Question 5(a)(i)

Candidate A

5ai) Inflation is one factor. If UK's inflation rate is ~~at ean~~ lower than elsewhere, then more ~~mor~~ pounds will be demanded ~~for~~ by people. If inflation is higher in UK, people will go elsewhere & exchange £ for other currencies.

Speculation is another factor. If speculators expect an increase/decrease in the exchange rate it will mean people/speculators will change & demand more pounds to gain profit off it now incase it changes.

Other currencies is another factor. If other economies capital is a concern, ~~they~~ people will exchange their currency &

Question 5(a)(i) cont.

Candidate A cont.

choose £ (pounds) ~~the~~ in order to get more
for their money.

Another is increased competition. If the
British pound sterling is seen as best
currency to buy people will demand more
£ as it is worth more than their
currency & therefore increases competition.

Candidate B

sai If there is high inflation, uk products are less price competitive than other countries therefore there is less demand for them, then there is less demand for pound sterling in order to buy them, this decreases the exchange rate. If interest

sai rates are low, there are low returns on investments in uk banks therefore people do not wish to invest in the uk so there is less demand for sterling. If there is speculation that the pound will fall in value, there will be less demand for pounds. The exchange rate is dependent on the demand for uk exports and derived demand for £ to buy them, so demand is dependent on quality of british products. If more people go on

Question 5(a)(i) cont.

Candidate B cont.

holiday abroad they convert their pounds to foreign currency which will decrease the supply of sterling. The exchange rate will decrease if there is low demand for pounds sterling and people are converting their pounds into foreign currency such as UK firms investing overseas, ~~[illegible]~~ ~~[illegible]~~ in overseas banks or in stocks and shares overseas. A decrease in exchange rate is dependent on the supply and demand of british pounds. Also dependent on reserve assets of currency, if foreign countries sell their £ it will weaken.

Candidate C

a)

i) - If there is a low interest rate - this will reduce ~~investors~~ investing in the UK, ~~for example~~ hot money, and will therefore reduce the value of the sterling.

- Any factor in general which decrease the value of the sterling will decrease the exchange rate.
- If the value of exports decrease - the UK will not be high in demand for exporting goods so the value of sterling will decrease.
- A persistant trade deficit - if the government

Question 5(a)(i) cont.

Candidate C cont.

constantly spends a larger amount importing goods than exporting them, this will worsen the exchange rate and decrease the value of the pound.

Question 5(a)(ii)

Candidate A

ii) ~~Increased attraction from tourists as holidays are cheaper will decrease the unemployment rates. This lead to individuals having more disposable income. This leads to a higher standard of living.~~

There may be more investments from Multinationals as it is cheaper to buy raw materials. This will lead to increased revenue for the government through corporation tax. This can to increased subsidies for firms

Increased attraction from tourists will mean more revenue for firms. There will also be less unemployment. This will leave individuals with more disposable income. This will then be spent on firms.

Candidate B

5aii) A weak exchange rate for sterling means that they can get cheaper exports.

Candidate C

5aii Raw materials which a firm may import would become more expensive, increasing costs of production and possibly leading to lower profits for those firms. However, imported goods will also be more expensive to UK consumers, so a firm may become more competitive in domestic markets and thus be able to turn a higher profit. UK firms will also have cheaper exports, so they can be more competitive with foreign firms in foreign markets, increasing their revenue from other countries

Question 5(b)

Candidate A

b) Capital Account
the transfer of fixed assets overseas, eg. buying a holiday home in Spain.
Financial Account
the transfer of monetary accounts overseas, eg.
- FDI, which is the investment from abroad to UK firms.
- portfolio investments, the transfer of the stocks and shares overseas
- Reserve assets, reserved foreign currency held by the Bank of England.

Candidate B

5b The financial account measures increases and decreases in the international ownership of assets. It includes the capital account which shows the transfer of funds associated with buying fixed assets such as land. It also shows direct investment between uk and abroad such as firms setting up in the uk from abroad. It includes portfolio investment which shows investment in stocks and shares. It also contains the

5b balancing item which is net errors and omissions.

Candidate C

b) The capital account shows transfer of ownership of fixed assets. For example, a new holiday home in France.

The financial account records monetary transactions between the UK and other countries.

~~The~~ It shows FDI which is investment in land, premises and equipment by UK firms setting up overseas and vice versa. It also shows portfolio investment which records transactions in stocks and shares. It also shows reserve assets. For example, reserves of foreign currency managed by the Bank of England. It also shows the balancing item which is net errors and omissions. It also shows other investments like bank lending

Question 5(c)

Candidate A

c) one charaltanstic of ~~a~~ developing economies is low economic growth. Another characteristic is low unemployment and lack of government intervension (public sector). There would be a corrupt government who diverts aid. A developing economy would ~~probably~~ have low national income, low GDP per capita. Finally there is ~~probably~~ a lack of infrastructure in ~~the~~ developing economies.

Candidate B

c) Old ~~[illegible]~~ underdeveloped technology that is not up to date.

Little amount of government spending in the public sector

Very low level GDP compared to emerging economies.

Large amount of the population on very low income.

Low standard of living

Question 5(d)

Candidate A

5d Developed countries can provide debt relief such as writing off debts so the money can be spent elsewhere to growthe the economy. They can provide soft loans or grants so that they have access to cheaper funding to use to create growth. They can provide technical aid to help train employees so that they can increase the output in the economy and educational aid so there are higher education levels leading to greater efficiency and output.

5d They could give developing countries free trade agreements in order to boost exports to improve balance of payments by making exports cheaper. They could provide capital aid by giving things such as machinery to use in production to increase their output and efficiency. Food and health aid to keep working population healthy to increase productivity such as vaccinations.

Question 5(d) cont.

d) One way is through capital aid. This is aid ~~for~~ to help with productivity improvements and to increase output. This would help increase economic growth. For example, new equipment or machinery.

Another is educational aid. This will improve the ~~sk~~ skills and knowledge of individuals. This will increase efficiency and therefore economic growth.

Another is health aid. This ensures the population is fit to work. For example, vaccines and medicines. This will increase economic growth by ensuring no work days are lost to ill health.

A final is debt relief. This helps reduce the burden of the ~~existing~~ country's debt. ~~So~~ Therefore, its finance can be used for investment and is not tied up in debt.

Candidate B

Another is technical aid. For example, training. This ensures labour knows how to use equipment. This will increase productivity.

Question 5(e)

Candidate A

e) Emerging economies may produce cheaper raw materials for firms. This leads to a reduced cost of production.

Emerging economies ~~may~~ will have similar firms that will decrease demand for UK firms. This will lead to a loss in revenue for UK firms.

Emerging economies may provide cheaper labour. UK firms can choose to relocate and this will cut their cost of production.

Candidate B

e). Emerging economies have
a growing middle class, which
is a new market for the UK ~~to~~
firms to gain revenue from.
They increase the demand for
worldwide finite resources, thus
increasing the cost factors of production.