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Economics

Higher level

Paper 3

13 May 2026

Zone A morning | **Zone B** morning | **Zone C** morning

Session number

1 hour 45 minutes

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Instructions to students

- Write your session number in the boxes above.
- You are permitted access to a calculator for this paper.
- Do not open this examination paper until instructed to do so.
- Answer all the questions.
- Answers must be written within the answer boxes provided.
- Unless otherwise stated in the question, all numerical answers must be given exactly or correct to two decimal places.
- You must show all your working.
- Use fully labelled diagrams where appropriate.
- The maximum mark for this examination paper is **[60 marks]**.



Answer **all** the questions. Answers must be written within the answer boxes provided.

1. Germany is a European country, which has the largest gross domestic product (GDP) in the European Union (EU).

Table 1: Economic data for Germany

	2023	2024
Private consumption expenditure (euros (EUR) billion)	2091	2149
Government expenditure (EUR billion)	892	932
Investment (EUR billion)	953	936
Exports (EUR billion)	1973	2001
Imports (EUR billion)	1786	1771
GDP deflator (2010 = 100)	126.2	128.7

- (a) (i) Using the information in **Table 1**, calculate Germany's nominal GDP for 2024. [1]

- (ii) Using your answer to part (i) and the information in **Table 1**, calculate Germany's real GDP for 2024. [2]

- (iii) Germany's real GDP in 2023 was EUR 3267 billion. Using your answer to part (ii), calculate Germany's rate of economic growth for 2024. [1]

(This question continues on the following page)



(Question 1 continued)

Real GDP per capita is often used as a measure of well-being. Alternative measures of well-being include:

- OECD* Better Life Index
- Happiness Index
- Happy Planet Index.

For real GDP per capita, Country A has a high world ranking (24th in the world) but a much lower ranking (between 60th and 70th in the world) for each of the three alternative measures given above.

- (iv) With reference to **one** of the alternative measures listed above, outline how Country A might have a relatively high ranking for real GDP per capita but a much lower ranking for an alternative measure of well-being.

[2]

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* OECD: Organisation for Economic Co-operation and Development

(This question continues on the following page)



(Question 1 continued)

Germany is predicted to have the slowest growth rate of any major economy over the next few years. There are many reasons for this, including some short-term issues but also deeper structural factors.

Table 2: Factors influencing economic growth in Germany

Factor	Germany	Comparisons/descriptions
Number of days it takes to obtain a business licence	120	OECD average: 58
Corporate income tax rates	29.9 %	European countries average: 21.3 %
Government investment as a percentage of GDP	2.6 %	Norway: 6.1 % Poland: 5.2 % Netherlands: 3.8 % United Kingdom: 3.2 %
Communications — percentage of households connected to high-speed internet	19 %	EU average: 56 %
Trade — share of Germany's export market, top three countries	USA: 8.7 % China: 7.5 % France: 7.4 %	Expected growth for China in 2024 is 4.7 %, much weaker than the 5.1 % anticipated by financial markets

- (v) Using the information in **Table 2** and with reference to aggregate demand and/or aggregate supply, explain **two** possible reasons why Germany is “predicted to have the slowest growth rate of any major economy in the next few years”.
A diagram is not required for this question.

[4]

(This question continues on the following page)



(Question 1 continued)

It has been estimated that in Germany, of any increase in national income, 5 % is saved, 18 % is spent on imports and 19 % is paid as tax.

- (vi) Calculate the value of the Keynesian multiplier in Germany. [2]

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- (vii) Using your answer to part (vi), calculate the increase in government spending that would be required in order to increase GDP by EUR 160 billion. [2]

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(Question 1 continued)

Several economists have suggested that growth in Germany would be increased if the government increased its spending. However, others argue that such action would have little impact due to the crowding-out effect.

(viii) Sketch a diagram to illustrate the crowding-out effect.

[2]

(This question continues on the following page)



(Question 1 continued)

Even though an increase in government spending might promote economic growth, the German government is prevented from excessive borrowing by a law known as the “debt brake”, which exists to ensure that Germany maintains a sustainable level of government (national) debt.

- (ix) Explain **two** reasons why it is important for Germany to maintain a sustainable level of government (national) debt.

[4]

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(Question 1 continued)

The causes of Germany's slow growth are complex. In addition to the factors described in **Table 2**:

- Energy prices have been extremely high in recent years.
- There have been strikes by transport workers and farmers protesting against cuts in fuel subsidies.
- High interest rates have been used to address or reduce inflation.
- The labour force is expected to decrease significantly, with 2.3 million fewer women working than men. Women are also five times more likely to work part-time.

(This question continues on the following page)



(b) Using the text/data provided and your knowledge of economics, recommend a policy which could be introduced by the government of Germany to increase its rate of economic growth.

[10]



2. International tourists visit Tanzania, located in East Africa, to see wild animals in game parks. Tanzania earns approximately 25 % of its foreign exchange earnings and over 50 % of its service exports from tourism.

The Tanzania National Parks Authority must decide whether to raise or lower the price to enter a game park. An estimate of the price elasticity of demand (PED) assists in setting a price to increase revenue.

The price to enter a game park is 200 US dollars (USD), with 250 visitors entering per day. The estimated PED is -1.2 .

- (a) (i) Calculate the percentage change in the number of visitors per day if the price is decreased to USD 160. [2]

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- (ii) Using your answer to part (i), calculate the expected number of visitors per day after the price is decreased to USD 160. [1]

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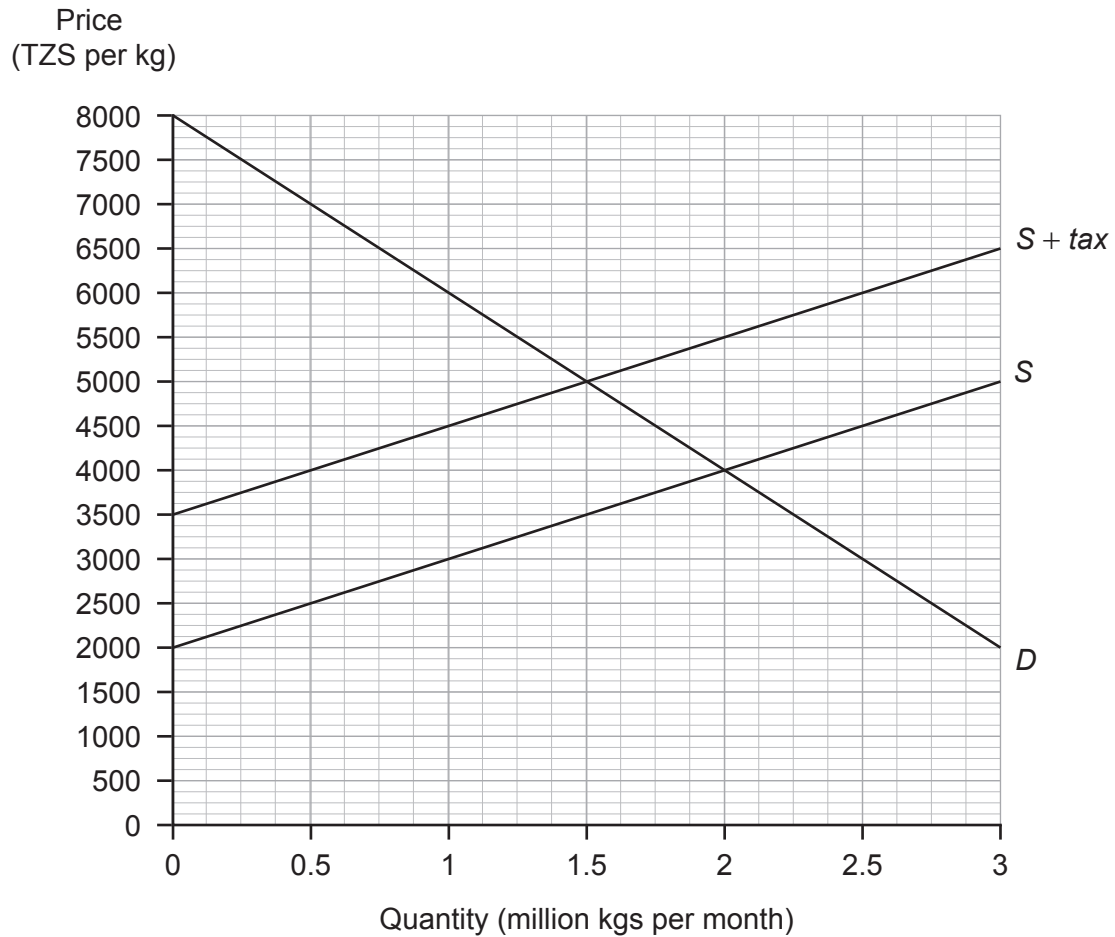


(Question 2 continued)

Coffee is an important export for the Tanzanian economy. The local currency is shillings (TZS).

Figure 1 illustrates the supply (S) and demand (D) for coffee in TZS per kilogram (kg) in Tanzania. An indirect tax is imposed on coffee production ($S + \text{tax}$).

Figure 1: The market for coffee in Tanzania



- (iii) Using **Figure 1**, calculate the tax revenue received per month as a result of the tax on coffee production.

[2]

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(Question 2 continued)

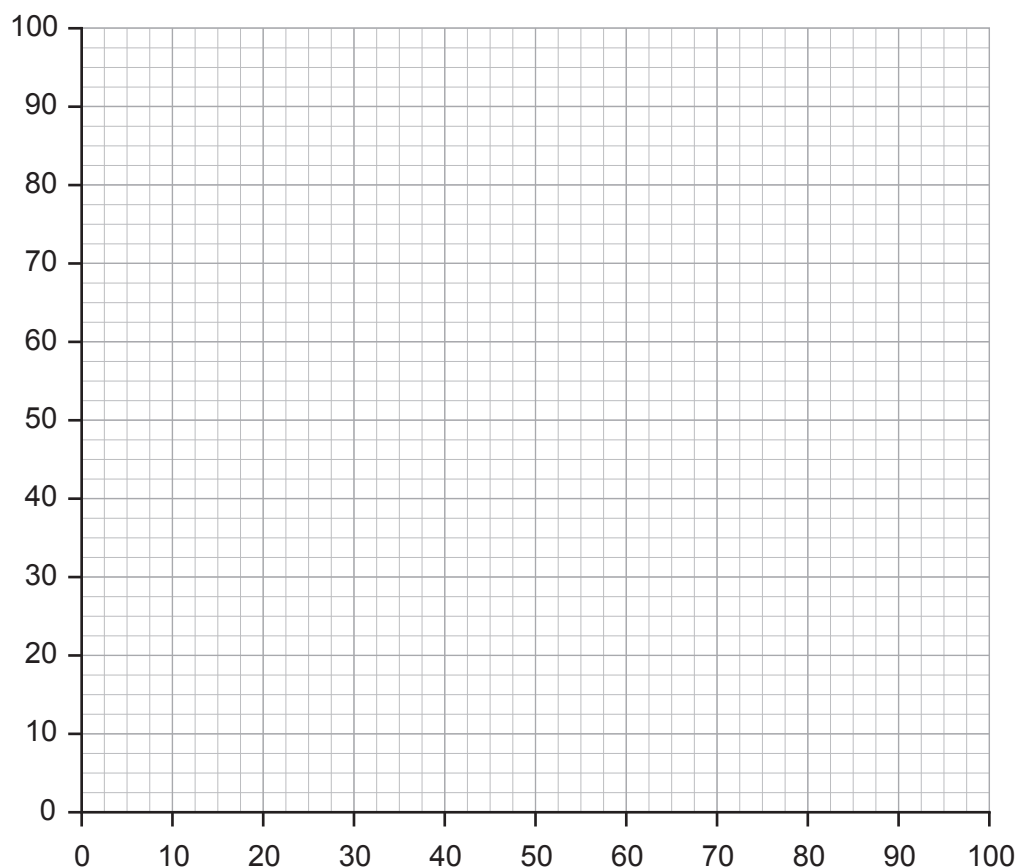
Tanzania's income distribution, according to the share of total income earned by households and ranked by income level, is shown in **Table 3**.

Table 3: Income distribution in Tanzania

	2000	2018
Income share held by lowest 20 % of households (%)	8	6
Income share held by second 20 % of households (%)	12	11
Income share held by third 20 % of households (%)	15	14
Income share held by fourth 20 % of households (%)	20	21
Income share held by highest 20 % of households (%)	45	48

- (iv) Using the income distribution information in **Table 3**, construct a fully labelled Lorenz curve diagram for Tanzania in 2000.

[2]



(This question continues on the following page)



(Question 2 continued)

- (v) With reference to the data in **Table 3**, explain **two** likely causes of the change in income distribution seen in Tanzania between 2000 and 2018.

[4]

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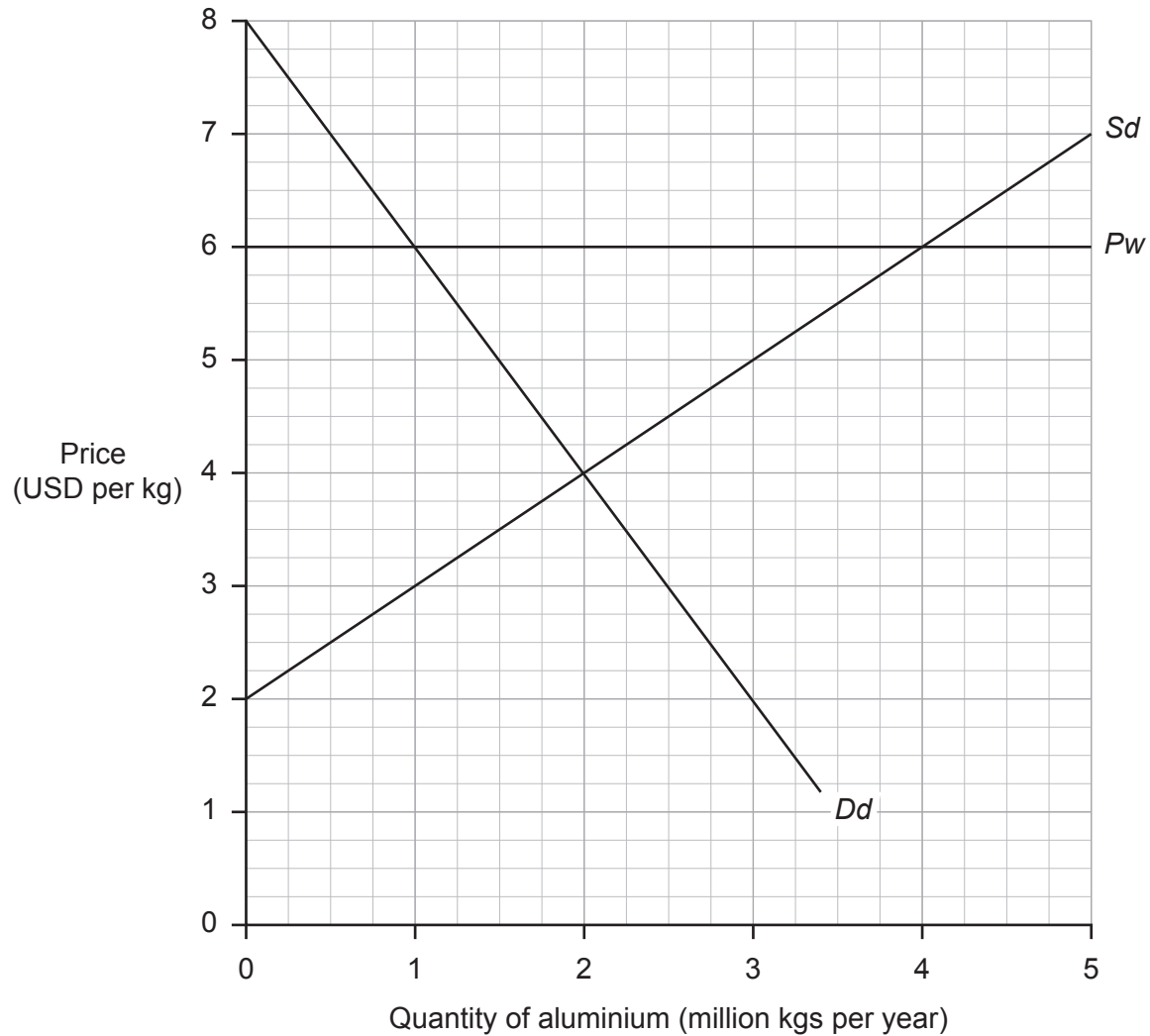
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(Question 2 continued)

The Tanzanian government is promoting aluminium exports to increase industrialization and diversification. **Figure 2** illustrates the market for aluminium. D_d is the domestic demand for aluminium and S_d is the domestic supply of aluminium in Tanzania. P_w is the world price in USD per kg.

Figure 2: The market for aluminium exports from Tanzania



- (vi) Using **Figure 2**, calculate the social/community surplus earned by stakeholders in the aluminium market in Tanzania. [2]

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(Question 2 continued)

- (vii) Using an international trade diagram, explain the effect on the quantity of aluminium exported by Tanzania if an export subsidy for aluminium is introduced. [4]

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(Question 2 continued)

Table 4 shows that Tanzania has a persistent current account deficit.

Table 4: Current account data for Tanzania

	2004	2023
Balance of trade in goods and services (USD million)	–842	–2078
Net income (USD million)	–230	–1536
Net current transfers (USD million)	589	656
Current account balance (USD million)	–483	–2958
Goods exports (USD million)	1482	7697
Services exports (USD million)	1134	6284
Travel services (% of service exports)	66	54

- (viii) In 2004, the balance of trade in **goods** was a deficit of USD 1001 million. Using **Table 4**, state whether the balance of trade in **services** was in surplus **or** deficit **or** balanced in 2004.

[1]

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- (ix) Using **Table 4**, state **one** possible reason for the change in net current transfers between 2004 and 2023.

[1]

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Travel services in **Table 4** mostly consist of spending by international tourists on tours and accommodation. In 2004, exports of travel services were USD 748 million.

- (x) Using **Table 4**, calculate exports of travel services in 2023.

[1]

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(This question continues on the following page)



(b) Using the text/data provided and your knowledge of economics, recommend a policy to correct Tanzania's persistent current account deficit.



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20EP18

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20EP19

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20EP20