Edexcel AS/A-level Year 1 Economics A exam practice answers

9 Economic growth

**1** Correct answer D: the GDP is still rising but very slowly indeed. There is no information about price levels so A is wrong, and they could be rising or falling. [1]

**2** **(a)** In the first half of 2012, China’s level of GDP continued to rise, albeit at a slower rate of 7.5% in the second quarter compared to 8% in the first quarter. This answer would earn 2 theory marks for saying that it rises [1] more slowly [1] and 2 marks for data (use of two figures).] [4]

**(b)** For the 10 mark questions there are 6 marks available for knowledge, application and analysis (KAA). You should make two points and use data or examples to support your points.

* **The growth rate has fallen.** One reason for China experiencing falling growth is falling AD:

– demand from EU for exports has fallen because of recession

– the credit crisis means that firms cannot easily borrow to lend

– investment is reduced as the possibilities of making easy profits is declining

* **The AS has also fallen in China**, or at least it is not rising as quickly as it has been. Factors explaining increases in costs (falling AS) might include:

– increased cost of raw materials

– artificially low exchange rate: the renminbi has been kept cheap which makes imports expensive, and the Chinese firms have to import a large proportion of their raw materials

– increased wage demands

In your answer you must remember that there are 4 marks for evaluation. You can use AS factors as evaluation if you have argued that AD is falling, and vice versa. Or you could argue that some of these factors are more important than others, and prioritise with justification. Another approach to your evaluation might be to say that the fall is not significant, that it is merely a small percentage fall, and not necessarily going to continue. Most countries would be happy with 7%+ growth rates. [10]

(c) There are 14 KAA marks, so make 3 points and include some application in your answer. A diagram is always useful in picking up these marks, and here you could draw an increase in AD and/or an increase in AS, and show the impact on price levels and real output. Remember that if you show an increase in AD there will be an increase in inflation which is *a problem not a benefit* so should be used as evaluation. For application you could refer to the text provided in the exam, which might include a sentence such as ‘Annual economic growth has averaged 10% a year and 440m Chinese have lifted themselves out of poverty — the biggest reduction of poverty in history.’

The benefits of growth might include:

* benefits to individuals (higher incomes, increased employment)
* benefits to firms (higher profits)
* benefits to governments (higher tax revenue, lower expenditure on job seekers’ allowance)
* social benefits

For evaluation (6 marks) you could offer a critique of the points you have made, or suggest costs of growth, such as the damage to the environment from increased carbon emissions or the widening of income differentials. You could apply any knowledge that you have, or that might be provided in the text, e.g. on air quality in major towns. A full discussion is on pages 98 to 99 of the book. [10]