Q27 — Define 'growing budget deficit' (Extract F, lines 15–16) [3 marks]

A growing budget deficit occurs when government spending increases faster than government revenue, meaning the gap between what the government spends and what it receives in tax income becomes larger over time.

Q28 — Ratio of cars produced for export to home market (4 marks)

Cars produced for export = 1,237,608
Cars produced for home market = **281,832**

Ratio of export to home market production =
1,237,608 ÷ 281,832 = **4.39**

Answer:
The ratio of cars produced for export to those produced for the home market is **4.39 : 1** (to two decimal places).

Q29 — Two significant comparisons from Extract D (4 marks)

Export market car production shows greater volatility than home market production over the period. For example, export production falls sharply to around −30% in mid-2018, while the home market experiences a smaller fall, showing exports are more sensitive to economic conditions.

Overall, both export and home market car production show a downward trend towards 2018–2019. However, export production experiences larger negative percentage changes than the home market, indicating greater weakness in overseas demand compared to domestic demand.

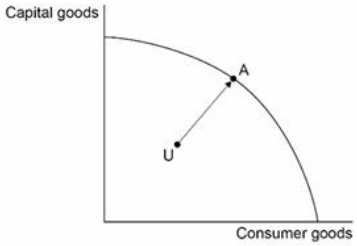
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3 0 ***Extract F*** *(lines 4–5) states: 'As more workers receive higher in-work income, consumption would be expected to rise, leading to short-run economic growth.'*

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show short-run economic growth.

[4 marks]

The correct diagram involves a curve bowed out from the origin (or allow a straight line) between two appropriately-labelled axes, with an initial point within the curve to show spare capacity, and a second point on the curve, or closer towards the curve, to show short-run growth. Both points should be appropriately labelled. An arrow is not necessary if the outcome is clear.



Q31 — Explain two factors that could cause a fall in the volume of UK exports (10 marks, chain-of-analysis)

First factor:
Extract E states that global car production has fallen and major firms are closing UK plants → lower global demand for cars reduces overseas orders → UK manufacturers receive fewer export contracts → export revenues fall → firms reduce production → the volume of UK exports declines.

Second factor:
Structural changes in the car industry are occurring → movement away from petrol and diesel vehicles reduces demand for traditional UK car models → firms that fail to adapt lose international competitiveness → overseas buyers switch to alternative suppliers → UK export volumes fall further due to reduced demand for outdated products.

Q32 — Assess the view that as economic growth increases, a rise in inflation is inevitable (25 marks)

Introduction:
Extract F highlights the potential conflict between macroeconomic objectives, particularly economic growth and inflation. As economic growth increases, demand

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in the economy rises, but it is debated whether this must always lead to higher inflation.

Point 1:
Higher economic growth can lead to rising inflation → Extract F states higher in-work incomes increase consumption → increased consumption raises aggregate demand → firms respond by increasing output → as spare capacity is used up, firms raise prices → demand-pull inflation increases → this supports the view that higher growth leads to inflationary pressures.

Evaluation of point 1:
However, inflation is not inevitable if there is spare capacity → firms can increase output without raising prices → Extract F notes inflation fell below the 2% target in January 2019 → this suggests growth can occur without inflation when productivity improves or costs fall → weakening the argument that inflation must rise.

Point 2:
Economic growth driven by productivity improvements does not necessarily cause inflation → investment and technological progress raise productive capacity → long-run aggregate supply shifts right → output increases without upward pressure on prices → Extract F suggests manufacturing could improve confidence and output → allowing growth without inflation.

Evaluation of point 2:
However, productivity growth may be uneven → if growth is driven mainly by demand rather than supply → inflationary pressures will still emerge → government stimulus through fiscal expansion could worsen this → Extract F warns higher spending may increase the budget deficit → increasing inflation risks.

Conclusion:
A rise in inflation is not inevitable when economic growth increases. Inflation depends on whether growth is demand-led or supply-led and the level of spare capacity in the economy. While rapid demand-driven growth can cause inflation, productivity-led growth allows economies to grow sustainably without price instability.

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