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Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic Performance and Policy

Thursday 28 January 2016 – Afternoon
Time: 1 hour 30 minutes

Paper Reference
WEC02/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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P 4 6 9 4 5 A 0 1 4 4

PEARSON

SECTION A: Answer all questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The unemployment rate in Greece increased from 12.5% in 2010 to 24.2% in 2012.

Which one of the following was the most likely cause of this increase in unemployment?

(1)

A Measures taken by the Greek Government to reduce immigration

B A reduction in income tax by the Greek Government

C A depreciation of the euro against other currencies

D Measures taken by the Greek Government to reduce its budget deficit

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 Which one of the following is an example of monetary policy intended to reduce the chances of deflation occurring?

(1)

A Asset purchases by the country's central bank

B A decrease in income tax

C An increase in interest rates

D An increase in business regulation

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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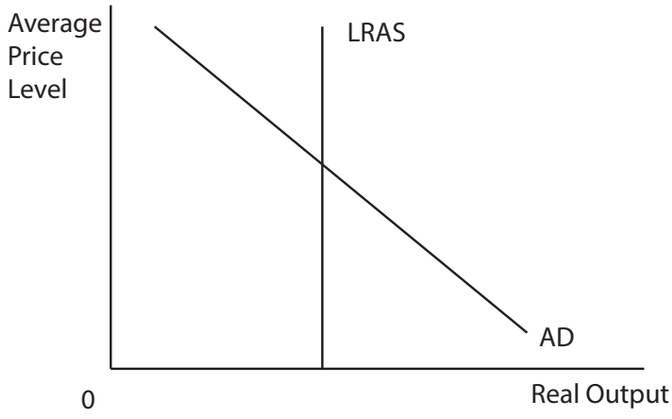
3 The diagram shows the aggregate demand (AD) curve and long-run aggregate supply curve (LRAS) for an economy.



What would be the long-run effect of government policy to increase business competition on the country's average price level and real output? You may wish to annotate the diagram in your answer.

(1)

	Average Price Level	**Real Output**
A	Rise	Rise
B	Rise	Fall
C	Fall	Rise
D	Fall	Fall

(a) Answer ☐

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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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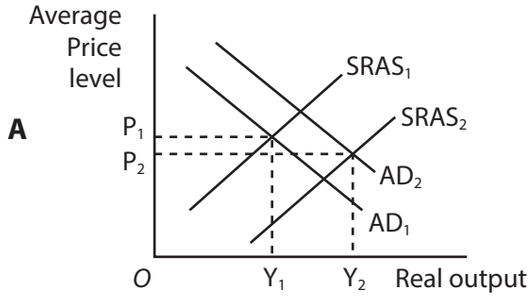
4 Which one of the following aggregate demand (AD) and short run aggregate supply (SRAS) diagrams best represents the likely effect of a substantial currency appreciation? In each diagram the original equilibrium is represented by P_1 and Y_1.

(1)

A



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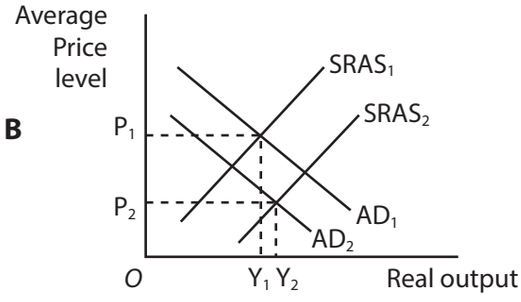

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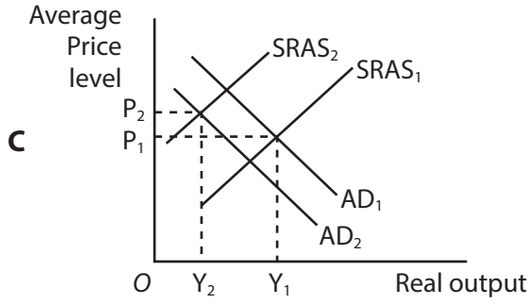

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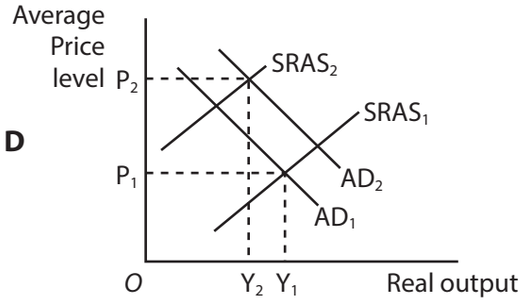

(a) Answer

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(b) Explanation

(3)

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5 For the tax year ending 2013 it was estimated that Italy's Government expenditure exceeded tax revenues by €44 billion. From this information it can be deduced that

(1)

A there was a net injection by the government sector into the circular flow of income

B government expenditure would decrease in the following tax year

C the value of the multiplier would decrease

D there was a net withdrawal by the government sector from the circular flow of income

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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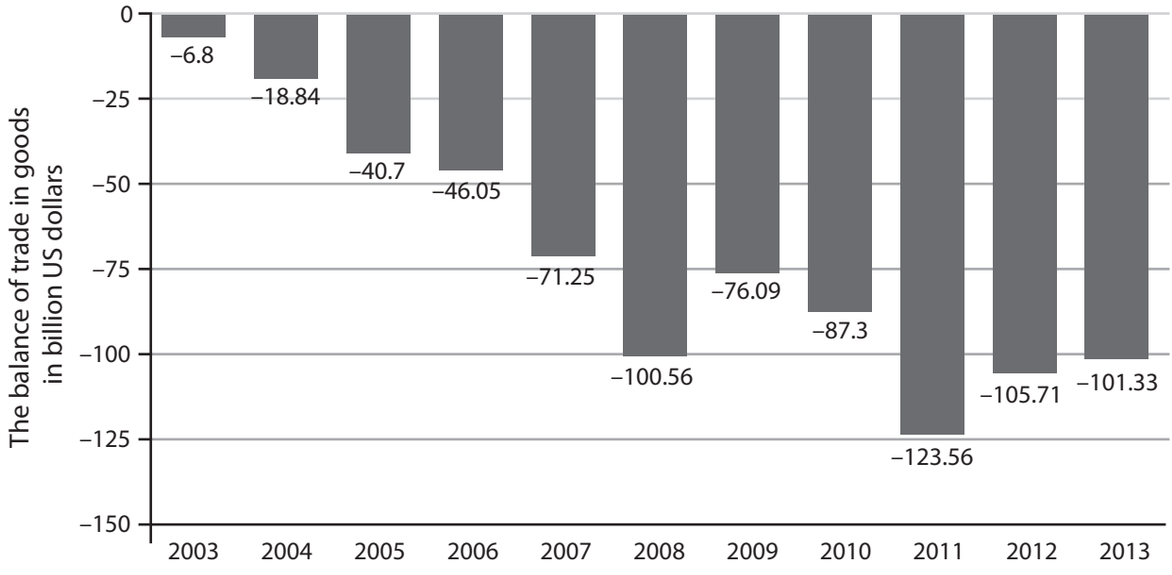
QUESTION 6 BEGINS ON THE NEXT PAGE.

6 The chart below shows the balance of trade in goods for France between 2003 and 2013.



(Source: http://www.statista.com/statistics/263622/trade-balance-of-goods-in-france/)

From this chart it can be deduced that for France over the whole of this period

(1)

A tax revenue was greater than government expenditure

B the value of imported goods was greater than the value of exported goods

C private investment was increasing

D the Balance of Payments was in deficit every year

(a) Answer ☐

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(b) Explanation

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7 Which one of the following would be most likely to lead to an increase in a developed economy's average price level and a reduction in its real output?

(1)

A An increase in labour productivity

B A decrease in indirect tax

C An increase in global commodity prices

D An increase in investment

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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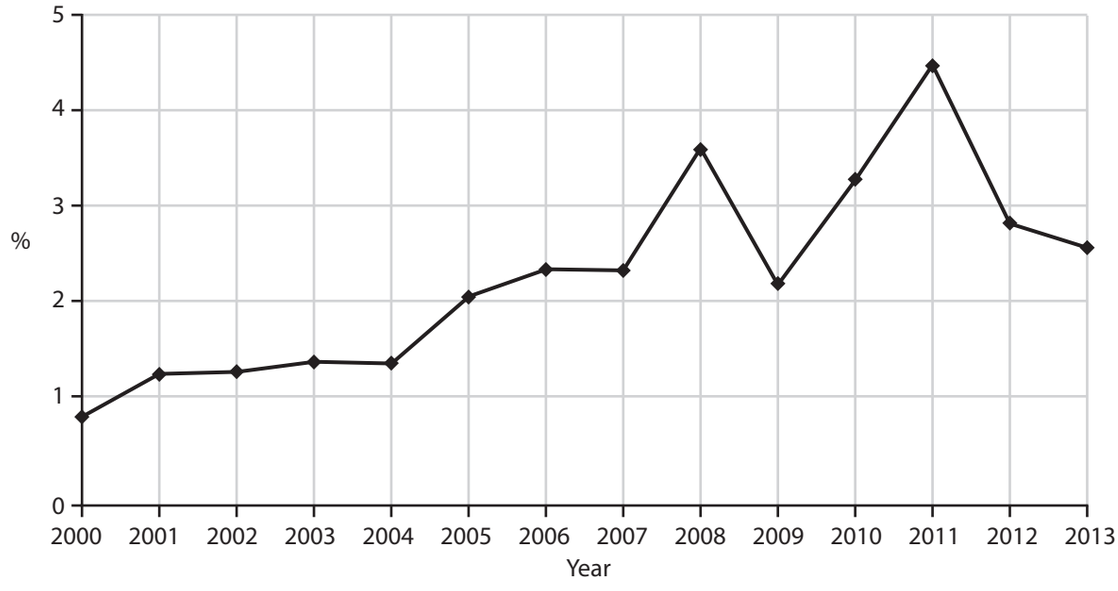
QUESTION 8 BEGINS ON THE NEXT PAGE.

8 The chart below shows the average percentage change in consumer prices as measured by the consumer price index (CPI) for the United Kingdom 2000–2013.



(Source: http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG)

From this chart, it can be deduced that

(1)

A average prices were lower in 2013 than in 2008

B average prices were higher in 2003 than in 2004

C average prices were higher in 2013 than in 2011

D average prices were falling between 2008 and 2009

(a) Answer ☐

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(b) Explanation

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TOTAL FOR SECTION A = 32 MARKS

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SECTION B: Answer either Question 9 or Question 10.

If you answer Question 9 put a cross in the box ☒ .

Question 10 starts on page 32.

You should spend 55 minutes on this section.

9 Economic performance in western European countries

Figure 1 Macroeconomic indicators in selected developed countries, 2013

	Economic growth %	Inflation (% increase in CPI)	Current account of the Balance of Payments (% of GDP)	Human Development Index (HDI)
France	0.2	0.9	–2.2	0.844
Germany	0.4	1.5	7.4	0.911
Spain	–1.2	1.4	–1.2	0.869
United Kingdom	1.7	2.6	–3.8	0.892

(Sources: http://data.worldbank.org/indicator, http://ieconomics.com/current-account-balance-percent-of-gdp and http://hdr.undp.org/en/countries)

Figure 2 Investment and savings in selected developed countries, 2013

	Investment as % of GDP	Savings as % of GDP
France	19.5	17.6
Germany	16.9	23.1
Spain	18.2	20.6
United Kingdom	13.9	12.8

(Source: http://data.worldbank.org/indicator)

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Extract 1 German trade surplus could threaten eurozone recovery

Germany's status as Europe's industrial power could be damaging the eurozone, the European Commission (EC) has said, as it launched an investigation into whether the country's large balance of trade surplus was slowing Europe's recovery. Germany, Europe's biggest economy, was one of three countries singled out for an in-depth review by the EC.

The EC said that Germany's large current account surplus, which accounts for most of the eurozone's positive balance, 'may put pressure on the euro to appreciate. This would make it more difficult for the some countries to recover competitiveness through depreciation'.

However, the EC insisted it was not criticising Germany's economic success. 'The issue is whether Germany … could do more to help rebalance the European economy,' said Jose Manuel Barroso, the president of the EC. Olli Rehn, commissioner for economic and monetary affairs argued that its persistent high surplus also means that Germans are continuously investing a large part of their savings abroad. The question is whether this is desirable for Germany and for the rest of the eurozone.

(Source: http://www.telegraph.co.uk/finance/economics/10447273/German-trade-surplus-could-threaten-eurozone-recovery-says-EC.html)

Extract 2 Inflation in the United Kingdom in 2013

The UK's inflation rate has fallen slightly thanks to smaller price increases for clothes and transport than a year ago. The annual inflation rate as measured by the consumer price index fell from 2.8% in July to 2.7% in August 2013. This means a basket of goods and services that cost £100 in August 2012 would have cost £102.70 in August 2013.

Prices have been rising faster than wages in the UK for several years, pushing living standards down to their lowest level in a decade. The rate of inflation peaked at 5.2% in September 2011 and remained above the Bank of England's 2% target in August 2013.

(Source: http://www.ft.com/cms/s/0/7222e460-1f77-11e3-aa36-00144feab7de.html#axzz3FLx9n09y)

(a) With reference to Figure 1, explain what is meant by the term economic growth.

(4)

(b) With reference to the information provided, assess possible reasons for the higher rate of inflation in the UK in 2013 than the other countries shown.

(10)

(c) With reference to Figure 2, explain the difference between an injection into and a withdrawal from the circular flow of income.

(6)

(d) With reference to Figure 2, assess possible factors which may have affected the different level of savings as a percentage of GDP.

(14)

(e) Evaluate the likely impact of the sustained German current account surplus on the eurozone economy.

(14)

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(a) With reference to Figure 1, explain what is meant by the term economic growth.

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(b) With reference to the information provided, assess possible reasons for the higher rate of inflation in the UK in 2013 than the other countries shown.

(10)

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(c) With reference to Figure 2, explain the difference between an injection into and a withdrawal from the circular flow of income.

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(d) With reference to Figure 2, assess possible factors which may have affected the different level of savings as a percentage of GDP.

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(e) Evaluate the likely impact of the sustained German current account surplus on the eurozone economy.

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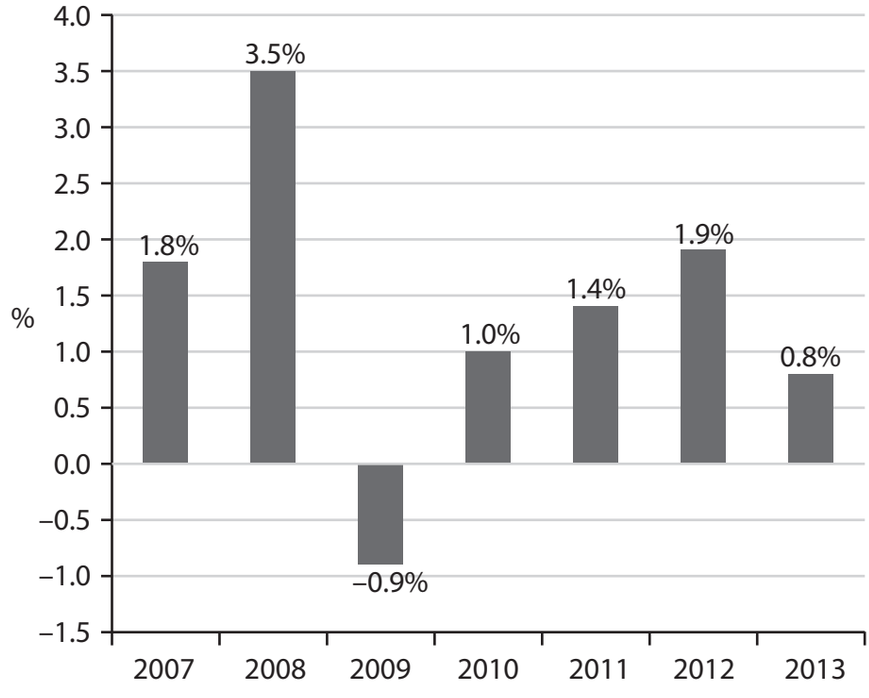
If you answer Question 10 put a cross in the box ☒ .

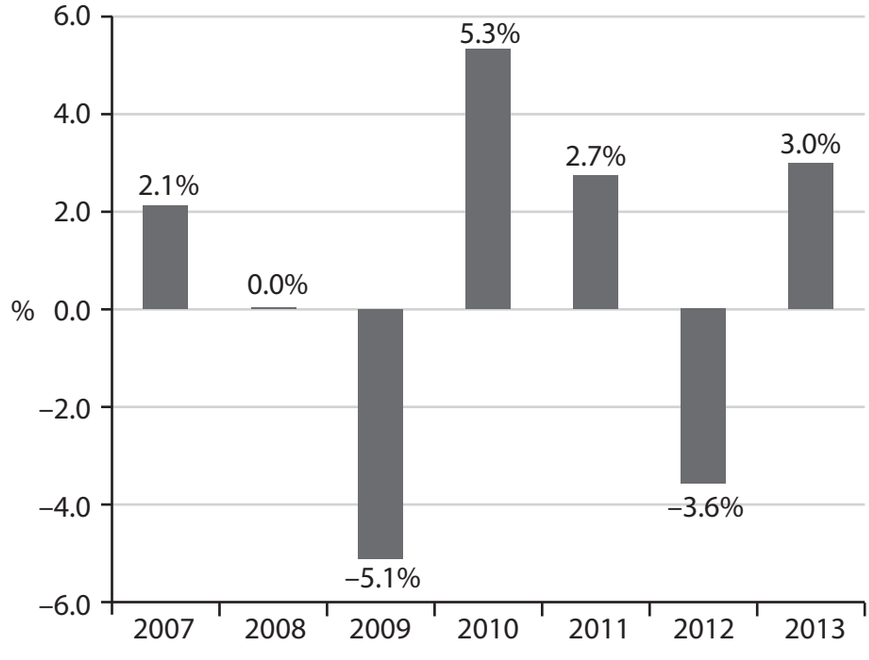
10 The economy of Taiwan

Figure 1 Taiwan's rate of inflation as measured by the consumer price index (CPI), 2007–2013



(Source: http://eng.stat.gov.tw/)

Figure 2 Average annual nominal wage increases in Taiwan, 2007-2013



(Source: http://www.ilo.org/global/research/global-reports/global-wage-report/)

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Extract 1 Taiwan's exports

Taiwan's economy has outperformed other economies in the region. This has been driven by demand for its electronic components and products, particularly smartphones. However, the value of Taiwan's exports of goods declined by 5.9% in August 2014, as strong demand for electronic components was offset by a fall in smartphone and petrochemical sales. It is too early to tell whether this recent decline becomes a trend, but it will be an important indicator for the rest of the world to watch, given the critical role that Taiwan's electronics sector plays in world supply chains.

(Source: http://blogs.wsj.com/moneybeat/2014/10/07/macro-horizons-yet-more-proof-that-world-economy-outside-u-s-is-struggling/)

Extract 2 Taiwan's economy in 2014

Taiwan's central bank is scheduled to announce its interest rate at the end of September 2014, and the market is keen to know if it is the time for an increase as data showed economic recovery in the country.

Among major emerging Asian economies, Taiwan has the lowest interest rate at 1.87%. It compares to India's 8.00%, China's 6.00%, Thailand's 2.00% and South Korea's 2.25%.

Taiwan's economy is growing fast, inflation is rising and unemployment is falling which is increasing the pressure on the central bank to raise interest rates. The central bank is worried about the economic cost of inflation to Taiwan such as the impact on competitiveness and savers.

The Taiwan dollar is not reflecting a possible rate increase. It has been declining over the past few weeks against the US dollar and has weakened more than 1% in the first 3 weeks in September 2014.

Taiwan's GDP growth rose to 3.74% from a year earlier in the second quarter of 2014 from 3.14% in the previous quarter. The inflation rate is also on the rise in the country. It has risen from 1.64% in June to 1.75% in July and then to 2.07% in August 2014.

(Source: http://www.ibtimes.co.uk/taiwans-dollar-five-month-low-despite-strengthening-fundamentals-central-bank-move-watched-1467002)

(a) With reference to Figure 1 and Figure 2, calculate the change in average real wages in 2012.

(4)

(b) With reference to Figure 1 and Figure 2, assess the likely effect of the increase in average real wages in 2013 on the price level **and** real output in Taiwan.

(10)

(c) With reference to the information provided, explain **two** costs of inflation to the Taiwanese economy.

(6)

(d) With reference to the information provided, discuss the case for an increase in the rate of interest in Taiwan in September 2014.

(14)

(e) With reference to Extract 1, evaluate the likely effects of a sustained decrease in the exports of goods on the Taiwanese economy.

(14)

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(a) With reference to Figure 1 and Figure 2, calculate the change in average real wages in 2012.

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(b) With reference to Figure 1 and Figure 2, assess the likely effect of the increase in average real wages in 2013 on the price level **and** real output in Taiwan.

(10)

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(c) With reference to the information provided, explain **two** costs of inflation to the Taiwanese economy.

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(d) With reference to the information provided, discuss the case for an increase in the rate of interest in Taiwan in September 2014.

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(e) With reference to Extract 1, evaluate the likely effects of a sustained decrease in the exports of goods on the Taiwanese economy.

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TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS