Past-paper walk-through

Specialisation and free trade ▪ 6.1

eXercise

Questions in this set

- 0455/13 N25 Q28 ▪ 1 mark
- 0455/22 M25 Q5 ▪ 20 marks
- 0455/12 N24 Q27 ▪ 1 mark
- 0455/11 J24 Q27 ▪ 1 mark

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 28

0455/13 N25 ▪ Q28 ▪ 1 mark

28 What is **not** a likely benefit of free trade?

A consumers should experience lower prices

B consumers should have a greater choice of goods

C firms could be protected from foreign competition

D firms could take advantage of economies of scale

Solution 28

Answer: **C**

Why

- Free trade brings lower prices, greater choice, larger markets and economies of scale.
- Those are all genuine benefits.
- What it does *not* protect is domestic industry – infant and declining industries can be damaged.

Question 5

0455/22 M25 ▪ Q5 ▪ 20 marks

5 Finland is a high-income country that usually has a higher value of exports than imports. It has a strong commercial banking sector which has increased its lending in recent years. The country has an ageing population, with more than a quarter of its population aged over 65. In 2022, Finland's Government had a budget deficit with government spending exceeding tax revenue.

(a) Identify a difference between an export and an import. [2]

(b) Explain why commercial banks may increase their lending. [4]

(c) Analyse how an ageing population may affect a country's economic growth rate. [6]

(d) Discuss whether supply-side policy measures will reduce a government's budget deficit. [8]

(a) (a) Identify a difference between an export and an import. [2] **[2]**

(b) (b) Explain why commercial banks may increase their lending. [4] **[4]**

Question 5

(c) (c) Analyse how an ageing population may affect a country's economic growth rate. [6] **[6]**

(d) (d) Discuss whether supply-side policy measures will reduce a government's budget deficit. [8] **[8]**

Solution 5

(a) Mark scheme

- Identify a difference between an export and an import.
- Export is a good or service that leaves the country / sold to another
- country (1), import is a good or service that enters the country / bought
- from another country (1).
- Export is a credit item in the current account of the balance of payments
- (1) imports are a debit item (1).
- Foreigners spend on exports (1) the home country's population spend on
- imports (1).

Solution 5

- Exports lead to money coming into an economy (1), while imports lead to
- money going out of an economy (1).
- 2

Solution 5

(b) Mark scheme

- Explain why commercial banks may increase their lending.
- Logical explanation which might include:
- To increase profits / revenue (1) earn more interest / high interest rates
- (1) as most commercial banks are in the private sector (1) main aim is
- likely to be profit maximisation (1).
- Increase in demand for loans (1) due to low interest rates (1) increase
- optimism about the future (1) higher demand for bank loans may increase
- profits (1).

Solution 5

- Increased confidence loans will be repaid (1) due to e.g. rise in incomes
- (1).
- Increase in bank deposits (1) more money to lend (1).
- Take advantage of economies of scale (1) lower average costs (1).
- Central bank / government encouragement / (expansionary) monetary
- policy / instructions (1) to increase total demand / increase consumer
- spending / increase investment (1).
- To promote social welfare (1) by reducing poverty (1).
- To keep up with competitors (1) attract more customers / gain more
- market share (1).

Solution 5

- 4 Reward but do not expect reference to reduced
- required liquidity ratio and quantitative easing.
- One mark in total for either high or low interest
- rates but explanation marks can be given.
- 0455/22
- February/March 2025
- Guidance

Solution 5

(c) Mark scheme

- Analyse how an ageing population may affect a country's economic
- growth rate.
- Coherent analysis which might include:
- ▪
- May increase economic growth / GDP / output (1) as an ageing
- population may have experience (1) more productive / more efficient
- / more skilled (1).
- ▪

Solution 5

- May have more spending power (1) increase total demand (1).
- ▪
- May train young workers to be more reliable / older workers may be
- more reliable (1).
- ▪
- May reduce economic growth / GDP / output (1) as may have out-of-
- date skills / not able to operate new technology (1) lack mobility (1).
- ▪
- More retired people / more economically inactive people (1) may
- mean a decrease in size of the labour force (1) increase dependency

Solution 5

- ratio / more dependents (1).
- ▪
- May save more (1) reducing total demand (1).
- ▪
- May be less healthy workers (1) more days absent from work due to
- sickness (1).
- ▪
- The government may have to spend more on state benefits /
- pensions / healthcare (1) lower tax revenue (1) reducing spending on
- items that could increase economic growth e.g. education,

Solution 5

- infrastructure / opportunity cost (1).
- 6 1 mark for either increase and / or decrease
- economic growth.
- Similarly, 1 mark for either more productive and
- / or less productive labour force, more or less
- saving etc.
- Not crediting comments on the change in the
- pattern of consumer spending e.g. spending
- less on toys and more on teeth implants.
- 0455/22

Solution 5

- February/March 2025
- Guidance

Solution 5

(d) Mark scheme

- Discuss whether supply-side policy measures will reduce a
- government's budget deficit.
- In assessing each answer, use the table opposite.
- Why they might:
- ▪
- education and training may raise productivity
- ▪
- increase economic growth and employment

Solution 5

- ▪
- raise direct and indirect tax revenue
- ▪
- privatisation may reduce government spending to support state-
- owned firms
- ▪
- revenue will be raised from the sale of privatised firms
- ▪
- privatised firms may earn high profits which may raise tax revenue
- ▪

Solution 5

- subsidies may encourage firms to expand and earn higher profits
- ▪
- unemployment benefit may be cut to increase incentive to work.
- ▪
- budget deficit may be increased in short term but reduced in the long
- term.
- Why they might not:
- ▪
- education and training will increase government spending and may
- not be successful

Solution 5

- ▪
- lower tax rates may reduce tax revenue
- ▪
- regulation will involve costs to enforce
- ▪
- spending on infrastructure projects may involve high government
- spending.
- ▪
- sale of profitable government-owned firms to the private sector may
- reduce government revenue from profits

Solution 5

- 8 Only accept a lower interest rate if linked to
- encouraging a rise in investment.
- Answers that show an awareness of supply-
- side policy measures but which confuse a
- budget deficit with a bop deficit will not be
- analysing the question, so will be in Level 1.
- Level
- Description
- 3
- A reasoned discussion

Solution 5

- which accurately
- examines both sides of the
- economic argument,
- making use of economic
- information and clear and
- logical analysis to evaluate
- economic issues and
- situations. One side of the
- argument may have more
- depth than the other, but

Solution 5

- overall both sided of the
- argument are considered
- and developed. There is
- thoughtful evaluation of
- economic concepts,
- terminology, information
- and/or data appropriate to
- the question. The
- discussion may also point
- out the possible

Solution 5

- uncertainties of alternative
- decisions and outcomes.
- 6–8
- 0455/22
- February/March 2025
- Guidance
- Level
- Description
- 2
- A reasoned discussion

Solution 5

- which makes use of
- economic information and
- clear analysis to evaluate
- economic issues and
- situations. The answer
- may lack some depth and
- development may be one-
- sided. There is relevant
- use of economic concepts,
- terminology, information

Solution 5

- and data appropriate to
- the question.
- 3–5
- 1
- There is a simple attempt
- at using economic
- definitions and
- terminology. Some
- reference may be made to
- economic theory, with

Solution 5

- occasional understanding.
- 1–2
- 0
- A mark of zero should be
- awarded for no creditable
- content.
- 0

Question 27

0455/12 N24 ▪ Q27 ▪ 1 mark

27 What might encourage international specialisation between countries?

A free trade

B inefficiencies in production

C labour immobility

D tariffs

Solution 27

Answer: **A**

Why

- International specialisation is encouraged when goods can move freely between countries.
- Free trade allows each country to concentrate on what it does relatively best.
- Tariffs and immobility are barriers – they discourage specialisation.

Question 27

0455/11 J24 ▪ Q27 ▪ 1 mark

27 What is an advantage to a firm of specialisation at a national level?

A dependency on supplies from other countries

B greater competition from overseas firms

C greater depletion of the country's natural resources

D lower average costs due to economies of scale

Solution 27

Answer: **D**

Why

- Specialisation at national level lets a country concentrate on what it does relatively best.
- That raises output, lowers costs and allows economies of scale.
- The *disadvantages* are dependency on other countries and vulnerability to demand changes.