Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

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

2.1

- 4000×1.25
- = \$**5000**

2.2

- a **rise** in the value of a currency
- so one unit buys **more** of other currencies

2.3

- tourists must **buy** the country's currency to spend there (1)
- so **demand** for the currency rises (1)
- the exchange rate **rises** (appreciates) (1)

3.1

C

3.2

(a)

- before $50\,000 \times 7.0 =$ **350 000** yuan
- after $50\,000 \times 6.3 =$ **315 000** yuan

(b) two causes, each explained (K + App each):

- lower US **interest rates**: foreign savers sell dollars
- higher US **inflation**: US goods less competitive, so demand for dollars falls
- more US **imports** or US firms investing abroad: more dollars supplied
- **speculation** that the dollar will fall

(c) a developed chain, for example:

- the tractor is cheaper in China: 315 000 against 350 000 yuan (App)
- Chinese buyers buy **more** US tractors (An)
- US exporters' sales and **profits** rise (An)
- they increase output and hire more workers (An)
- but imported parts and fuel cost more in dollars, raising their **costs** (An)

(d) benefits: (An)

- exports rise and imports fall: more output and **jobs**; the **current account** improves

costs: (An)

- imported fuel and raw materials become dearer: **cost-push inflation**; consumers' real incomes fall
- the gain depends on PED for exports; if demand is inelastic, export revenue may not rise much

judgement: (Ev) for example, a depreciation helps a country with spare capacity and price-elastic exports, but for the US, which imports much fuel, inflation may cancel much of the gain.

Level 3 (6–8): both sides analysed and a justified judgement. Level 2 (3–5): one side analysed or both explained. Level 1 (1–2): simple points.