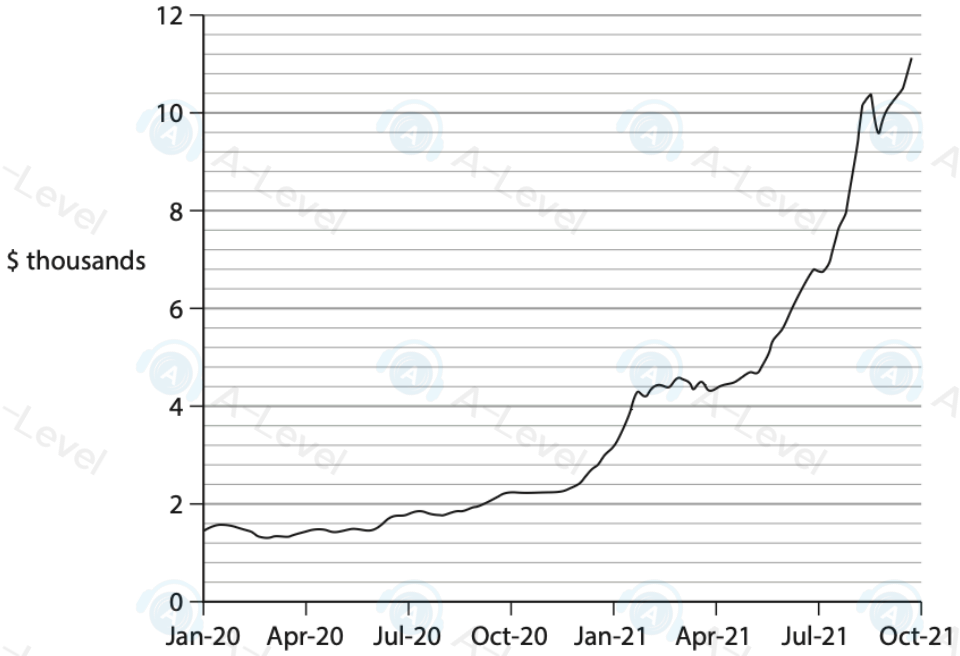
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

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



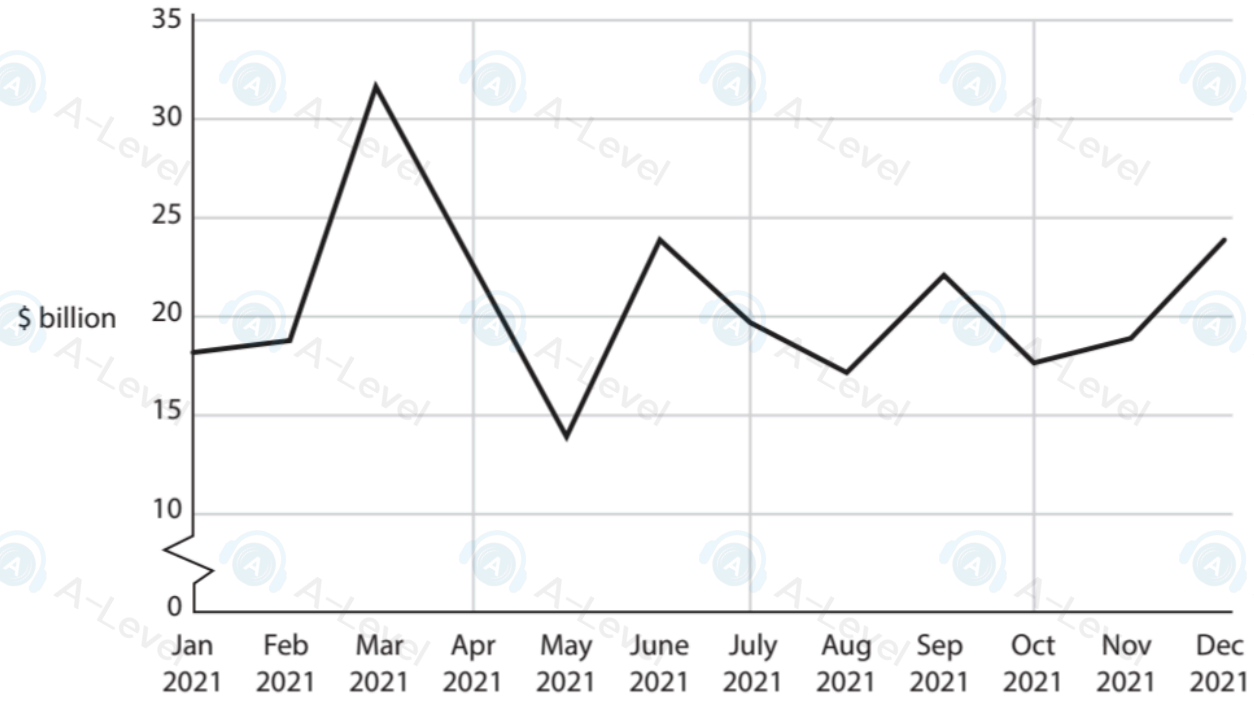
Ceteris paribus, which **one** of the following is most likely to result from this trend in global container shipping costs?

- ☒ **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

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

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)

5 The East African Community (EAC) is a trading bloc that implements a common external tariff on non-member countries outside the bloc.

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

- ☒ **A** The EAC is a common market where member countries can benefit from the free movement of labour
- ☒ **B** The EAC is a trading bloc where member countries follow rules set by the World Bank
- ☒ **C** The EAC is an economic and monetary union where member countries share the same currency
- ☒ **D** The EAC is a customs union where member countries can benefit from trade creation

(Total for Question 5 = 1 mark)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

5 Between 2022 and 2023 Finland recorded an increase in the capital and financial account deficit of its balance of payments.

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

- ☒ **A** An increase in public sector borrowing and an increase in public sector debt
- ☒ **B** An increase in outflows from the primary income component of Finland's balance of payments
- ☒ **C** A decrease in inward foreign direct investment (FDI) and portfolio investment
- ☒ **D** A decrease in the value to the EU and an increase in the value of imports from the EU

(Total for Question 5 = 1 mark)

WRITE IN THIS AREA

1 In 2021 the US dollar appreciated by around 10% against the euro.

Which **one** of the following factors is likely to have caused this appreciation of the US dollar?

- ☒ **A** A decrease in confidence in the USA's economy by currency speculators
- ☒ **B** A decrease in the USA's rate of economic growth
- ☒ **C** An increase in capital flight out of the USA into the eurozone
- ☒ **D** An increase in the USA's base interest rate relative to the eurozone

(Total for Question 1 = 1 mark)

DO NOT WRITE IN THIS

3 In 2022 there was an overall deficit of $943.8 billion on the USA's balance of trade.

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

- ☒ **A** The value of consumption was lower than the value of saving
- ☒ **B** Government spending was greater than tax revenue
- ☒ **C** The value of imports was greater than the value of exports
- ☒ **D** Gross domestic investment was lower than capital flight

(Total for Question 3 = 1 mark)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

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

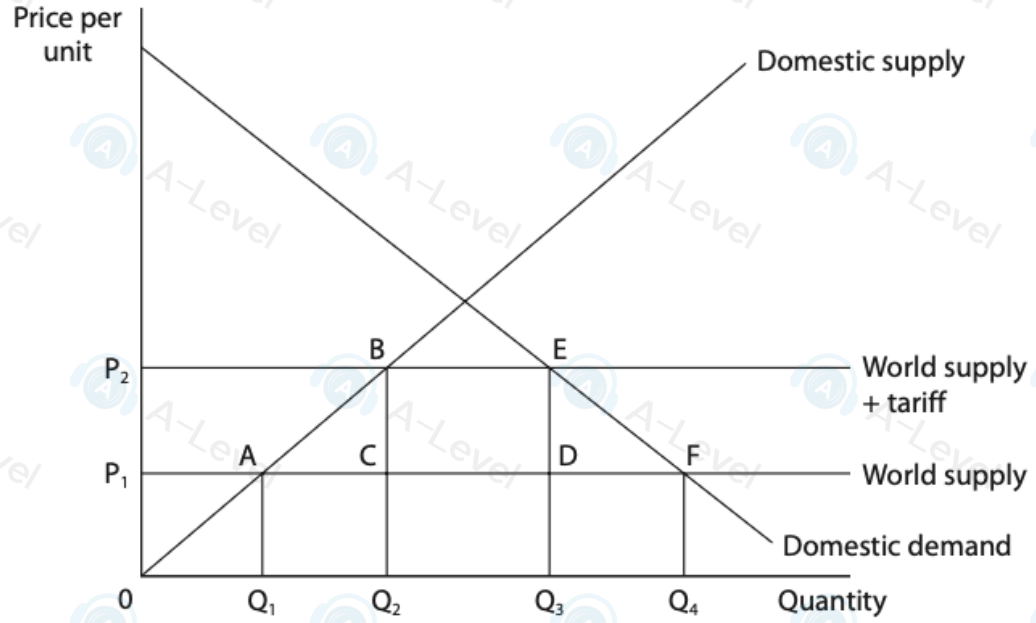
☒ **B** Country Y has an absolute advantage over Country X in the production of watches and batteries

☒ **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)

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 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)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

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)

DO NOT WRITE IN THIS AREA

1 India specialises in services while China specialises in manufacturing.

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

- ☒ **A** An increase in world output
- ☒ **B** A fall in exports and imports
- ☒ **C** A fall in the standard of living
- ☒ **D** An increase in absolute poverty

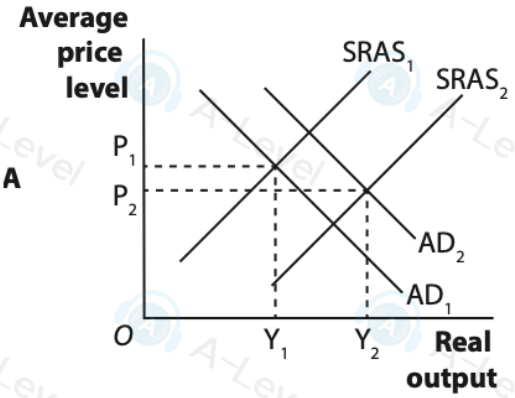
(Total for Question 1 = 1 mark)

DO NOT WRITE IN THIS AREA

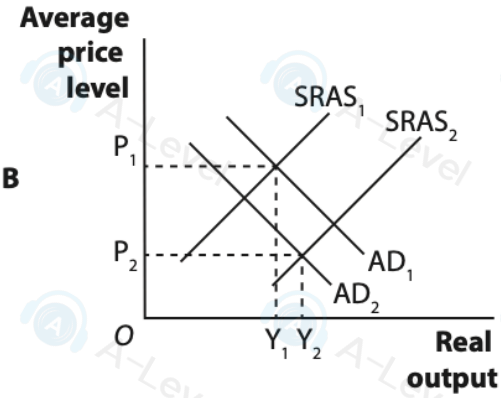
6 Which **one** of the following aggregate demand (AD) and short-run aggregate supply (SRAS) diagrams represents the likely effect of a substantial currency appreciation?

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

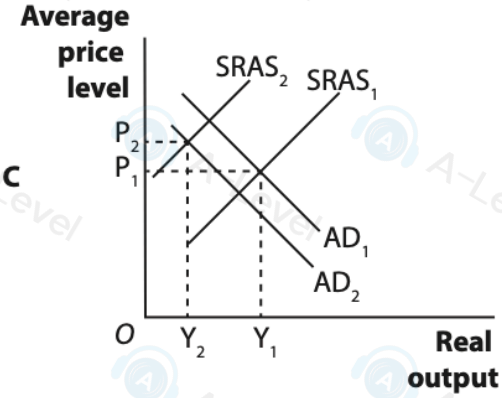
A



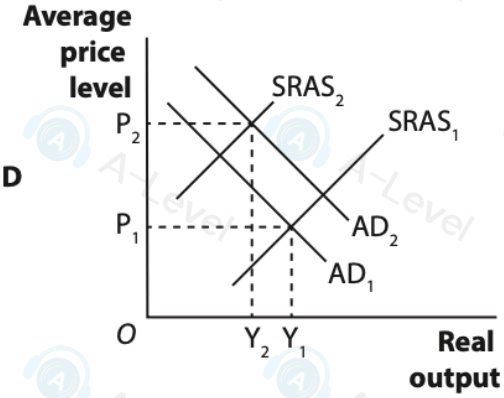
B



C



D



- ☒ **A**
- ☒ **B**
- ☒ **C**
- ☒ **D**

(Total for Question 6 = 1 mark)

(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
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

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)

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)

DO NOT WRITE IN THIS AREA

7 In 2018, the EU's rate of inflation was 1.6%.

(a) With reference to Figure 1, calculate the nominal GDP growth rate of the EU in 2018. You are advised to show your workings.

(2)

(b) Explain what is meant by 'quantitative easing' (Extract A, lines 8–9).

(4)

(c) With reference to Figure 1, Figure 2 and Extract A, analyse **two** reasons why 'Many EU countries experienced strong economic growth after 2012' (Extract A, lines 2–3).

(6)

(d) With reference to Figure 1, Figure 2 and Extract A, examine **two** reasons why 'there is concern that the future rate of economic growth in the EU might be much lower' (Extract A, lines 12–13).

(8)

(e) With reference to Extract B, discuss the likely economic benefits to the EU of forming a trade agreement with Mercosur.

(14)

DO NOT WRITE IN THIS AREA

Sources for use with Section B.

The European Union (EU)

Figure 1 Annual real GDP growth rate (%), 2000–2018

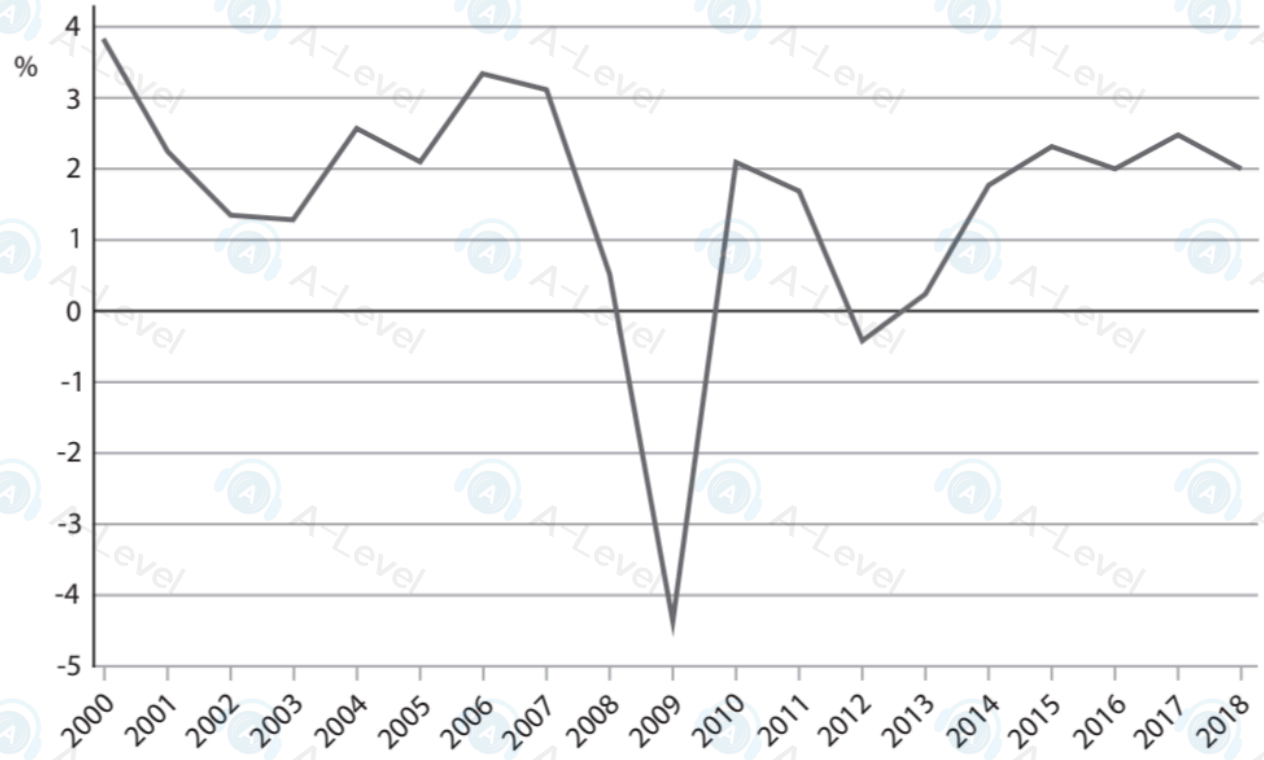


Figure 2 Annual inward foreign direct investment to the EU (% of GDP), 2000-2018



Extract A Economic growth

The European Union (EU) is a customs union. Many EU countries experienced strong economic growth after 2012, four years after the global financial crisis of 2008. After some years of low domestic demand since the crisis, firms in the EU were able to take advantage of increasing consumer spending. In 2018 household expenditure rose by 2% and the EU benefited from an expansion in global trade.

The EU's economic recovery was also as a result of increased domestic investment. Between 2015 and 2018 the European Central Bank's (ECB) €2.5 trillion quantitative easing programme gave firms greater access to credit. The ECB has also indicated that it could extend this programme. This would reduce fears of economic uncertainty and the impact of a global economic slowdown.

Despite the evidence of economic recovery, there is concern that the future rate of economic growth in the EU might be much lower. Rising oil prices are expected to reduce foreign direct investment. Moreover, spending on research and development is significantly lower than in most Asian countries. There is also a shortage of skilled labour in the technology sector. Finally, there is a worry that the EU's rate of economic growth could also decline as a result of the slowdown in China, following its trade war with the USA.

Extract B Trade agreement

In July 2019 the South American customs union, Mercosur, and the EU announced they were close to agreeing a free trade deal. If concluded it would be the largest ever trade agreement negotiated by the EU in terms of tariff reductions.

The deal would provide a rare moment of agreement in global trade. It would come at a time when US President Donald Trump is threatening to increase trade barriers with China and the EU. A trade agreement with Mercosur has more significance as the EU seeks to position itself as a leading promoter of global free trade.

However, the EU remains concerned about the agreement. The negotiations have discussed sensitive economic matters for both trading blocs. These include the prospect of greater competition for Mercosur's car manufacturers and for the EU's beef farmers.

There has also been disappointment amongst EU countries about the lack of co-ordination between Mercosur's largest agricultural exporters. These countries include Argentina, Brazil, Paraguay and Uruguay. This problem was partly blamed for the failure to secure a trade agreement in 2018.

Answer TWO questions from this section.

8 Between September 2021 and September 2022 the US dollar appreciated by nearly 18% against the euro.

Evaluate the likely economic effects of an appreciation of a country's currency on its economy. Refer to a developed country of your choice in your answer.

(Total for Question 8 = 20 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS