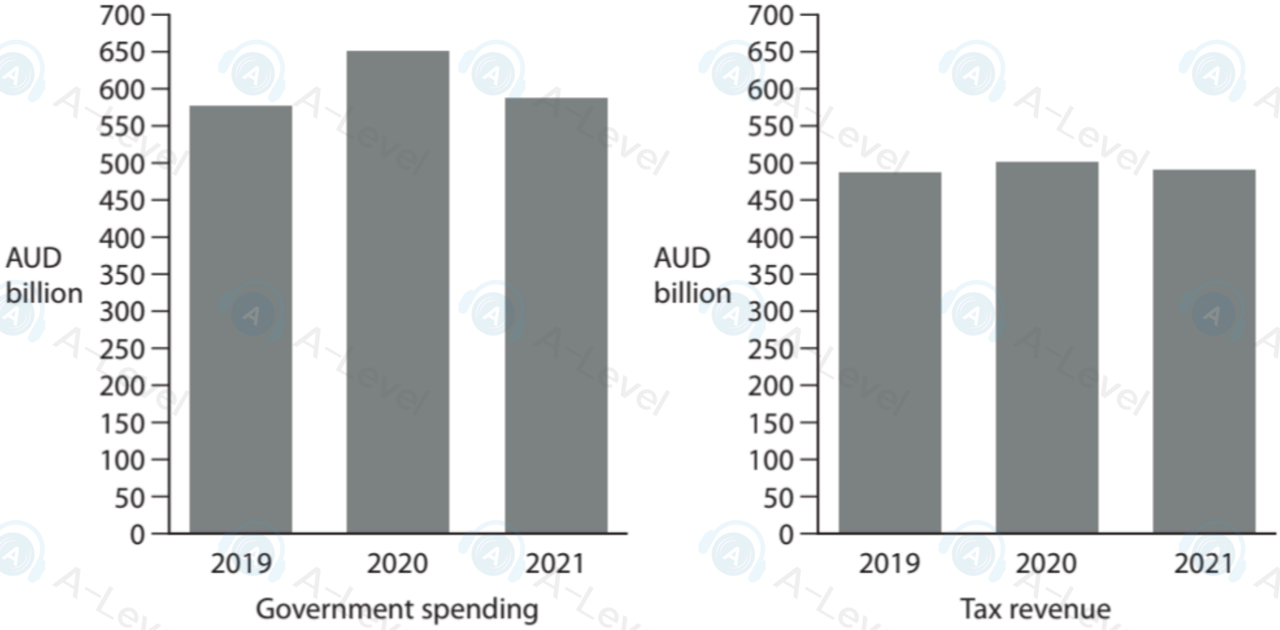
☒ **B** Net welfare loss areas are ACQ_2Q_1 and DFQ_4Q_3

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

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

(Total for Question 5 = 1 mark)

4 The charts show government spending and tax revenue in Australia, AUD billion, 2019–2021.



(Source: adapted from https://www.theguardian.com/australia-news/2021/may/11/australia-federal-budget-2021-josh-frydenberg-back-in-black-how-started-going)

Which **one** of the following can be deduced from these charts?

☒ **A** In 2021 Australia's current account surplus was approximately AUD 100 billion

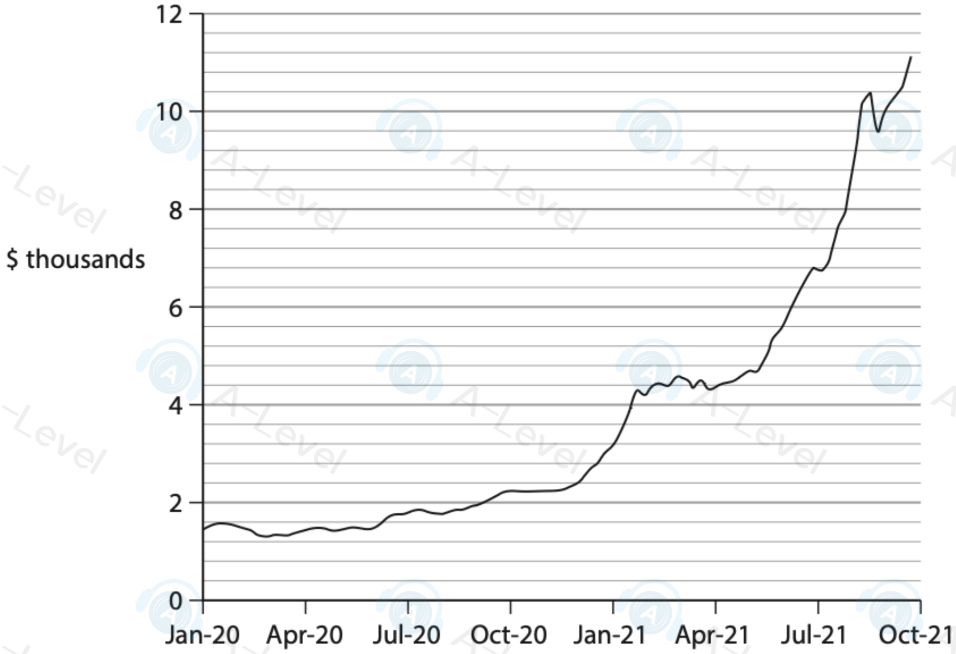
☒ **B** In 2020 Australia's fiscal deficit was approximately AUD 150 billion

☒ **C** Australia experienced a fiscal surplus throughout the given period

☒ **D** Australia experienced a current account deficit throughout the given period

(Total for Question 4 = 1 mark)

4 The chart shows average global container shipping costs, in $ thousands, between January 2020 and October 2021.



Ceteris paribus, which **one** of the following is most likely to result from this trend in global container shipping costs?

☒ **A** Costs of production for businesses will fall

☒ **B** Global inflationary pressures will not change

☒ **C** Patterns of world trade will not change

☒ **D** Trade as a proportion of world GDP will fall

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5 In 2022 Madagascar had an absolute poverty rate of 71%.

Which **one** of the following statements about absolute poverty is true?

☒ **A** Absolute poverty is the inability of individuals or groups to meet their basic needs

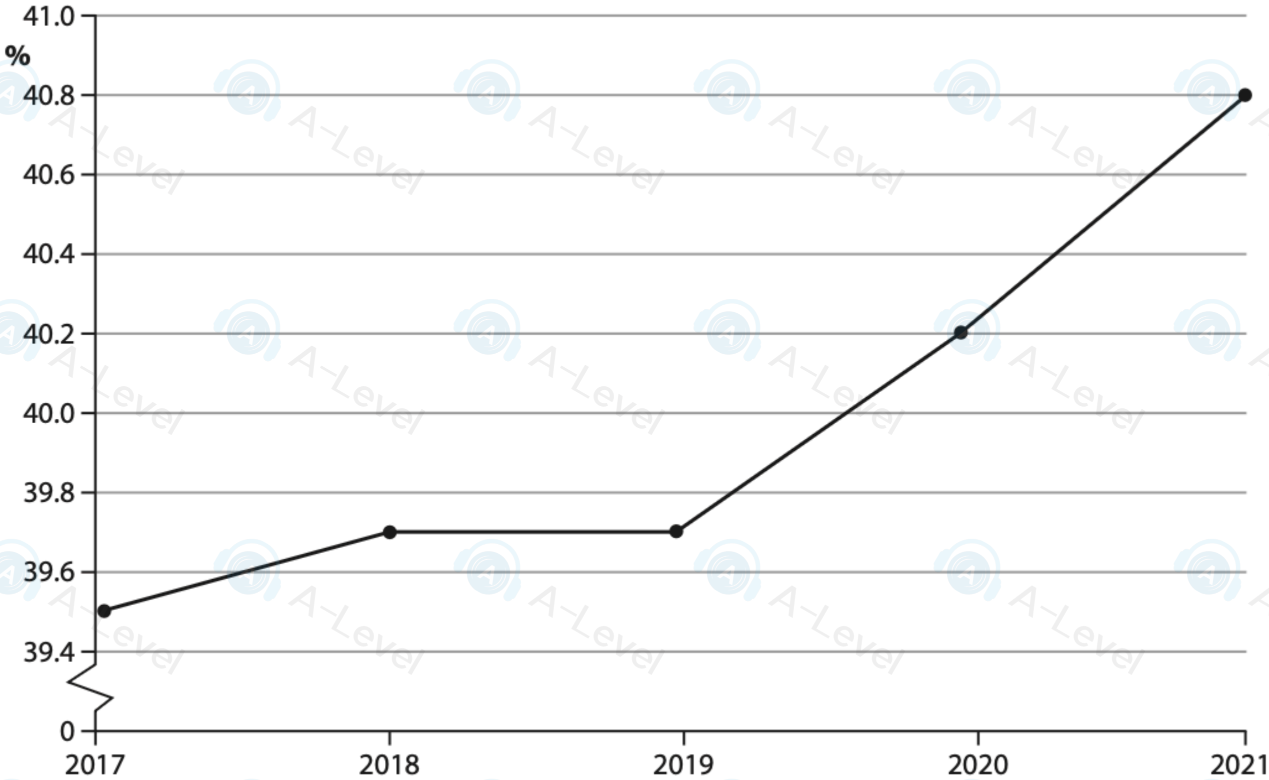
☒ **B** Absolute poverty is based on value judgements and is subject to changes over time

☒ **C** Absolute poverty measures the percentage of people within a country earning less than 60% of median income

☒ **D** Absolute poverty measures the percentage of people earning more than $2.15 a day at 2017 PPP values

(Total for Question 5 = 1 mark)

6 The chart shows Uruguay's Gini coefficient, expressed as a percentage, between 2017 and 2021.



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

☒ **A** Uruguay's Lorenz curve shifted closer to the line of perfect equality

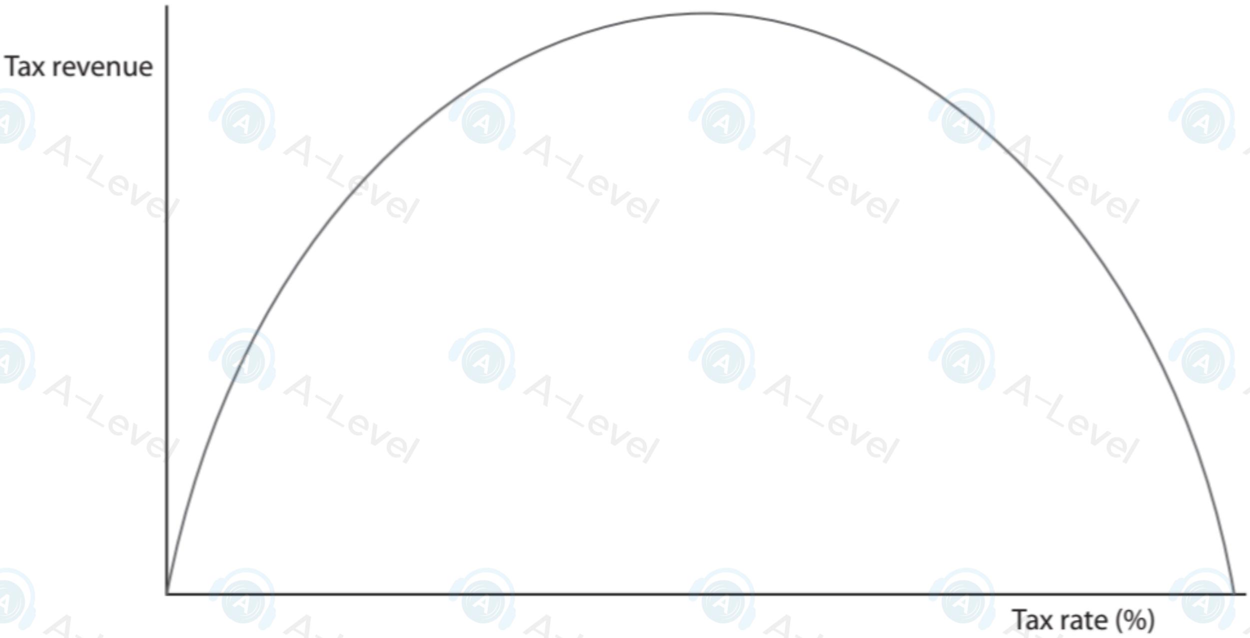
☒ **B** Uruguay experienced perfect income inequality

☒ **C** Uruguay's Lorenz curve shifted away from the line of perfect equality

☒ **D** Income inequality in Uruguay decreased by 1.3 percentage points

(Total for Question 6 = 1 mark)

4 The diagram illustrates the relationship between tax rate (%) and government tax revenue.



Which **one** of the following models is represented by this relationship?

☒ **A** The J-curve

☒ **B** The Phillips curve

☒ **C** The Lorenz curve

☒ **D** The Laffer curve

(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

5 Between December 2022 and December 2023, Australia's export prices decreased by 4.8% and import prices decreased by 3.1%.

What was Australia's terms of trade in December 2023 if December 2022 = 100?

☒ **A** 64.58

☒ **B** 98.25

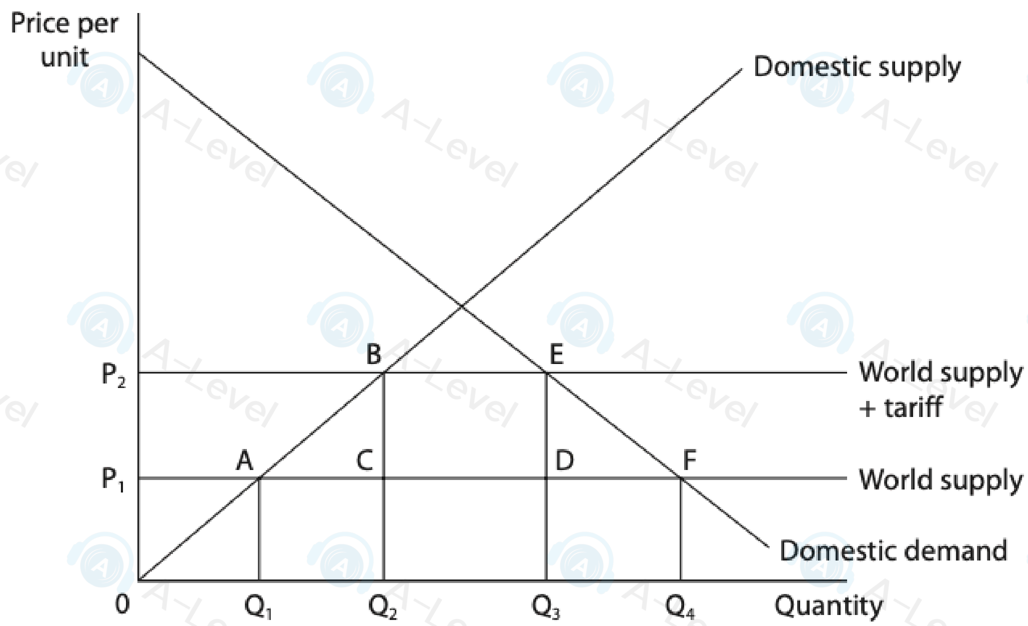
☒ **C** 101.79

☒ **D** 154.84

(Total for Question 5 = 1 mark)

6 The chart shows Uruguay's Gini coefficient, expressed as a percentage, between 2017

5 The diagram illustrates the imposition of a tariff.



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

☒ **A** Consumer surplus has increased by the area P_1P_2EF

☒ **B** Government tax revenue is the area ABEF

☒ **C** Net welfare loss areas are ABC and DEF

☒ **D** Producer surplus has decreased by the area P_1P_2BA

(Total for Question 5 = 1 mark)

3 Between 2021 and 2022 the European Union (EU) recorded an increase in the capital and financial account surplus of the balance of payments.

Ceteris paribus, which **one** of the following is the most likely reason for this increase in the EU's capital and financial account surplus?

☒ **A** An increase in inward foreign direct investment (FDI) and portfolio investment

☒ **B** An increase in the value of EU exports and a decrease in the value of EU imports

☒ **C** An increase in public sector borrowing and an increase in public sector debt

☒ **D** An increase in inflows into the primary income component of the EU's balance of payments

(Total for Question 3 = 1 mark)

6 The table shows Sweden's GDP per capita between 2015 and 2017.

Year	GDP per capita
2015	\$55 395
2016	\$56 473
2017	\$56 935

If 2016 is the base year, the index number for 2017 is:

☒ **A** 100.0

☒ **B** 100.8

☒ **C** 101.9

☒ **D** 102.8

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

2 Between 2012 and 2021 Paraguay's national debt increased from \$3.6 billion to \$13.3 billion.

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

☒ **A** A decrease in the rate of inflation

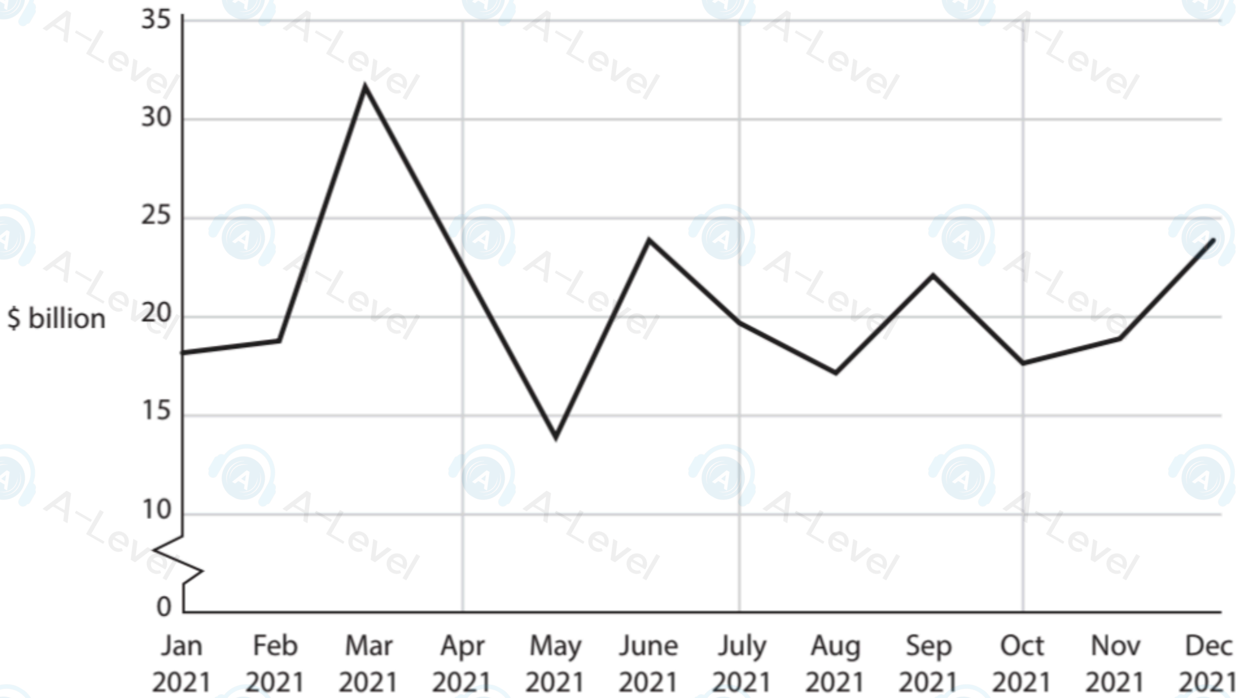
☒ **B** A decrease in debt servicing costs

☒ **C** An increase in crowding out

☒ **D** An increase in tax revenues

(Total for Question 2 = 1 mark)

4 The chart shows Germany's net monthly balance of trade in goods and services, \$ billion, January 2021 to December 2021.



(Source: adapted from https://tradingeconomics.com/germany/current-account)

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

☒ **A** There was a surplus in the capital and financial accounts

☒ **B** There was a fiscal surplus and an increase in the national debt

☒ **C** The value of imports was greater than the value of exports

☒ **D** The value of exports was greater than the value of imports

(Total for Question 4 = 1 mark)

6 Between 2019 and 2020 France's rank on the Global Competitiveness Index decreased from 31st to 32nd. This was as a result of a significant decrease in its labour productivity.

Which **one** of the following combinations is the most likely effect of a decrease in labour productivity?

		Unit labour costs	Export prices
☒	**A**	Fall	Fall
☒	**B**	Fall	Rise
☒	**C**	Rise	Fall
☒	**D**	Rise	Rise

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION B

Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7. Write your answers in the spaces provided on the following pages.

7 (a) 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.

(2)

(b) Explain what is meant by a 'foreign currency gap' (Extract A, line 13).

(4)

(c) With reference to Figure 2 and the first paragraph of Extract A, examine **two** likely effects of the depreciation of the rupee against the US dollar.

(8)

(d) With reference to Extract A, analyse **two** roles of the IMF.

(6)

(e) 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.

(14)

Sources for use with Section B

The economy of Pakistan

Figure 1 National debt, $ billions, 2018-2022

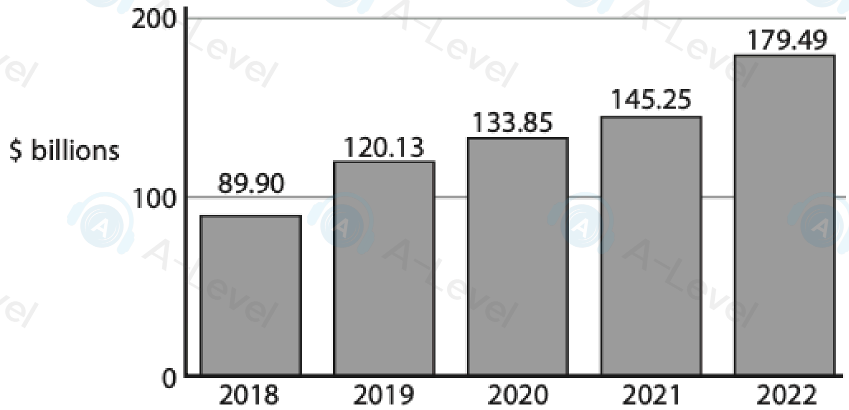
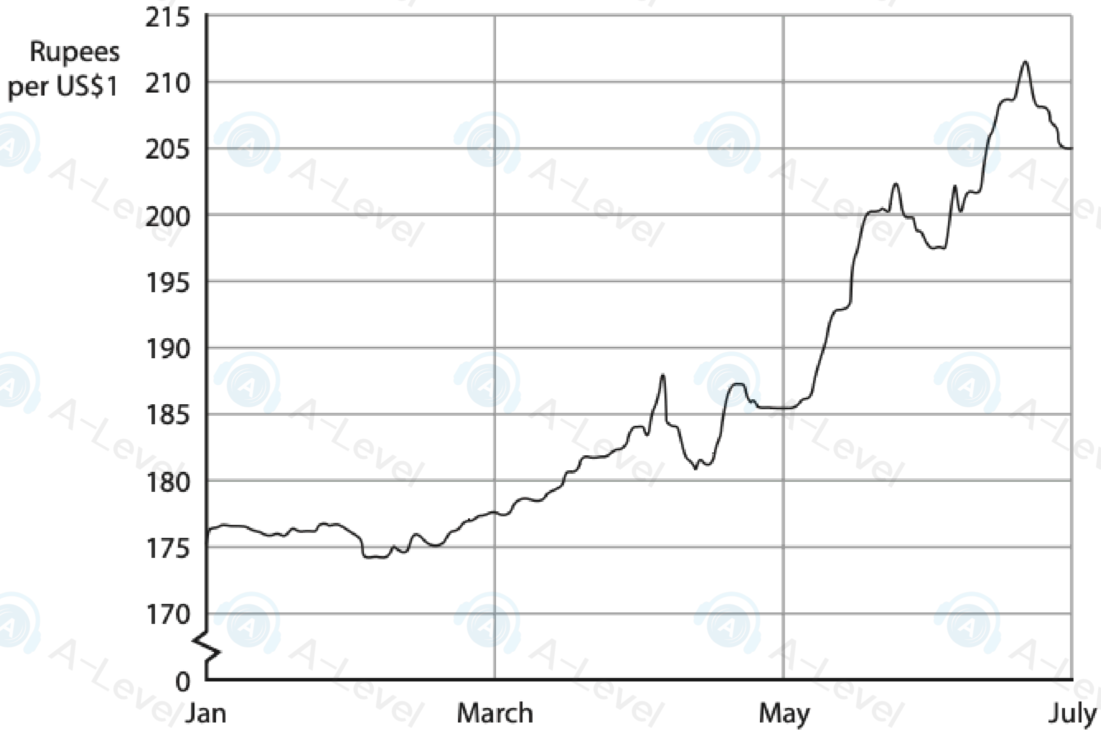


Figure 2 Rupee-US dollar exchange rate, January 2022 to June 2022



Extract A Economic outlook

Between January and June 2022 Pakistan's currency, the rupee, depreciated against the US dollar. This was mainly as a result of rising global inflation rates and the strong appreciation of the US dollar. However, economists expected the external value of the rupee to increase against the US dollar in the third quarter of 2022. They anticipated that the dollars earned by Pakistan from its exports would be greater than the dollars paid for its imports and debt servicing.

Pakistan experienced a significant decline in foreign currency reserves from $16 billion in June 2021 to $10 billion in June 2022. Many economists believed that the economy could be on the verge of an economic collapse in the third quarter of 2022.

In June 2022, Pakistan's central bank, the State Bank of Pakistan (SBP), informed Pakistan's Government that the country's rising foreign currency gap would have a negative impact on its ability to import. The SBP claimed that the rising foreign currency gap was likely to increase further because of higher debt servicing payments. To prevent these reserves from running out, the SBP suggested a temporary ban on the import of non-essential goods.

Pakistan's Government borrowed $1.2 billion from the IMF to prevent a further fall in foreign currency reserves. This financial support enabled the Government to reduce its current account deficit of the balance of payments and to help finance the country's national debt.

The loan from the IMF required the Government of Pakistan to meet certain conditions. These included a reduction in the fiscal deficit, partly by the removal of fuel and energy subsidies. The IMF also required Pakistan's central bank to raise its base rate of interest to stabilise the rupee.

Previous governments of Pakistan have not always met the terms of their loan agreements with the IMF. For example, the fiscal deficit has not been reduced significantly because the government collects very little revenue from direct taxes, especially from the booming property market. Large houses cost anywhere between $500 000 and $2 million to purchase but the owners only pay a small proportion as tax. The IMF proposed that high-income households should pay significantly more income tax than low-income and middle-income households.