Q27 — Define 'disinflation' (Extract F, line 12) [3 marks]

Disinflation is a fall in the rate of inflation, meaning that prices are still rising but at a slower rate than before. It does not mean that prices are falling.

Q28 — UK's mean trade balance with selected non-EU countries in 2016 [4 marks]

Trade balance = exports − imports

Australia: 8.6 − 4.5 = +4.1
Brazil: 3.0 − 2.4 = +0.6
Canada: 8.3 − 7.1 = +1.2
China: 16.8 − 42.3 = −25.5
India: 5.7 − 9.7 = −4.0
Japan: 12.5 − 11.5 = +1.0
Saudi Arabia: 6.2 − 2.2 = +4.0
South Africa: 4.3 − 4.4 = −0.1
Switzerland: 21.0 − 13.7 = +7.3
USA: 99.6 − 66.3 = +33.3

Total trade balance = +21.9
Number of countries = 10

Mean trade balance = 21.9 ÷ 10 = **+£2.19 billion**

Q29 — Two significant points of comparison between UK exports and imports (4 marks)

The UK runs its largest trade surplus with the USA, exporting £99.6 billion while importing £66.3 billion, showing that the USA is the UK's most important non-EU export market.

In contrast, the UK has a large trade deficit with China, importing £42.3 billion but exporting only £16.8 billion, highlighting a significant imbalance in trade between the two countries.

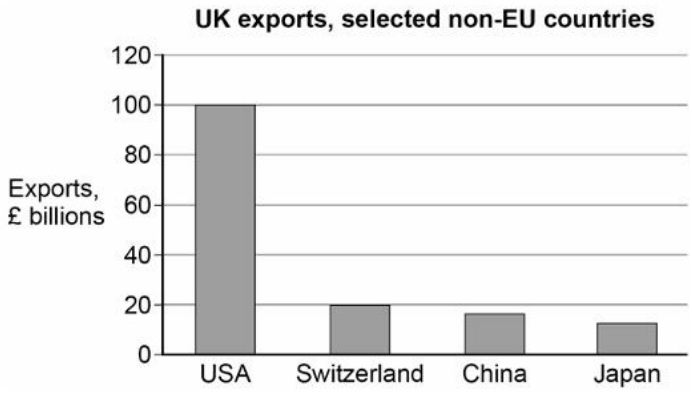
ASM Tuition Academy

3 0 *Use **Extract D** to construct a bar chart to show the UK's **four** largest single export markets to non-EU countries.*

[4 marks]

The correct diagram involves four bars, with the correct height and labels (**and/or** a key):

- USA: £99.6 bn
- Switzerland: £21 bn
- China: £16.8 bn
- Japan: £12.5 bn



Q31 — Explain how the accelerator process is likely to affect economic growth (10 marks, chain-of-analysis)

First point:
Rising demand and output encourage firms → higher demand increases capacity utilisation → firms expect demand to continue rising → according to the accelerator process, firms increase investment → higher investment raises aggregate demand → leading to increased short-run economic growth.

Second point:
Increased investment raises the capital stock → firms invest in new machinery and technology → labour productivity rises → unit costs fall → firms become more competitive → exports increase → higher exports further increase aggregate demand → reinforcing economic growth.

Q32 — Discuss the significance of an increase in exports for the performance of the UK economy (25 marks)

Introduction:
Extract E highlights that rising exports are important for reducing the UK's trade

deficit and supporting economic growth, particularly at a time of weak domestic demand. Exports play a key role in improving the overall performance of the UK economy.

Point 1:
An increase in exports raises aggregate demand → exports are an injection into the circular flow of income → firms increase output → employment rises → unemployment falls → Extract F states higher exports can reduce unemployment → higher incomes increase consumption → creating a multiplier effect → leading to stronger economic growth.

Evaluation of point 1:
However, Extract F questions whether the benefits of export-led growth can be sustained → if export growth is driven mainly by temporary factors, such as short-term global demand, growth may slow → limiting the long-term impact on economic performance.

Point 2 (currency-based):
Export growth may be caused by a weaker pound → Extract E states UK firms benefited from sterling depreciation after the EU referendum → a weaker pound makes UK exports cheaper in foreign currency terms → overseas demand increases → export volumes rise → aggregate demand increases → economic growth improves and the trade deficit may narrow.

Evaluation of point 2:
However, relying on a weaker currency may not be sustainable → Extract F warns firms should not rely merely on a weak pound → if the pound appreciates due to higher interest rates or improved confidence → UK exports become less price competitive → export growth slows → improvements in the trade balance may reverse. In addition, a weaker pound raises import prices → increasing cost-push inflation → which may lead the Bank of England to tighten monetary policy → reducing consumption and investment.

Conclusion:
An increase in exports is significant for improving UK economic performance by boosting growth, employment and the trade balance. However, the long-term benefits depend on competitiveness and productivity rather than temporary exchange rate movements. Sustainable export-led growth requires continued investment, innovation and efficiency improvements to avoid inflationary pressures and ensure long-term stability.

ASM Tuition Academy

ASM Tuition Academy