Exercise walk-through

8.1
Development strategies: introductory reasoning

Pearson Edexcel · International A-Level · Economics

Macroeconomic policies and the state

- Governments use **fiscal policy**, **monetary policy**, **exchange-rate policy**, **supply-side policies** and **direct controls** (price or wage controls, limits on bank lending) to reduce deficits and debt, control inflation, respond to external shocks and cut poverty and inequality.
- **The 2008 global financial crisis.** Banks failed, credit froze and world output fell in 2009.
- Governments responded with demand-side policies: the US, UK and others rescued banks; central banks cut interest rates close to zero and began **quantitative easing** ; China launched its ¥4 trillion stimulus.
- During the COVID-19 lockdowns of 2020 the UK went further: its furlough scheme paid 80% of the wages of workers who could not work, up to £2,500 a month.

Sources for this lesson

- **World Bank**, *June 2025 Update to the Poverty and Inequality Platform* (the 3.00-dollar line at 2021 PPP), and Poverty and Inequality Platform data.
- State Council Information Office, *Poverty Alleviation: China's Experience and Contribution* (April 2021); National Bureau of Statistics of China, Gini coefficients and migrant-worker monitoring report.
- UNDP, *Human Development Report 2023/2024*.

Sources for this lesson (2)

- S. Kuznets, "Economic Growth and **Income Inequality**", *American Economic Review* 45 (1955); W. A. Lewis, "**Economic Development** with Unlimited Supplies of Labour" (1954).
- OECD, statement on the two-pillar solution to the tax challenges of the digitalisation of the economy (October 2021).
- IMF, World Economic Outlook and Fiscal Monitor databases (government spending and debt).
- Pearson Edexcel International A Level Economics specification (WEC14), Issue 2, sections 4.3.4–4.3.6.

Exercises 2.1·2.2

2.1 Distinguish absolute from relative poverty, with one measure of each. [2]

absolute poverty relative poverty

2.2 Wealth quintile shares are 5, 10, 15, 20 and 50 percent. State the Lorenz curve's cumulative points and compute the Gini coefficient. [4]

5, 10, 15, 20, 50 percent

Exercises 2.1·2.2

2.1 Distinguish absolute from relative poverty, with one measure of each. [2]

absolute poverty | relative poverty

2.1 Absolute poverty: inability to meet basic needs. An international measure is the World Bank's 3.00 international dollars per person per day line at 2021 PPP, introduced in June 2025. Relative poverty: deprivation relative to society, measured using a stated share of median household income. State the measure and its basis rather than treating a historical dollar line as current.

2.2 Wealth quintile shares are 5, 10, 15, 20 and 50 percent. State the Lorenz curve's cumulative points and compute the Gini coefficient. [4]

5, 10, 15, 20, 50 percent

2.2 Cumulative points: (0,0), (20,5), (40,15), (60,30), (80,50), (100,100). Area under the Lorenz $= 50+200+450+800+1500 = 3000$ of the 10000 square, so Gini $= 1-2\times\frac{3000}{10000} = 0.40$.

Exercises 2.3·2.4

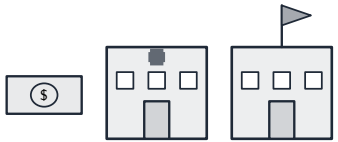
2.3 Taxes of 1k, 8k and 30k are paid on incomes of 10k, 40k and 100k. Compute the average rates and classify the system. [3]

income 10k: tax 1k

income 40k: tax 8k

income 100k: tax 30k

2.4 State the three components of the HDI and how each is measured. [3]



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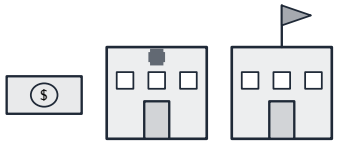
income 10k: tax 1k

income 40k: tax 8k

income 100k: tax 30k

2.3 Average rates: $\frac{1}{10} = 10\%$, $\frac{8}{40} = 20\%$, $\frac{30}{100} = 30\%$ – rising with income, so PROGRESSIVE.

2.4 State the three components of the HDI and how each is measured. [3]



2.4 Education (mean and expected years of schooling); health (life expectancy at birth); income (GNI per capita at PPP, log-scaled). Each is an index from 0 to 1, combined by geometric mean.

Exercises 2.5·2.6

2.5 Distinguish a fiscal deficit from the national debt. [2]

fiscal deficit national debt

2.6 Distinguish structural from cyclical deficits. [2]

structural deficit cyclical deficit

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fiscal deficit national debt

2.5 A fiscal deficit is ONE YEAR's shortfall of spending over revenue (a flow); the national debt is the accumulated stock of past deficits.

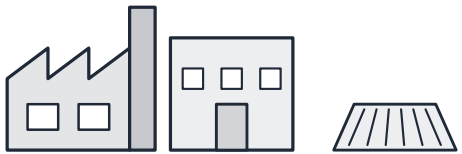
2.6 Distinguish structural from cyclical deficits. [2]

structural deficit cyclical deficit

2.6 A structural deficit persists even at full employment (a policy choice); a cyclical deficit exists only because output is below trend and vanishes as the cycle turns.

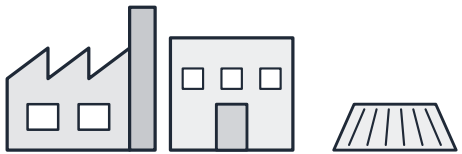
Exercise 2.7

2.7 Name any four of the eleven economic constraints on development. [2]



Exercise 2.7

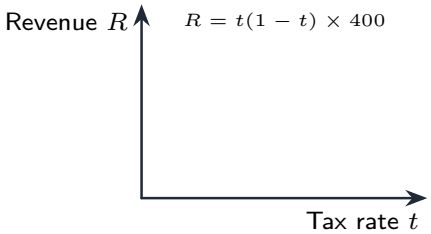
2.7 Name any four of the eleven economic constraints on development. [2]



2.7 Any four of: commodity-price volatility; primary product dependency; savings gap; foreign-currency gap; capital flight; demographic factors; debt; access to credit; infrastructure; education and skills (eleven listed in the handout incl. their sub-variants).

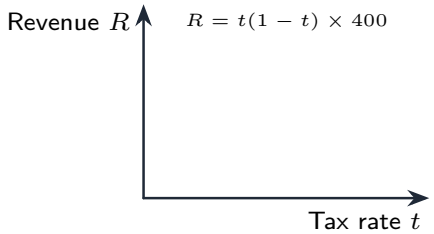
Exercise 3.1

3.1 *(Original.)* On the Laffer model $R = t(1-t) \times 400$: calculate revenue at $t = 20\%$ and $t = 60\%$, find the revenue-maximising rate, and explain what the two equal answers imply for tax policy. [4]



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3.1 At $t = 0.2$: $R = 0.2 \times 0.8 \times 400 = 64$. At $t = 0.6$: $R = 0.6 \times 0.4 \times 400 = 96$. The revenue maximum sits at the symmetric point $t = 50\%$, where $R = 0.25 \times 400 = 100$. Rates equally spaced either side of 50% raise equal revenue ($t = 0.4$ and $t = 0.6$ both give 96): beyond 50% the tax base shrinks faster than the rate rises, so very high rates collect no more than moderate ones.

Exercise 3.2

3.2 *(Original.)* Explain the savings gap (Harrod–Domar) and primary product dependency (Prebisch–Singer) as constraints on development, with one policy response to each. [4]

savings gap

primary product dependency

Exercise 3.2

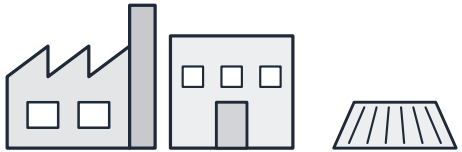
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savings gap primary product dependency

3.2 Savings gap (Harrod–Domar): growth $g = s/v$ (savings ratio over the capital–output ratio); poor economies save too little to fund the investment growth needs, so the gap persists – policy: aid or FDI to fill it. Primary product dependency (Prebisch–Singer): primary prices trend downward against manufactures over time, so export earnings buy less and less – policy: diversify into manufacturing (industrialisation, Lewis model) or commodity-processing industries.

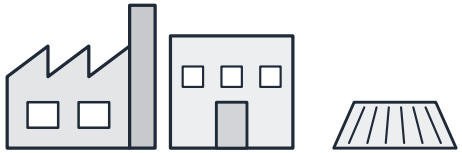
Exercise 3.3

3.3 *(Original.)* Compare one market-orientated and one interventionist development strategy, giving one strength and one weakness of each. [4]



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3.3 Market-orientated (e.g. trade liberalisation): strength – exports grow and resources follow comparative advantage; weakness – infant industries may be destroyed before they mature, worsening the trade balance. Interventionist (e.g. human-capital development): strength – attacks the skills constraint at the root of low productivity; weakness – slow, costly and vulnerable to government failure. (Any valid pairing.)

Local review guidance: the Gini shows the area computation before the final figure; both revenue values and the 50% peak computed; (R1 3.3) strengths and weaknesses must be tied to the NAMED strategy. This is authored classroom guidance.