Past-paper walk-through

Policies to correct imbalances in the current account of the balance of payments ▪ 6.5

eXercise

Questions in this set

- 9708/22 N25 Q4 ▪ 20 marks
- 9708/23 N25 Q5 ▪ 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 4

9708/22 N25 ▪ Q4 ▪ 20 marks

4 (a) Explain three components of the current account of the balance of payments and consider the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account. [8] (b) Assess the extent to which the use of supply-side policy would be the best way to reduce a deficit on the current account of the balance of payments. [12] OR

(a) (a) Explain three components of the current account of the balance of payments and consider the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account. [8] **[8]**

(b) (b) Assess the extent to which the use of supply-side policy would be the best way to reduce a deficit on the current account of the balance of payments. [12] **[12]**

Solution 4

(a) Mark scheme

- Explain three components of the current account of the balance of
- payments and consider the extent to which a depreciation in the
- exchange rate will always lead to a surplus on the current account.
- Follow the point-based marking guidance at the top of this mark scheme and
- award:
- up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2
- Analysis
- up to 2 marks for AO3 Evaluation.

Solution 4

- AO1 Knowledge and Understanding (max 3 marks)
- Knowledge and basic understanding of 3 components of the current account.
- The component must be identified by name together with a brief explanation by
- name i.e., 3 from
- ▪
- Trade in goods – the value of physical goods e.g., computers
- ▪
- Trade in services – the value of invisible goods e.g., insurance/tourism
- ▪
- Primary income – e.g., the dividend income earned from overseas

Solution 4

- investments
- ▪
- Secondary income – e.g., the income from overseas aid or worker
- remittances sent back to their own country. (3×1)
- AO2 Analysis (max 3 marks)
- A depreciation in the exchange rate will make exports appear cheaper and/or
- imports more expensive (1), this should increase export revenue and/or reduce
- import expenditure and lead to a surplus (1). Also other components of the
- current account may influence whether the current account goes into surplus or
- not (1). N.B. if the impact of other sections of the current account are not

Solution 4

- considered, maximum mark of 2.
- AO3 Evaluation (max 2 marks)
- Of an overall assessment of the extent to which a depreciation in the exchange
- rate will always lead to a surplus on the current account – for example,
- reference may be made to the relevance of PED values and also the value of
- other sections of the current account. Reserve 1 mark for a valid conclusion.
- 8
- AO1 Knowledge and understanding
- 3
- AO2 Analysis

Solution 4

- 3
- AO3 Evaluation
- 2
- 9708/22
- October/November
- 2025

Solution 4

(b) Mark scheme

- Assess the extent to which the use of supply-side policy would be the
- best way to reduce a deficit on the current account of the balance of
- payments.
- Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table
- B: AO3 Evaluation to mark candidate responses to this question.
- AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
- Indicative content
- Responses may include:

Solution 4

- AO1 Knowledge and understanding and AO2 Analysis
- An analysis of the advantages and disadvantages of using supply-side policy
- to reduce a deficit e.g.,
- ▪
- It is likely to be more effective in the long run and less costly to the
- economy.
- ▪
- it may reduce the possibility of retaliation by other countries BUT
- ▪
- it will have an opportunity cost and is not likely to be a short-term solution.

Solution 4

- Examples of supply side policy may include:
- ▪
- Investment in education and training to improve worker productivity and
- entrepreneurship which may reduce costs and lead to increased
- competitiveness of domestic goods, therefore increasing exports and
- reducing imports
- ▪
- Export subsidies and subsidies for domestic industries competing against
- imported goods
- ▪

Solution 4

- Policies to reduce red tape and bureaucracy to encourage competition to
- reduce costs
- ▪
- Investment in infrastructure to reduce costs of production
- However:
- ▪
- They take time and can be costly, which is unlikely to reduce a deficit in
- the short term
- ▪
- Other policies such as contractionary fiscal and monetary policy may

Solution 4

- work more quickly together with protectionist policies e.g., tariffs and
- currency depreciation. These policies should be analysed in terms of their
- strengths and weaknesses in reducing a current account deficit.
- Guidance: Answers that do not refer to the policies in terms of reducing a
- current account deficit cannot gain more than a mid-Level 2 mark.
- Level 1 responses will be assertive and lacking in explanations / mainly
- descriptive and/or or mainly lacking in relevance to the question.
- Level 2 responses may contain some inaccuracies and may be one sided.
- Analysis will be explained at least in part and will be largely relevant to the
- question.

Solution 4

- Level 3 responses will consider alternative policies / concepts etc. and will
- be balanced. Explanations of points raised will be offered and will be accurate
- and relevant to the question.
- 12
- 9708/22
- October/November
- 2025
- AO3 Evaluation
- That clearly analyses both sides of the question and comes to a valid
- conclusion.

Solution 4

- Accept all valid responses.
- A one-sided response cannot gain any marks for evaluation.
- AO1 Knowledge and understanding and AO2 Analysis
- 8
- AO3 Evaluation
- 4
- 9708/22
- October/November
- 2025
- OR

Question 5

9708/23 N25 ▪ Q5 ▪ 20 marks

5 (a) Explain two reasons why an economy may have a deficit on the current account of its balance of payments and consider whether its government is likely to be concerned about this deficit.
[8]
(b) Assess whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. [12]

(a) (a) Explain two reasons why an economy may have a deficit on the current account of its balance of payments and consider whether its government is likely to be concerned about this deficit. [8] **[8]**

(b) (b) Assess whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. [12]**[12]**

Solution 5

(a) Mark scheme

- Explain two reasons why an economy may have a deficit on the current
- account of its balance of payments and consider whether its
- government is likely to be concerned about this deficit.
- Follow the point-based marking guidance at the top of this mark scheme and
- award:
- up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2
- Analysis up to 2 marks for AO3 Evaluation.
- AO1 Knowledge and Understanding (max 3 marks)

Solution 5

- The current account records trade in goods and services, primary income, and
- secondary income between countries/A current account deficit occurs when the
- value of imports of goods or services, primary and secondary income exceeds
- the value of exports (1). Two marks for an accurate explanation of two
- reasons–e.g., low international competitiveness, (1) - if the country experiences
- strong domestic growth. [1]
- AO2 Analysis (max 3 marks)
- An explanation of why the government is likely to be concerned at about this
- deficit. For example, a current account deficit could lead to downward pressure
- on the exchange rate, making imports more expensive and potentially causing

Solution 5

- inflation (1). Persistent deficits may reduce confidence among foreign investors,
- limiting inflows of capital needed to finance growth (1). However, the
- government may not be concerned if the deficit is temporary or caused by for
- example, high investment imports that may boost future productive capacity [1]
- A max of 2 marks for either perspective.
- AO3 Evaluation (max 2 marks)
- An assessment of the extent that the government is likely to be concerned. For
- example, the level of concern will depend on the size, duration and cause of the
- deficit and how it is financed (1).
- 8

Solution 5

- AO1 Knowledge and understanding
- 3
- AO2 Analysis
- 3
- AO3 Evaluation
- 2
- 9708/23
- October/November
- 2025

Solution 5

(b) Mark scheme

- Assess whether it is better to use protectionist policies or
- contractionary policies to reduce a deficit on the current account of the
- balance of payments.
- Use Table A: AO1 Knowledge and understanding and AO2 Analysis and
- Table B: AO3 Evaluation to mark candidate responses to this question.
- AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
- Indicative content
- Responses may include:

Solution 5

- AO1 Knowledge and understanding and AO2 Analysis
- Possible reasons why protectionist policies are the best way to reduce a
- deficit on the current account of the balance of payments.
- ▪
- They may reduce the value of imports, which helps to lower the current
- account deficit by limiting the outflow of money from the economy.
- ▪
- They may protect domestic industries from foreign competition, allowing
- local firms to grow and potentially increase exports in the future.
- However

Solution 5

- ▪
- They can raise prices for consumers, as tariffs or quotas make imported
- goods more expensive, reducing consumer welfare.
- ▪
- Other countries may retaliate with their own trade barriers, which could
- reduce exports and harm the economy further.
- Possible reasons why contractionary policies are the best way to reduce
- a deficit on the current account of the balance of payments.
- ▪
- They can reduce domestic demand, which lowers imports and helps

Solution 5

- decrease the current account deficit.
- ▪
- They may help control inflation by reducing spending in the economy,
- which can stabilise the exchange rate and make exports more
- competitive.
- However
- ▪
- They can slow economic growth and increase unemployment, as lower
- demand reduces output in domestic industries.
- ▪

Solution 5

- They may reduce consumer and business confidence, which can further
- decrease spending and investment, worsening the economic slowdown.
- Guidance: The assessment of both perspectives must be in the context of
- the reducing a current account deficit and not a general explanation of
- both policies.
- Level 1 responses will be assertive and lacking in explanations / mainly
- descriptive and/or or mainly lacking in relevance to the question.
- 12
- 9708/23
- October/November

Solution 5

- 2025
- Level 2 responses may contain some inaccuracies and may be one sided.
- Analysis will be explained at least in part and will be largely relevant to the
- question.
- Level 3 responses will consider alternative policies / concepts etc. and will
- be balanced. Explanations of points raised will be offered and will be accurate
- and relevant to the question.
- AO3 Evaluation
- Requires an assessment of whether it is better to use protectionist policies or
- contractionary policies to reduce a deficit on the current account of the

Solution 5

- balance of payments. For example–Protectionist policies may work more
- quickly to reduce imports and protect domestic industries, but they risk
- retaliation from other countries and higher prices for consumers. Alternatively,
- contractionary policies may take longer to reduce the deficit but may help
- control inflation, though they may slow economic growth and increase
- unemployment.
- Accept all valid responses.
- A one-sided response cannot gain any marks for evaluation.
- Accept all valid responses.
- AO1 Knowledge and understanding and AO2 Analysis

Solution 5

- 8
- AO3 Evaluation
- 4