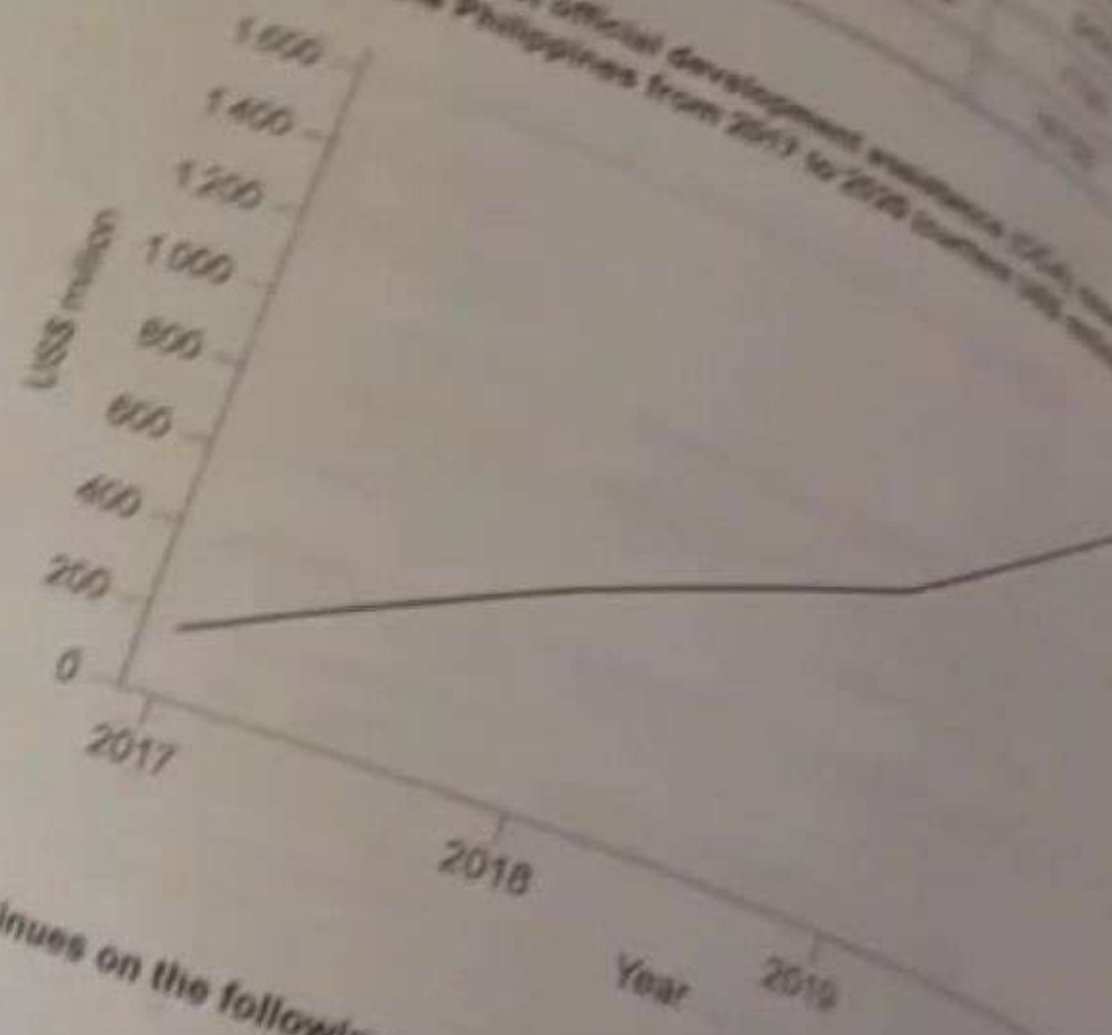


Table 6: Selected indicators of economic growth (in US\$ million)

| Indicator                     | 2017 | 2018 | 2019 |
|-------------------------------|------|------|------|
| Government spending           | 100  | 110  | 120  |
| Investment                    | 150  | 160  | 170  |
| Government spending           | 100  | 110  | 120  |
| Exports of goods and services | 200  | 210  | 220  |
| Imports of goods and services | 150  | 160  | 170  |
| GDP                           | 400  | 430  | 460  |

Figure 2: Net official development assistance (ODA) received by the Philippines from 2017 to 2019 (in US\$ million)



question continues on the following page)

It is estimated that the effect of these agreements will increase UK GDP by 0.1% per year. While the overall benefit will be small, the negative effect on some industries will be significant. UK farmers are concerned that these FTAs could damage their competitiveness and cause UK agricultural output to fall.

### 4 C — The net zero strategy in the UK

The UK plans to achieve carbon neutrality by 2050. By 2035, emissions of carbon should be reduced to 22% of the 1990 levels. As part of the net zero strategy, carbon taxes are being introduced on some goods that damage the environment due to the carbon emissions that come from their production, such as plastic packaging. Consequently, a tax on the production of plastic brings its output closer to the social optimum. In addition, there are incentives to produce innovative "green" goods that benefit the environment and can also be exported.

Table 1: Economic data for the UK

|   | 2011   | 2021   |
|---|--------|--------|
| Real GDP per capita (UK£)                           | 27 996 | 30 248 |
| Unemployment (% of labour force)                    | 8.0    | 4.5    |
| Inflation (annual % change in consumer price index) | 3.9    | 2.5    |
| Exchange rate (US\$ per UK£)                        | 1.61   | 1.37   |

Table 2: Selected balance of payments data for the UK (UK£ billion)

|                              | 2011 | 2021 |
|------------------------------|------|------|
| Balance of trade in goods    | -103 | -156 |
| Balance of trade in services |      | 127  |
| Income                       | 6    | -12  |
| Current transfers            | -21  | -19  |
| Current account balance      | -32  | -60  |
| DI                           | 34   | 58   |
| Portfolio investment         | -10  | -25  |
| Reserve assets               | -5   | 18   |

2. Read the extracts and answer the questions that follow

**Text D — Overview of the Philippines**

1 The Philippines is a country in the Asia-Pacific region. Its gross domestic product (GDP) in the 2020s are expected to average 5% per year, with a growing middle class and a large, young population. The Philippines has a strong on strong consumer demand.

2 Although the primary sector is still important, there is stronger growth in other sectors including tourism and insurance. Remittances from overseas workers contribute to national income.

3 The government has made progress in reducing poverty, partly due to workers leaving agriculture for higher wage jobs in other sectors. However, the transition is proceeding slowly, with more than 70% of the labour force still working in the informal economy. The Philippines is vulnerable to natural disasters, such as typhoons and droughts, which damage the economy and most severely affect the primary sector of farming and fishing. Fish stocks are falling due to illegal fishing and overfishing. Productivity is low and unsustainable practices have caused deforestation.

4 Infrastructure and public services, including health care and education, are still poor in rural areas and there is poor nutrition in low-income households. Rising food prices will further reduce real incomes. For the lowest income earners, food accounts for 28% of expenditure, while the highest income earners spend only 28% on food. This is due to the low-income elasticity of demand (YED) for food.

5 An expansionary fiscal policy has caused a persistent budget deficit. Higher government spending and prices and the depreciation of the peso (PHP, the Philippine currency) have added to inflationary pressures. In response, the central bank raised its interest rate several times, from 2% in 2021 to 5.5% in 2022.

6 The Philippines has experienced more free trade in agricultural goods following its accession to the ASEAN economic community (a free trade area). For example, a quota on poultry imports into the Philippines has been removed.

7 However, to help local farmers, a 35% tariff has been placed on rice imported into the Philippines, even though rice and other cereals account for a large proportion of imports. Revenues are used to provide subsidies for modern farm equipment, seeds and training for farmers. The aim is to create a more efficient and competitive agricultural sector.

**Text E — Reduction of poverty rates in the Philippines**

1 In order to achieve the first Sustainable Development Goal (SDG), the government of the Philippines aims to eliminate extreme poverty by 2040. In 2019, taxes were used to fund tobacco, alcohol and e-cigarettes, partly to fund an

Figure 1: Exchange rate from 2011 to 2022 (US\$ per UK£)



- (a) Define the term **inflation** indicated in bold in the text (Text A, paragraph 1). [2]
- (b) Define the term **foreign direct investment** indicated in bold in the text (Text A, paragraph 3). [2]
- (c) A pharmaceutical good is priced at UK£10 per unit and the exported quantity is 200 units. The price decreases to UK£9.
  - (i) Using the price elasticity of demand figure for pharmaceuticals exported from the UK (Text A, paragraph 5), calculate the revenue earned in UK£ after the price change. [3]
  - (ii) Using information from Table 2, calculate the balance of trade in services (UK£ billion) for the UK in 2011. [2]
- Using an AD/AS diagram, explain the likely effect on the full employment (potential) level of output in the UK if government spending on infrastructure is increased (Text A, paragraph 2). [4]
- Using an exchange rate diagram, explain the likely effect on the exchange rate for the pound (UK£) of increased international demand for "green" goods produced in the UK (Text C). [4]
- Using an international trade diagram, explain how imports of agricultural goods to the UK are likely to change as a result of the free trade agreements with Australia and New Zealand (Text B, paragraph 2). [4]
- Using an externalities diagram, explain why a carbon tax on the production of plastic is likely to cause its output to move closer to the social optimum (Text C). [4]
- Using information from the text/data and your knowledge of economics, discuss the effects of the exchange rate from 2011 to 2022 (shown in Figure 1) on the economy. [4]

[15]



Question 4 (continued)

28. However, it is estimated that the effect of these agreements will increase UK GDP by only 0.11% per year. While the overall benefit will be small, the negative effect on some industries will be significant. UK farmers are concerned that these FTAs could damage their circumstances and cause UK agricultural output to fall.

Question 5 — The net zero strategy in the UK

The UK plans to achieve carbon neutrality by 2050. By 2035, emissions of carbon should be reduced to 22% of the 1990 levels. As part of the net zero strategy, carbon taxes are to be imposed on some goods that damage the environment due to the carbon emissions that bring their output closer to the social optimum. Consequently, a tax on the production of plastic packaging, such as plastic packaging. In addition, there are incentives to produce "green" goods that benefit the environment and can also be exported.

Table 1: Economic data for the UK

|   | 2011  | 2021  |
|---|-------|-------|
| Real GDP per capita (UK£)                           | 27996 | 30246 |
| Unemployment (% of labour force)                    | 8.0   | 4.5   |
| Inflation (annual % change in consumer price index) | 3.9   | 2.5   |
| Exchange rate (US\$ per UK£)                        | 1.61  | 1.37  |

Table 2: Selected balance of payments data for the UK (UK£ billion)

|                              | 2011 | 2021 |
|------------------------------|------|------|
| Balance of trade in goods    | -103 | -156 |
| Balance of trade in services |      | 127  |
| Income                       | 6    | -12  |
| Current transfers            | -21  | -19  |
| Current account balance      | -32  | -60  |
| FDI                          | 34   | 58   |
| Portfolio investment         | -10  | -25  |
| Reserve assets               | -5   | 18   |

2. Read the extracts and answer the questions that follow.  
**Text D — Overview of the Philippines**

- 1 The Philippines is a country in the Asia-Pacific region. Growth rates (GDP) in the 2020s are expected to average 5% per year. It has a growing middle class and a large, young population, the Philippines on strong consumer demand.
- 2 Although the primary sector is still important, there is stronger growth in including tourism and insurance. Remittances from overseas workers national income.
- 3 The government has made progress in reducing poverty, partly due to workers to leave agriculture for higher wage jobs in other sectors, however is proceeding slowly, with more than 70% of the labour force still working in the informal economy. The Philippines is vulnerable to natural disasters and droughts, which damage the economy and most severely affect small farming and fishing. Fish stocks are falling due to illegal fishing and overfishing. Productivity is low and unsustainable practices have caused deforestation.
- 4 Infrastructure and public services, including health care and education, are poor in rural areas and there is poor nutrition in low-income households. Rising food prices will further reduce real incomes. For the lowest income earners, food expenditure is high, while the highest income earners spend only 28% on food. This is due by the low-income elasticity of demand (YED) for food.
- 5 An expansionary fiscal policy has caused a persistent budget deficit. Higher government spending and the depreciation of the peso (PHP, the Philippine currency) have added to inflationary pressures. In response, the central bank raised its interest rate from 2% in 2021 to 5.5% in 2022.
- 6 The Philippines has experienced more free trade in agricultural goods following its accession to the ASEAN economic community (a free trade area). For example, a quota on rice imports into the Philippines has been removed.
- 7 However, to help local farmers, a 35% tariff has been placed on rice imported into the Philippines, even though rice and other cereals account for a large proportion of imports. Revenues are used to provide subsidies for modern farm equipment, seeds and training for farmers. The aim is to create a more efficient and competitive agricultural sector.

**Text E — Reduction of poverty rates in the Philippines**

- 1 In order to achieve the first Sustainable Development Goal (SDG), the government of the Philippines aims to eliminate extreme poverty by 2040. In 2019, taxes were increased on tobacco, alcohol and e-cigarettes, partly to fund an expansion of the public health care system.

(This question continues on the following page)

Questions 2 continued

- (i) Define the term *informal economy* indicated in **Text D**, paragraph **5**. [2]
- (ii) Define the term *depreciation* indicated in bold in the text (**Text D**, paragraph **5**). [2]
- (iii) Using information from **Table 5**, calculate the value of consumption (PHP billion) in the Philippines in 2022. [1]

A low-income household in the Philippines earned PHP 40 000 annually in 2021. Its annual income increased to PHP 42 000 in 2022. Its annual demand for rice increased from 250 kilograms (kg) to 256 kg between 2021 and 2022.

- (iv) Calculate the income elasticity of demand for rice for this household. [2]
- (v) Using your answer to (b) (iv), identify whether rice is an inferior or a normal good. [1]
- (c) Using an AD/AS diagram, explain the likely effect on the Philippines' real GDP as a result of higher global energy prices (**Text D**, paragraph **5**). [4]
- (d) Using an international trade diagram, explain the likely effect on the domestic production of pork when the quota on pork imports into the Philippines was removed (**Text D**, paragraph **5**). [4]
- (e) Using an exchange rate diagram, explain the likely effect on the exchange rate for the peso (PHP) of the tariff on rice imports (**Text D**, paragraph **7**). [4]
- (f) Using a demand and supply diagram, explain what is likely to happen to excess supply if the minimum (floor) price charged by private bus drivers is raised further above the equilibrium price (**Text E**, paragraph **5**). [4]
- (g) Using information from the text/data and your knowledge of economics, evaluate the policies used in the Philippines to reduce poverty and income inequality. [4]