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

- (i) trade in **goods**; (ii) trade in **services**; (iii) **primary** income; (iv) **secondary** income (all four B2; two or three B1)

2.2

- $80 - 95 = -\$15$ bn
- a **deficit**

2.3

- with higher incomes, people buy more goods, including more **imports** (K)
- imports rise faster than exports, so more money flows out than in (An)

3.1

D

3.2

(a)

- $-45 + 18 - 6 - 3$
- $= -\$\mathbf{36}$ **bn**, a deficit

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

- **high costs**: domestic goods are dearer than foreign ones, so exports are low and imports high
- a **high exchange rate**: exports dear abroad, imports cheap at home
- the goods deficit (−45) is far larger than the services surplus (+18)

(c) a developed chain, for example:

- more money leaves than enters, so demand for goods made at home is lower (K)
- export and import-competing firms lose sales and cut **jobs** (An)
- the deficit must be paid for by **borrowing** from abroad or selling assets (An)
- more supply of the currency pushes the **exchange rate** down (An)
- a persistent deficit can make lenders lose confidence, raising interest costs (An)

(d) supply-side: (An)

- training, investment and lower costs make firms more **competitive**; fixes the high-cost cause; no inflation

others: (An)

- supply-side takes **years**; the deficit is $36 bn now
- contractionary policy cuts imports quickly but costs jobs; a lower exchange rate helps exports but raises inflation; tariffs risk retaliation

judgement: (Ev) for example, supply-side policy is the best long-term answer because high costs are a main cause, but a fall in the high exchange rate may be needed to reduce the deficit sooner.

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.