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

- trade in goods; trade in services; primary income; secondary income (2 for all four; 1 for two or three)

2.2

- when the money leaving a country for imports and other current-account outflows exceeds the money entering from exports and inflows (2 for a clear definition; 1 for a partial idea)

2.3

- any one of: a strong currency making exports dear; high domestic demand pulling in imports; low competitiveness; high inflation (1)

3.1 B

- Trade in services is part of the current account

3.2

- *[6]* For **each** of two reasons: AO1 1 + AO3 up to 2 — e.g. *strong currency*: a high exchange rate makes exports dear and imports cheap
- more imports, fewer exports
- deficit. *High domestic demand*: rising incomes raise spending on imports
- the import bill grows
- deficit. Maximum 3 each

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **A problem if:** it is large and persistent, financed by rising debt, and signals poor competitiveness. **Not always:** a deficit caused by importing capital goods can raise future capacity, and a country with strong investment inflows can sustain it. Judgement: a small, temporary deficit from investment is not a worry, but a large, persistent one financed by borrowing is — it depends on the cause and how it is financed