

*Edexcel A-level Economics exam practice answers*

17: International economics

- 1 (a) 24.3% [2]
(b) The price of Australian wine imported to the USA would fall because it will now be cheaper to buy imports since fewer dollars are required to buy each Australian dollar. [2]
(c) **Correct answer: A** An increase in inward investment into the USA
- 2 (a) -£58.6 billion [2]

(b) Primary income refers to mainly to investment income (interest, profits and dividends), and to employees wages (arises when the employer and employee are resident in different countries) [2]

(c) **Correct answer: D** An increase in the UK's inflation rate [1]
- 3
(a) **KN:** 2 marks; **AP:** 2 marks; **AN:** 1 mark
KN and AN:
• Trade growing at a faster rate than GDP; showing the increased integration between economies
• Increase in FDI: illustrating the increased importance of global companies
AP:
• Data reference, e.g. reference to growth in world trade by 50 percentage points between 2000 and 2019. [5]



- (b) **KN:** 2 marks; **AP:** 2 marks; **AN:** 2 marks **EV:** 2 marks
KN and AN:
- Higher real incomes leading to higher living standards
 - Decrease in people living in absolute poverty
- AP:**
- References to extract or to your own examples e.g. people living in absolute poverty fell by nearly 36% since 1990; GDP growth very high in some developing countries such as India.
- Evaluation:**
- Developing countries might face a sharp slowdown in economic growth if there is a recession in the developed economies
 - They might be exploited by large transnational corporations who drive down the prices they pay to suppliers in developing countries.
- [8]
- (c) **KAA:** 8 marks; **Evaluation:** 4 marks
KAA:
- Less risks e.g. reduced danger of contagion
 - Reduced dependence on other countries for essential goods e.g. drugs, food
 - Greater certainty of supplies of essential components – shorter supply chains
- EV:**
- Countries dependent on tourism and higher education will suffer large falls in export earnings and GDP than other countries
 - Goods may be more expensive if costs of production are higher in the domestic economy than imported goods.
- [12]
- (d) **KAA:** 16 marks; **Evaluation:** 9 marks
KAA:
Micro effects
- Impact on prices of goods affected by protectionist measures – loss of consumer surplus
 - Impact on output and employment in particular industries, e.g. loss of economies of scale in steel
 - Impact on particular towns and cities dependent on the industries affected by the tariffs
- Macro effects
- Distortion of comparative advantage leading to slower growth, falling employment
 - Welfare losses associated with protectionism — could be illustrated with a tariff diagram



- Higher global inflation rates
- Impact on the balance of trade of USA and China

Evaluation: 4 marks

- Protectionism will have differential impacts on USA and China depending on how much trade there is between USA and China
- Protectionism may bring short-term benefits to USA/China but if the trade war intensifies then living standards are likely to fall in the long run.
- Protectionism may be justified if there is unfair competition e.g. dumping or China accused of keeping its exchange rate artificially low
- Extract suggests that the tariffs may be reduced or eliminated so effects may be short-term only. [25]

(d) **KAA:** 16 marks; **Evaluation:** 9 marks

KAA:

Micro effects:

- Impact on output and employment in particular industries, e.g. loss of economies of scale
- Impact on prices of goods affected by protectionist measures
- Welfare losses associated with protectionism — could be illustrated with a tariff diagram

Macro effects:

- Distortion of comparative advantage, leading to slower growth, falling employment
- Higher global inflation rates
- Less international trade might have a beneficial impact on the environment, e.g. fall in external costs associated with the transport of goods

Evaluation:

- Protectionism will have differential impacts on countries depending on exports and imports as a proportion of GDP
- Protectionism may bring short-term benefits to a country but if all countries increase trade barriers then world living standards are likely to fall in the long run.
- Protectionism by some developing countries may be necessary for them to protect infant industries and so establish a strong manufacturing sector.

(e) **KAA:** 16 marks
Evaluation: 9 marks

KAA:

Micro effects:



- Analysis of impact on firms involved in tourist industry, e.g. hotels, restaurants, bars, including effects on their total revenue, profits, employment, earnings of workers

Macro effects:

- Analysis of impact on the country's balance of payments; unemployment rate; rate of economic growth

Evaluation:

- Impact may only be temporary if terrorist threat declines
- Hotels and restaurants may be able to secure more corporate business to replace tourists
- Impact on the country's economy depends on the significance of tourism to the country's economy and how easy it is for the country to diversify into other industries