Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

- a policy that switches spending from imports to domestically produced goods, mainly by lowering the exchange rate (2 for a clear definition; 1 for a partial idea)

2.2

- that the sum of the price elasticities of demand for exports and imports must be greater than one ($PED_X + PED_M > 1$) (2 for the condition; 1 for a partial idea)

2.3

- the current account first gets worse (1)

3.1 B

- The Marshall–Lerner condition requires the elasticities to sum to more than 1

3.2

- *[6]* AO1 1 + AO3 up to 5 — straight after a depreciation, import prices rise at once but trade volumes are slow to change (contracts, habits)
- so the import bill rises and the current account first **worsens**; over time buyers switch to cheaper exports and away from dearer imports
- volumes adjust
- the current account improves, tracing a J

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** a depreciation makes exports cheaper and imports dearer, improving the current account if Marshall–Lerner holds. **Against:** the J-curve means a short-run worsening, it can cause cost-push inflation (dearer imports), and it may invite retaliation. **Alternatives:** expenditure-reducing or supply-side policies. Judgement: a depreciation can work where demand is elastic, but only after a lag and at the cost of inflation — the best choice depends on elasticities and the cause of the deficit