Multiple Choice Answers

Q19: B

1(a)	**Calculate the total financial sector contribution (in $) to Switzerland's GDP.** $72.7 billion
1(b)	**Identify two microeconomic policy measures.** maximum prices (1) subsidies (1)
1(c)	**Explain one reason why overdependence on foreign markets is a disadvantage to the Swiss economy.** Makes it more exposed to external shocks (1) as anything that happens in other countries could also affect the Swiss economy, for example reduced exports / increased import prices / potential shortages (1).
1(d)	**Draw a demand and supply diagram to show how a subsidy to solar energy producers would affect the market for solar energy.** D&S diagram: Axes correctly labelled – price and quantity or p and q (1). Original demand and supply curves correctly labelled (1). New supply curve shifted to the right (1). Equilibriums – shown by lines P_1 and Q_1 and P_2 and Q_2 or equilibrium points marked as E_1 and E_2 (1).

1(e)	**Explain two reasons why Switzerland had a current account surplus.** Logical explanation which might include: • low inflation (1) price of Swiss exports relatively lower, leading to increased exports / price of domestically produced goods relatively lower leading to decreased imports (1) • high-quality products (1) demand for Swiss exports higher, leading to increased exports / demand for domestically produced goods higher, leading to decreased imports (1) • strong currency (1) has kept cost of imported raw materials in Switzerland low, reducing costs of production (1).

1(f)	**Analyse the relationship between the global GDP growth rate and the change in the value of the Swiss Franc.** Coherent analysis which might include the following. Expected relationship: generally negative / inverse relationship (1) as the global growth rate falls, the value of the Swiss Franc rises / as the global growth rate rises, the value of the Swiss Franc falls (1). Supporting evidence: fall in global growth rate led to rise in the value of Swiss Franc from 2018–2019 or 2019–2020 (1), rise in global growth rate led to fall in the value of Swiss Franc from 2020–2021 (1). Analysis: Swiss Franc's status as a "safe haven" currency (1) when investors are unsure about the economy, they usually keep their money in Swiss francs (1). Exception: 2021–2022 (1) where global growth was falling but Swiss Franc was stable / rising only slightly (1). Analysis for exception: Other reasons could affect the value of Swiss Franc (1), for example Switzerland was also affected by the Covid–19 pandemic (1).

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1(g)	**Discuss whether or not an increase in interest rates will harm the Swiss economy.** Award up to 4 marks for logical reasons why it might, which may include: • cost of borrowing increases for firms (1) increasing total costs (1) reducing profits (1) • firms may invest less (1) may have to shut down (1) • unemployment rises (1) decreasing incomes (1)decreasing total demand (1) decreasing economic growth (1) • consumers may borrow less (1) save more (1) less spending (1) demand for goods and services decreases (1) as returns from savings increase (1) decreasing revenues of firms (1) decreasing profits (1) • Government borrowing costs more (1) leaving less funding available for e.g. education / health (1). Award up to 4 marks for logical reasons why it might not, which may include: • hot money inflows strengthen the Swiss Franc (1) reduce cost of e.g. imported raw materials (1) reducing inflation (1) increasing export competitiveness (1) • reduced demand-pull inflationary pressures (1) as cost of borrowing increases (1) decreasing demand for loans (1) increasing saving / decreasing consumption (1) investment (1) decreasing total demand (1) firms may reduce prices (1) increasing affordability of goods and services for consumers (1). • costs of production may decrease (1) reducing cost-push inflationary pressures (1).

1(h)	**Discuss whether or not a bank merger will benefit Swiss consumers and workers.** Award up to 4 marks for logical reasons why it might, which may include: • to avoid one of them collapsing (1) reducing confidence in the whole banking system (1) greater job security (1) less chance of bank customers losing their savings (1) • economies of scale (1) as output increases (average) costs fall (1) prices may decrease (1) goods and services more affordable for consumers (1) • the merged firm may make higher profits (1) able to pay higher wages to workers who remain employed (1) • workers in merged firm can share skills (1) improving efficiency (1). Award up to 4 marks for logical reasons why it might not, which may include: • monopoly power may increase (1) restricting supply (1) decreasing consumer choice (1) increasing prices (1) decreasing quality (1) • workers may lose their jobs (1) as the bank might shut down some operations / reduce duplication (1) increasing unemployment (1) • the merged firm may be too large / experience diseconomies of scale (1) example (1) reducing efficiency (1).

Multiple Choice Answers

Q17: A