Past-paper walk-through

Economic growth ▪ 4.4

eXercise

Questions in this set

- 9708/11 N25 Q17 ▪ 1 mark
- 9708/11 N25 Q22 ▪ 1 mark
- 9708/12 N25 Q25 ▪ 1 mark
- 9708/13 N25 Q3 ▪ 1 mark
- 9708/14 N25 Q17 ▪ 1 mark
- 9708/2 23 Q1 ▪ 20 marks

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 17

9708/11 N25 ▪ Q17 ▪ 1 mark

17 GDP of a country measured at current market prices was \$1000bn in year 1. This had risen to \$1100bn in year 2.

Over the same period the general price level had risen by 5%.

What has happened to real GDP?

A Real GDP fell by approximately 5%.

B Real GDP fell by approximately 10%.

C Real GDP rose by approximately 5%.

D Real GDP rose by approximately 10%.

Solution 17

Answer: **C**

Why

- Nominal GDP rose from 1000 to 1100, which is 10%.
- Prices rose 5% over the same period.
- So real growth is approximately $10 - 5 = 5\%$.

Question 22

9708/11 N25 ▪ Q22 ▪ 1 mark

22 What is **not** a government macroeconomic policy objective?

A economic growth

B income equality

C low unemployment

D price stability

Solution 22

Answer: **B**

Why

- The standard macroeconomic objectives are economic growth, low unemployment, price stability and a sustainable balance of payments.
- Income *equality* is a desirable outcome but not one of the four standard objectives.
- So it is the one that does not belong on the list.

Question 25

9708/12 N25 ▪ Q25 ▪ 1 mark

25 What is the **least** likely consequence of rapid economic growth?

A high levels of pollution

B large deficit on the current account of the balance of payments

C large deficit in the government's budget balance

D more congestion on the roads

Solution 25

Answer: **C**

Why

- Rapid growth typically brings pollution, resource depletion and a widening current account deficit as imports rise.
- It also tends to raise inflation if capacity cannot keep up.
- What it does *not* usually bring is falling employment – growth normally reduces unemployment.

Question 3

9708/13 N25 ▪ Q3 ▪ 1 mark

3 What would be an opportunity cost of growth in an economy?

A the faster growth of services than of manufacturing

B the need for an increased level of imported raw materials

C the need for greater government intervention

D the reduction of consumption if growth requires investment

Solution 3

Answer: **D**

Why

- Opportunity cost is what has to be given up to get something.
- To grow faster an economy must devote resources to capital goods now.
- So the cost of growth is the consumer goods forgone in the present.

Question 17

9708/14 N25 ▪ Q17 ▪ 1 mark

17 What is required to prevent a rising price level due to an increase in aggregate demand?

A Additional productive capacity must be created.

B Government investment must remain at a constant level to stabilise supply.

C Greater reliance must be placed on imported goods to overcome any domestic shortfalls.

D Wage rates must change more frequently to maintain levels of employment and output.

Solution 17

Answer: **A**

Why

- If aggregate demand rises and capacity does not, prices are bid up.
- So preventing inflation requires the supply side to expand at the same time.
- Additional productive capacity is what allows output to rise without the price level rising.

Question 1

9708/2 23 ▪ Q1 ▪ 20 marks

1

Vietnam's 'Economic Miracle'

Thirty years ago, Vietnam was one of the poorest countries in Southeast Asia. Since then, its real GDP has increased rapidly. A series of economic and political reforms has been responsible for its so-called 'economic miracle'.

Vietnam has benefitted from the increased protectionism in trade between China and the United States (US). For example, Vietnam has increased production of goods that are substitutes to those made in China to such an extent that Vietnam is popularly referred to as 'China plus one', in recognition of its similar comparative advantage to China.

Rising export revenue is only one reason for Vietnam's spectacular economic growth. With a rapidly growing population, Vietnam has invested heavily in its human capital

Question 1

and physical capital in the form of infrastructure, including cheap access to the internet.
A third reason for this success is how Vietnam has moved towards trade liberalisation. This is shown through its free trade agreement with the US and its membership of organisations of countries that have agreed to trade freely with each other, such as ASEAN and the TPP. These initiatives involve the removal of tariffs and other tools of protection, increasing the potential for Vietnam to trade with other countries.
Nevertheless, there are possible dangers in this strategy. Vietnam's economy is heavily dependent on its exports which in 2017 were over 90% of GDP. This reliance puts Vietnam at risk from downturns in the global economy and in the economies of its main trading partners. Even more worrying is the repeated threat from the US that it may put import tariffs on manufactured goods from Vietnam.

Question 1

Source: World Economic Forum, 2018 Table 1.1 Vietnam's balance of trade in goods and services and real GDP growth, 2009 to 2018 Balance of trade in goods and services ('000 billion dong)1 Real GDP growth (% change from previous year) 2009 –188 557 5.4 2010 –177 215 6.4 2011 –114 887 6.2 2012 +113 697 5.3 2013 +77 350 5.4 2014 +128 965 6.0 2015 +33 169 6.7 2016 +115 342 6.2 2017 +140 282 6.8 2018 na 7.1
1 The dong is Vietnam's currency. Source: Trading Economics August 2019
(a) Using the data in Table 1.1, compare Vietnam's balance of trade in goods and services between 2009 and 2011 with that from 2015 to 2017. [2]
(b) (i) Explain the relationship you would expect between the annual change in the balance of trade in goods and services and the annual change in real GDP growth. [2]
(ii) Consider the extent to which this relationship is evident in the data in Table 1.1. [2]
(c) Using the information provided, explain one supply-side reason why Vietnam has experienced 'spectacular economic growth'. [2]

Question 1

(d) Assess the likely macroeconomic effects of pressure on the exchange rate of the Vietnamese dong arising from Vietnam's increased exports. [6]

(e) Assess whether Vietnam's 'economic miracle' is likely to persist over the next few years. [6] Section B Answer one question. EITHER

(a) (a) Using the data in Table 1.1, compare Vietnam's balance of trade in goods and services between 2009 and 2011 with that from 2015 to 2017. [2] **[2]**

(b)(i) (b) (i) Explain the relationship you would expect between the annual change in the balance of trade in goods and services and the annual change in real GDP growth. [2] **[2]**

(b)(ii) (ii) Consider the extent to which this relationship is evident in the data in Table 1.1. [2] **[2]**

(c) (c) Using the information provided, explain one supply-side reason why Vietnam has experienced 'spectacular economic growth'. [2] **[2]**

Question 1

(d) (d) Assess the likely macroeconomic effects of pressure on the exchange rate of the Vietnamese dong arising from Vietnam's increased exports. [6] **[6]**

(e) (e) Assess whether Vietnam's 'economic miracle' is likely to persist over the next few years. [6] **[6]**

Question 1

1 Vietnam's balance of trade in goods and services and real GDP
2009 to 2018

	Balance of trade in goods and services ('000 billion dong)[1]	Real GDP growth (% change from previous year)
2009	–188 557	5.4
2010	–177 215	6.4
2011	–114 887	6.2
2012	+113 697	5.3
2013	+77 350	5.4
2014	+128 965	6.0
2015	+33 169	6.7
2016	+115 342	6.2
2017	+140 282	6.8
2018	na	7.1

Solution 1

(a) Mark scheme

- Using the data in Table 1.1, compare Vietnam's balance of trade in
- goods and services between 2009 and 2011 with that from 2015 to 2017.
- ▪
- Between 2009 and 2011, the balance of trade was in deficit; from 2015 to
- 2017, there was an increasing surplus. 1
- ▪
- The deficits decreased over time to 2011; the surpluses were less stable. 1
- Guidance:

Solution 1

- Correct terminology and clear comparisons must be made for 2
- 2

Solution 1

(b)(i) Mark scheme

- Explain the relationship you would expect between the annual change
- in the balance of trade in goods and services and the annual change in
- real GDP growth.
- ▪
- A positive relationship might be expected. 1
- ▪
- Exports are a component of AD so rising exports lead to faster economic
- growth. 1

Solution 1

- 2

Solution 1

(b)(ii) Mark scheme

- Consider the extent to which this relationship is evident in the data in
- Table 1.1.
- ▪
- The relationship is not very obvious in the data in Table 1.1. 1
- ▪
- There is some evidence that the highest growth rates produce the largest
- surpluses. 1
- ▪

Solution 1

- A time lag in the data seems to be a reasonable consideration. 1
- (max 2)
- 2

Solution 1

(c) Mark scheme

- Using the information provided, explain one supply-side reason why
- Vietnam has experienced 'spectacular economic growth'.
- ▪
- Reason (supply side). 1
- ▪
- Explanation linking the reason to comparative increases in output. 1
- Guidance:
- Various possibilities in the data such as use of supply-side policies (education,

Solution 1

- infrastructure) and access to export markets through free trade agreements.
- 2
- 9708/02
- For examination
- SPECIMEN
- from 2023

Solution 1

(d) Mark scheme

- Assess the likely macroeconomic effects of pressure on the exchange
- rate of the Vietnamese dong arising from Vietnam's increased exports.
- Up to 4 marks for explanation/analysis:
- ▪
- Explanation that an increase in Vietnam's exports will lead to a rise in the
- value of the dong. (1) The price of exports will rise and import prices will
- fall. (1) (max 2)
- ▪

Solution 1

- Analysis of the likely impact of the rise in the dong on macroeconomic
- indicators such as employment, national output, inflation and the trade
- balance. (max 2)
- Guidance:
- Award 2 marks if detailed analysis with reference to just 1 indicator or
- less detailed analysis of 2 indicators. Award 1 mark for less detailed
- analysis of 1 indicator.
- Up to 2 marks for evaluation:
- ▪
- Relevant evaluation which weighs up the factors on both sides. 1

Solution 1

- ▪
- A conclusion on the likely overall effect. [1]
- 6

Solution 1

(e) Mark scheme

- Assess whether Vietnam's 'economic miracle' is likely to persist over
- the next few years.
- Up to 4 marks for explanation/analysis:
- ▪
- Reason why the miracle is likely to persist, e.g. ongoing dispute between
- US and China, rising GDP per head in Vietnam. (1) Explanation of how
- this reason leads to further economic growth such as boost to AD due to
- increased exports, increased consumption. 1

Solution 1

- ▪
- Reason why the miracle may not persist such as US imposing additional
- tariffs on Vietnam's exports, downturn in global economy. (1) Explanation
- of how the reason could reduce economic growth such as lower exports
- reduce growth. 1
- Up to 2 marks for evaluation:
- ▪
- Relevant evaluation such as Vietnam's heavy dependence on exports is
- a risk: if there is a world recession Vietnam's economic miracle is likely to
- end; (1) multinational companies (MNCs) could easily move elsewhere;

Solution 1

- (1) or any other relevant reason.
- 6
- 9708/02
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- SPECIMEN
- from 2023
- Section B
- EITHER