

Question 1

Suggested Answers

(a)	Compare the projected sales of battery-electric vehicles and internal combustion vehicles between 2018 and 2030.	[2]
	• Difference (level): Each year between 2018 and 2030, the sale of battery-electric vehicles is <u>always projected to be less</u> than the sales of internal combustion vehicles. [1] • Difference (direction): The sales of battery-electric vehicles is projected to <u>increase</u> over the period <u>while</u> the sales of internal combustion vehicles is projected to <u>fall</u> over the period. [1]	
(b)	With reference to Extract 1, explain one way in which electric vehicle (EV) manufacturers can enjoy cost savings from an increase in scale of production.	[2]
	(Explain 1 example of IEOS using evidence from Extract 1) • [Use of one example from Ext 1] By increasing its scale of production, EV manufacturers would be able to spread the costs of indivisible capital equipment such as its assembly lines (Ext 1) over a larger output. [1] • This would allow it to enjoy internal economies of scale leading to a fall in its average costs of production. [1] <i>Other examples: IEOS from bulk purchase of EV components, IEOS from specialisation of roles, etc...</i>	
(c)	With reference to Extract 2, explain how the use of electric vehicles (EVs) may result in positive externalities.	[2]
	• Through the use of electric cars, <u>third parties such as those living near roads and highways</u> are able to enjoy cleaner air and less noise pollution as the air is cleaner and quieter (Extract 1) as motorists have switched to using EVs. This would <u>benefit these third parties in terms of reduced medical bills from less respiratory or hearing problems</u>. [1m to identify specific third party, 1m to explain the benefit]	
(d)	Extract 2 highlights how Norway has transitioned away from internal combustion engine vehicles to EVs.	[6]
	Using a demand and supply diagram, explain how the government policies mentioned in Extract 2 have led to more electric cars on the roads.	
	<i>Students are to identify the two policies mentioned (i.e., VAT exemptions and higher taxes from ICE cars) and explain how the combined effect leads to more electric cars.</i> Extract 2 highlights how Norway has used two policies – exemption from value-added tax (VAT) for EVs and higher taxes on internal combustion engine (ICE) cars, to encourage more EV usage.	

Through exemptions from VAT for EVs, this would mean reduction/removal of an indirect tax on EVs which would reduce the marginal costs of EV producers leading to an increase in supply of EVs. [1]

The higher taxes on ICE cars lead to a rise in marginal cost for ICE car producers which leads to a fall in supply of ICE cars and results in a increase in the price of ICE cars. Given that ICE cars and EVs are substitutes for one another with a positive cross elasticity of demand ($XED > 0$) as they are both forms of private transport, the rise in price of ICE cars leads to a fall in the qty dd of ICE cars. This causes a rise in the demand for EVs. [2]

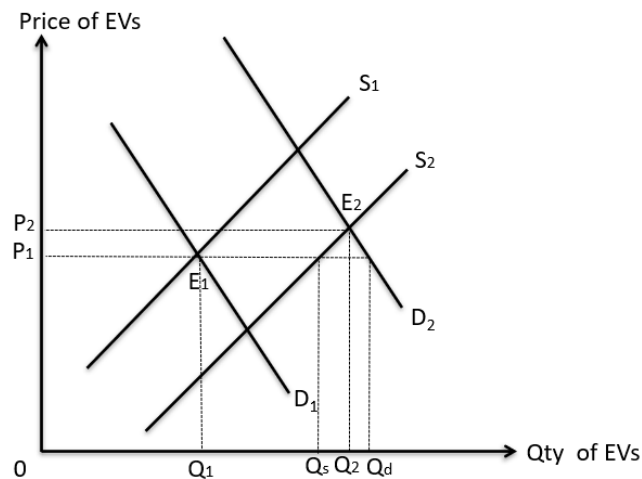


Figure 1: Market for EVs
[1m for a complete diagram illustrating both shifts]

The $\uparrow$ supply and $\uparrow$ demand for EVs has led to an initial shortage of $Q_s Q_d$ at initial price, P_1 . This creates upward pressure on prices. Utility-maximising consumers, constrained by their budget, reduce quantity demanded. The units of output that can only be produced at higher marginal cost now become profitable at higher prices, incentivising firms to increase qty ss to capture the positive marginal profits. Overall, there is an increase eqm qty of EVs from Q_1 to Q_2 , leading to more EVs on the roads. [2]

(e) Discuss whether a “price war” (Extract 3) is the best strategy for EV manufacturers to raise their profits. [8]

Extract 3 describe the brutal price war among EV producers in China. This evidence of price competition is one of many strategies a firm can use to raise their profits.

R1: Price wars can raise profits of EV manufacturers in the long run

In the Short run, firms such as BYD will lower their price of EVs in order to raise their qty dd by undercutting their competitors. Competitors will likely follow suit (Ext 3) and similarly lower prices in a tit-for-tat price war. The firms may end up lowering prices below their average costs (or competitors’ average cost). As seen in Figure 2 below, the firm’s AR and MR are AR1 and MR1 respectively. The firm has

lowered price to P_1 , below its average cost, C_1 . This will result in the firm and its competitors ending up with subnormal profits of C_1abP_1 .

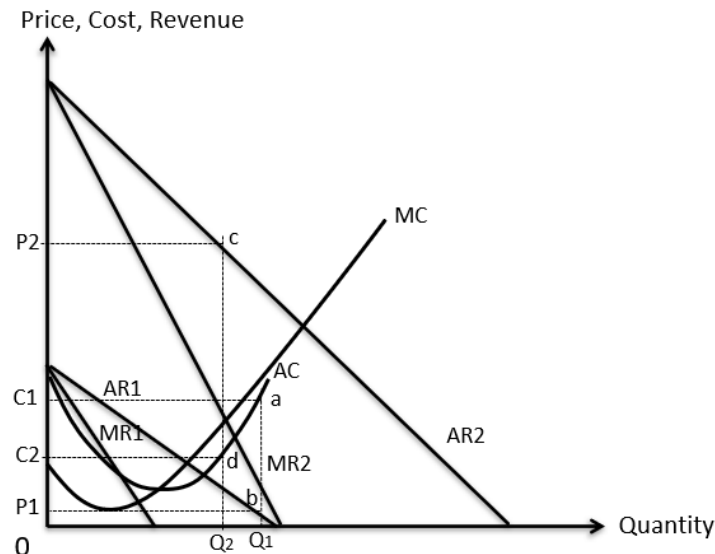


Figure 2: Price Wars

This is a form of predatory pricing whereby the firm intends to eliminate their competitors from the market. In the long run, the firm is assumed to be in a better position to sustain the losses over an extended period of time as it may have past accumulated profits to tide it over. In this case, BYD as the largest firm in the market (Table 1) is likely to have enjoyed significant past supernormal profits. In addition, given its large market share, it would be able to enjoy more internal economies of scale (explained in part b) which allows it to minimise its losses relative to its smaller competitors.

The firm would eventually gain larger market shares and long-run profits when their rivals are either unable or unwilling to sustain further losses and exit the industry. This increases the remaining firms market shares leading to a rise in the firms' demands to **AR2**. The firm can now set prices at the profit-maximising output level of **Q2**, where $MC=MR$. The firm's output is now P_2cdC_2 .

The success of this strategy depends on whether the firm has sufficient resources to sustain itself through a price war. In addition, the Chinese government has also said that it was tackle unfair competition, which could mean that it could impose fines or other penalties on firms that engage in such a strategy.

R2: Non-price strategies via product differentiation can raise profits of EV manufacturers

Due to the short run subnormal profits that would be experienced by a firm when undergoing a price war, the firm could consider using non-price strategies such as product differentiation in order to distinguish its product from competing firms. For example, BYD can look at improving real differences such as the battery range of their EVs (Ext 4) which would favourably change consumers tastes and

	preferences towards BYD's EVs. Alternatively, BYD can focus on imaginary differences through marketing. For example, they can improve consumers understanding of the battery range of their EVs (Ext 4) so as to similarly raise the demand of for its EVs. This would increase the AR and MR (similar to the diagram above) leading to increased profits for the firm. The limitation of such a strategy is that it is uncertain. Any investments into developing new or better features has a degree of uncertainty whereby the investment made yield little or no positive impact on demand. <i>Alternative strategies: Collusion, Process innovation</i> <i>Strategies to avoid: limit pricing or raising BTEs (these only serve to protect a firm's profits and not increase its profits)</i> In conclusion, the best strategy for firms to raise their profits would be to not use price wars and instead to use product differentiation. Given that there is a strong possibility of enforcement by the government against price wars, it may not be feasible and thus not the best strategy. Instead, EV producers should focus on product differentiation which is supported by the government. LORMS <table border="1"> <tr> <td>L2</td><td>Answer is relevant and balanced, comprising well-developed explanations of both price competition ("price war") and one other strategy to raise the firm's profits. This is supported by relevant evidence and diagrams where applicable.</td><td>4 – 6</td></tr> <tr> <td>L1</td><td> Answer is largely irrelevant, inaccurate and/or consists of limited explanation of how either price wars and another strategy contributed to the global chip shortage. Or Answer is one-sided e.g., only explaining how a price war results in greater profits for the firm in the long run. </td><td>1 – 3</td></tr> <tr> <td>E</td><td>Marks will be awarded for a substantiated stand justifying whether price wars or another strategy is the best strategy.</td><td>1 – 2</td></tr> </table>	L2	Answer is relevant and balanced, comprising well-developed explanations of both price competition ("price war") and one other strategy to raise the firm's profits. This is supported by relevant evidence and diagrams where applicable.	4 – 6	L1	Answer is largely irrelevant, inaccurate and/or consists of limited explanation of how either price wars and another strategy contributed to the global chip shortage. Or Answer is one-sided e.g., only explaining how a price war results in greater profits for the firm in the long run.	1 – 3	E	Marks will be awarded for a substantiated stand justifying whether price wars or another strategy is the best strategy.	1 – 2	
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(f)	The European Commission began investigations to determine whether to impose tariffs on exports of Chinese EVs (Extract 5). Discuss whether the imposition of tariffs by the European Commission is justified.	[10]									
	The proposed imposition of tariffs by the European commission is aimed at protecting European car makers (Ext 5). Tariffs are taxes on imports and are a form of protectionism where governments seek to protect their domestic industries (Ext 5). R1: Tariffs are justified as they can correct the suspected unfair trade practices e.g. dumping by China										

Explain the underlying problem

There is an accusation of dumping by the Chinese govt where the subsidies provided allows the Chinese EV firms to sell EVs at prices below their MC (Ext 4). When China provides subsidies to its EV firms this reduces the marginal cost of Chinese EV producers which increases its supply and thus lowers the price of Chinese EVs. As Chinese EVs and European EVs are substitute, the demand for European EVs will fall causing price and output for European EV producers to both fall. This would negatively affect European EV producers' profits and also lead to a fall in employment in the industry. The fall in consumption of European EVs would also lower C_d resulting in a fall in AD and negative growth via the reverse multiplier effect. China has artificially improved the price competitiveness of its EV firms leading to negative impacts on the European economy, EV manufacturers and their workers. In the long run, the European EV firms may be driven out of the market and the Chinese firms may have a dominant position allowing them to restrict output and raise price which reduces the welfare of consumers.

Explain how tariffs solve the problem

The European commission could address the problem through the use of tariffs as a punitive measure/anti-dumping measure. By imposing a tariff equivalent to the per unit subsidies given by the Chinese government this would raise the marginal cost for Chinese EV producers. Given that Chinese EVs dominate the market (Ext 5), this would lead to a decrease in the world supply of EVs from S_w to $S_w + \text{tariff}$ in the EU EV markets as shown in the diagram below.

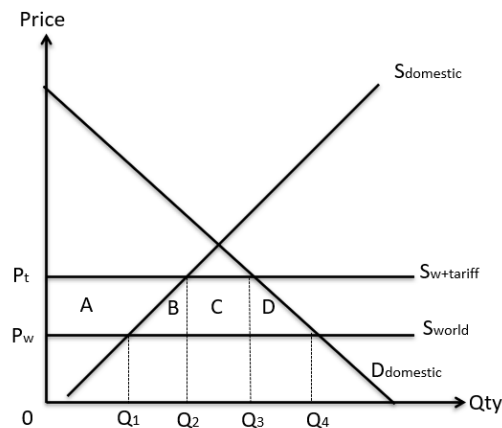


Figure 3: EU Market for EVs

This would lead to a rise in price from P_w to P_t in the EU market for EVs. As price rises, the qty ss by domestic producers in the EU increases as previously unprofitable levels of production are not profitable for profit-maximising EU producers. This has protected the domestic EU EV manufacturers by raising their price and output leading to higher revenue for producers. With a higher level of production, this would also address the falling employment previously experienced. Overall, the tariffs have corrected the unfair practice of dumping by Chinese firms.

Other arguments for protectionism that are accepted: addressing a BOT deficit, slowing down unemployment, protecting infant industries, etc...

R2: Tariffs are not justified as the Chinese EV exporters are competitive based on process and product innovation and tariffs would negatively impact the EU economies.

However, this assumes that there has been unfair trade practice via the subsidies. If in fact the Chinese EV producers are able to sell at lower prices due to their supply chain advantages and product innovation (Ext 5), this would mean that the process innovation has fairly allowed them to achieve comparative advantage in the production of EVs. The imposition of tariffs would unfairly penalise EU consumers through higher prices from P_w to P_t , denying them the cheaper EVs produced by China. This would reduce their consumer surplus by areas $A+B+C+D$ as they face higher prices and a lower qty dd .

Even if the accusations were true, the imposition of tariffs would still have other negative impacts. With tariffs, there would be a welfare loss of areas $B+D$ in the market which represents a misallocation of resources.

In addition, while greater consumption of domestic EVs would increase C_d , there would be other impacts that would negate the rise in AD . Firstly, protectionism results in a beggar-thy-neighbour effect whereby the fall in qty of imports from Q1Q4 to Q2Q3 in EU would mean that Chinese export revenue would fall leading to negative growth in China. The fall in RNY in China would lead to a fall in demand for EU exports. This causes X in EU to fall. Secondly, the imposition of tariffs on Chinese EVs may lead to retaliation by China as it would negatively impact China's economy. China may impose retaliatory tariffs on EU goods which would further reduce X in EU. Together these effects may negate the rise in AD due to C_d , and instead lead to a fall in AD , causing negative growth in EU.

Conclusion: Provide an overall judgement.

Overall, whether the use of tariffs is justified would depend on:

- (1) **The root cause of the Chinese EV manufacturers' low prices:** If the price advantage is due to innovation by Chinese firms, the imposition of tariffs on the grounds of unfair trade practices would result in a significant loss of consumer welfare and societal welfare. However, if it can be proven that it is mainly due to subsidies, the use of tariffs is justified to correct the artificial price advantage.
- (2) **The PES of the European domestic supply of EVs:** Given the price advantage of Chinese firms, the European EV firms are likely to have significant spare capacity as they have lost price competitiveness. The supply is likely to be price elastic such that the application of a tariff would lead to a more than proportionate rise in qty ss as world price increases. This means that tariffs are more effective to support domestic firms and workers and thus it would be justified in terms of the larger positive impact.

Given that the subsidies were "substantial" (Ext 5) and that the domestic supply of European EVs is likely to be price elastic, the use of tariffs is justified as there is

likely to be a case of unfair trade practices and that the tariffs would be effective in protecting domestic producers.		
LORMS		
L2	Answer is relevant and balanced, comprising well-developed explanations of the justification for and against the use of tariffs of China's EVs. This is supported by relevant evidence and diagrams where applicable.	4 – 7
L1	Answer is largely irrelevant, inaccurate and/or consists of limited explanations. Or Answer is one-sided e.g., only explaining the justification for tariffs.	1 – 3
E	Marks will be awarded for a substantiated stand justifying whether the use of tariffs by the EU commission is justified.	1 – 3

Question 2

Answers

(a)	(i)	With reference to Figure 2, compare the change in general price level in Argentina and Brazil.	[2]
		Similarity: The general price levels <u>increased</u> in both Argentina and Brazil. [1] Difference: However, there was a <u>faster increase</u> in the general price level in Argentina as compared to Brazil. [1] Not acceptable: General price level in Argentina is higher as compared to Brazil. <i>Alternative answers also accepted:</i> <i>GPL in Argentina increased at an increasing rate while GPL in Brazil increased at a relatively constant rate.</i>	
		With reference to Table 2,	
	(ii)	Explain what is meant by the Consumer Price Index.	[1]
		The consumer price index refers to <u>a weighted average of prices of a specified basket of consumption goods and services</u> commonly purchased by residential households [1]. <i>Not required but for teaching purposes:</i> <i>For example, if the CPI rises from 100 to 104, it indicates that the general price level has increased by 4%, meaning consumers need to spend 4% more to purchase the same basket of goods and services.</i>	
	(iii)	Explain why it cannot be said that prices of goods and services in Argentina are definitely higher as compared to other countries in Table 2.	[1]
		It <u>cannot be said</u> that prices of goods and services in Argentina are higher as compared to other countries in Table 2 as <u>the CPI measures changes in prices but not absolute price levels</u> at a point in time [1]. <i>Not required but for teaching purposes:</i> <i>For example, from Table 2, we can only tell that prices increased the fastest in Argentina as compared to the base year in 2016,</i>	

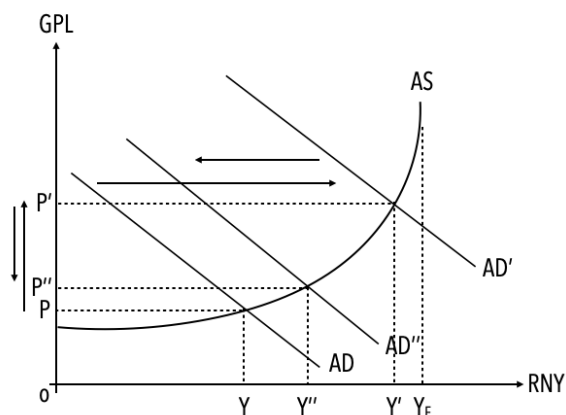
		<i>followed by India, and so on. However, we cannot tell if the prices of goods and services in Argentina are higher than that of India's. Prices in Argentina may have increased faster, but still remained lower than prices in India.</i>	
(b)		With reference to Extract 6 and using an AD/AS diagram, explain one demand-side and one supply-side reason that contributed to Argentina's economic downturn in 2023.	[4]
		Consumer and business pessimism related to uncertainty resulted in a fall in consumption as consumers cut back on spending and increase precautionary savings while firms revise their net expected rate of return downwards and reduce investment. The fall in C and I will lead to a fall in AD from AD to AD' since both C and I are components of AD [1]. <i>Other possible answers: fall in X-M due to economic slowdown in trading partners (Brazil), fall in C and I due to interest rate hikes</i> At the same time, Argentina's historic drought has reduced soybean and corn harvests, leading to an increase in unit cost of production (UCOP) since these factor inputs are key raw materials used in the production of many goods and services. This causes a fall in AS from AS to AS' [1]. The fall in AD leads to unplanned investment, causing firms to cut back production in the next production cycle, paying out less factor income and setting off the reverse multiplier process; the fall in AS also caused firms to cut back on production to protect their profits. Together, there is a fall in RNY from Y to Y', contributing to Argentina's economic downturn in 2023 [1]. Diagram [1] The diagram is an AD/AS model. The vertical axis is labeled 'GPL' and the horizontal axis is labeled 'RNY'. There are two downward-sloping demand curves: 'AD' and 'AD'', where 'AD'' is to the left of 'AD'. There are two upward-sloping supply curves: 'AS' and 'AS'', where 'AS'' is above 'AS'. The initial equilibrium is at the intersection of 'AD' and 'AS', with price 'P' and output 'Y'. The new equilibrium after the demand shift is at the intersection of 'AD'' and 'AS', with price 'P'' and output 'Y''. A third point is marked at the intersection of 'AS'' and 'AD'', with price 'P'' and output 'Y''. The full employment output 'Y_F' is marked on the horizontal axis. Dashed lines connect the equilibrium points to the axes.	

(c)	Extract 8 highlighted that Argentina maintains an overvalued currency.		
	(i)	Explain how the overvalued currency “puts downward pressure on exports” (Extract 8).	[3]
		An overvalued currency refers to a situation where the <u>currency value is higher than its free market equilibrium</u>. [1] This <u>makes the prices of Argentinian exports in foreign currency higher than it would have been in the free market</u>, lowering export price competitiveness. [1] This would lead to a <u>fall in demand</u> for Argentinian exports, causing a <u>fall in export revenue received as compared to what it would have been in the free market</u>, hence putting downward pressure on exports. [1] OR An overvalued currency refers to a situation when the central bank intervenes in the foreign exchange market to appreciate the currency. [1] This <u>makes the prices of Argentinian exports in foreign currency higher</u>, lowering export price competitiveness. [1] This would lead to a <u>fall in demand</u> for Argentinian exports, causing a <u>fall in export revenue received</u>, hence putting downward pressure on exports. [1]	
	(ii)	Explain why maintaining the overvalued currency will deplete a country’s foreign currency reserves.	[1]
		The overvalued currency requires the central bank to use foreign currency to maintain an artificially higher demand for peso (i.e. sell USD to buy peso), depleting its reserves of USD, hence making it difficult for the central bank to accumulate dollar reserves. [1]	
(d)		Discuss the consequences of the fiscal adjustment (Extract 8) in Argentina.	[8]
		The fiscal adjustment in Argentina mentioned in Extract 8 is a contractionary fiscal policy, where the government cut its spending on public subsidies and energy and public transport, as well as other public infrastructure projects. This has led to both positive and negative consequences in Argentina.	

Thesis: The fiscal adjustment in Argentina has led to positive consequences

One positive consequence of the fiscal adjustment was the reduction in inflation.

The cut in government spending leads to a fall in AD since G is a component of AD. When AD falls, there is unplanned investment as firms accumulate unsold goods and add to its inventories. They will reduce production in the next production cycle, which will reduce competition for scarce resources within the economy and reduce the unit cost of production. Firms will pass on the fall in unit cost of production to consumers in the form of lower prices and hence the general price level falls from P' to P'' . For a country that is “prone to...runaway inflation, driven by years of wild money-printing that paid for government deficits” (Extract 8), this will serve to rein in AD (instead of AD rising from AD to AD' , AD increases to AD'' only) and promote price stability within Argentina.

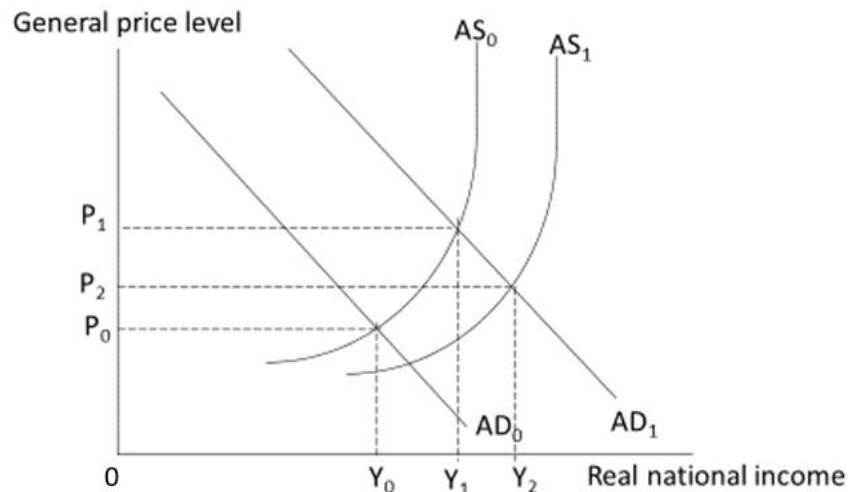


This can help to preserve consumers' purchasing power as prices remain relatively stable and they will not see a fall in the real value of their savings, which is highly important in the context of Argentina, which has long battled high inflation (Extract 7).

This can also help promote the price competitiveness of Argentina's exports: as prices fall back down, assuming that the demand for its exports is price elastic, this will result in a more than proportionate increase in quantity demanded, leading to an increase in export revenue, which will improve Argentina's balance of trade. Again, this is highly critical in Argentina, which

	has historically had one of the fastest inflation rates in the world (Extract 7), indicating a loss in export price competitiveness. Finally, the cut in spending can help reduce Argentina's government budget deficit and their debt. <u>Anti-thesis: The fiscal adjustment in Argentina has led to negative consequences</u> However, there are trade-offs incurred as well. As AD falls from AD' to AD'', there is a multiplied fall in RNY from Y' to Y'' through the reverse multiplier effect: as firms cut production, they also pay out less factor income. The fall in factor income leads to further decreases in consumption, which causes AD to fall further. Each fall in AD is smaller as consumers also cut back on savings, taxes paid, and spending on imports. The reverse multiplier process comes to an end when the fall in spending has been entirely leaked out in the form of a fall in withdrawals. Since firms cut production, they also reduce their demand for labour, leading to an increase in unemployment. In Extract 8, it was mentioned that the fiscal adjustment has come at a high social cost, triggering a punishing recession and an increase in unemployment, with a steep rise in poverty rates. <u>Synthesis</u> [Stand] The fiscal adjustment is likely to bring about positive impacts in the long run. [Substantiation] In the context of Argentina, which is well-known for its high inflation rates and large government debt, the fiscal adjustment is likely to be viewed favourably by investors. While there are undeniable negative impacts on RNY, unemployment and overall standard of living, these effects are likely to be ameliorated in the long run once investor confidence rises and investment increases in Argentina, bringing about long-term economic growth and improvement in its SOL. <table border="1"> <tr> <td>L2</td><td>Answer is two-sided and well-developed with the use of supporting economic analysis to explain both the positive and negative impacts of fiscal adjustment on Argentina's economy and SOL.</td><td>4 – 6</td></tr> </table>	L2	Answer is two-sided and well-developed with the use of supporting economic analysis to explain both the positive and negative impacts of fiscal adjustment on Argentina's economy and SOL.	4 – 6	
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(e)		Discuss whether supply-side policy or a policy promoting free trade is more appropriate to achieve non-inflationary economic growth in Argentina.		[10]						
		<u>Thesis: Supply-side policy is an appropriate policy to achieve non-inflationary economic growth in Argentina.</u> One supply-side policy that can help to achieve non-inflationary economic growth in Argentina is the removal of bureaucratic red-tape to encourage investment and enterprise. For example, we can see that this is done through the “bulldozing [of] the regulatory maze that has long made doing business in Argentina difficult” as mentioned in Extract 8. Excessive government regulations add to business costs. Firms need to incur additional costs to ensure their practices comply with the multitude of rules and regulations, sometimes to the extent of setting up an entire department to deal with such regulations. The difficulty in and cost of navigating the sea of regulations act as a barrier to entry, discouraging the formation of new firms. There is therefore much room to improve the ease of doing business and lower business costs through the removal of bureaucratic red tape. With this, there would be an increase in investment that increases capital accumulation in Argentina.								



This leads to the increase in productive capacity of the economy, shifting AS rightwards. As investment spending increases, it also brings about secondary effects in causing aggregate demand to increase. Firms will have the incentive to use the newly-created capacity to expand output without intensifying the competition for factor inputs, leading to non-inflationary sustained growth. In the figure above, real output increases from Y_0 to Y_1 with an increase in AD from AD_0 to AD_1 , and further to Y_2 following an expansion of the productive capacity with an overall fall in GPL from P_1 to P_2 .

However, with capital controls still in place, this is likely to deter investors who would prefer to be able to take their money out of Argentina if needed (Extract 8)

Anti-Thesis: Free-trade agreements is an appropriate policy to achieve non-inflationary economic growth in Argentina.

Promoting exports through greater access to markets in other countries and reducing barriers to investments by signing free-trade agreements with other countries can also promote non-inflationary economic growth. For example, it was mentioned in Extract 9 that MERCOSUR (of which Argentina is a part of) has concluded an FTA with the European Free Trade Association (EFTA).

As MERCOSUR and EFTA(Ext 9) concludes a new FTA, it allows trade barriers e.g. **tariffs to be removed, enabling the price of Argentina's exports to fall and become more price competitive.**

		Furthermore, increased access to foreign markets would enable Argentinian exporters to increase their export demand. Access to the larger world market through trade also means higher potential profits. This raises the expected rate of returns on investments relative to the cost of borrowing, incentivising firms to take on the additional units of investment that yield a positive net expected rate of return on investment. With both export revenue and investment spending increasing, this leads to an increase in AD. Facing an increase in AD (from increase in X and I), firms will increase output. To do so, firms enter the factor market to demand for more factors of production, including labour, paying out more factor income. Through the multiplier process explained earlier, this causes real national income to increase from Y0 to Y1, towards the full employment level of national income Yf. In the process, employment also increases. Foreign investment brings about considerable benefits such as technology transfer. Productivity improves, contributing to the expansion of the economy's productive capacity and a lowering of the unit COP. The increase in AS, represented by a rightward and downward shift (AS0 to AS1), allows for real national income to increase past the original full-employment level of income (Yf0) to Y2 while also moderating inflation (with GPL increasing only by POP2 instead of POP1). However, FTAs also enable foreign companies to gain access to Argentinian markets, leading to an increase in imports, causing a possible fall in domestic consumption as domestic consumers switch to foreign imports. Hence AD may not rise, or may only rise by a smaller amount, depending on the competitiveness of Argentinian goods and services. Similarly, the extent to which the opening up of the economy draws in foreign investment depends very much on the investment climate within the country influenced by factors such as rule of law, macroeconomic stability, infrastructure, labour-management relations. Reducing barriers to investment through FTAs need not necessarily mean that investment increases if foreign companies are not confident about Argentina's economic prospects. <u>Synthesis</u>	
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	[Stand] Supply-side policy is more appropriate in achieving non-inflationary economic growth as compared to free-trade agreements. [Substantiation] It can create the conditions necessary for increased exports and investments by improving the competitiveness of the Argentinian economy; FTAs does not guarantee that that there will be an increase in exports and investments [certainty of effects – playing up the benefits of supply-side policy]. In the long term, Argentina can consider removing capital controls and letting its exchange rate float so that its currency is no longer over-valued, promoting exports, and at the same time, capital mobility can increase investments [time horizon – playing down the limitations of supply-side policy]. <table><tr><td>L2</td><td>Answer is two-sided and well-developed with the use of supporting economic analysis to explain both how supply-side policy and FTAs work to achieve non-inflationary economic growth in Argentina.</td><td>4 – 7</td></tr><tr><td>L1</td><td>Answer is one-sided / may have only explored either supply-side policy or FTAs / limited in the use of economic analysis to explain how policies work to achieve non-inflationary economic growth in Argentina.</td><td>1 – 3</td></tr></table> <table><tr><td>E2</td><td>Substantiated judgment</td><td>2 - 3</td></tr><tr><td>E1</td><td>Unsubstantiated judgment</td><td>1</td></tr></table>	L2	Answer is two-sided and well-developed with the use of supporting economic analysis to explain both how supply-side policy and FTAs work to achieve non-inflationary economic growth in Argentina.	4 – 7	L1	Answer is one-sided / may have only explored either supply-side policy or FTAs / limited in the use of economic analysis to explain how policies work to achieve non-inflationary economic growth in Argentina.	1 – 3	E2	Substantiated judgment	2 - 3	E1	Unsubstantiated judgment	1	
L2	Answer is two-sided and well-developed with the use of supporting economic analysis to explain both how supply-side policy and FTAs work to achieve non-inflationary economic growth in Argentina.	4 – 7												
L1	Answer is one-sided / may have only explored either supply-side policy or FTAs / limited in the use of economic analysis to explain how policies work to achieve non-inflationary economic growth in Argentina.	1 – 3												
E2	Substantiated judgment	2 - 3												
E1	Unsubstantiated judgment	1												