GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic Performance and Policy

Monday 17 October 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** the 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 your spelling, 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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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 Which one of the following policy instruments would be most likely to increase the trend rate of growth of real output without increasing the rate of inflation?

(a) An increase in

(1)

A the national minimum wage

B spending on education and training

C indirect taxation

D spending on welfare benefits

Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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QUESTION 2 BEGINS ON THE NEXT PAGE.

2 The table below shows the components of the UK balance of payments on current account in 2013.

Component	£million
Export of goods	306 810
Import of goods	417 006
Export of services	204 465
Import of services	126 369
Net investment income	–13 134
Net transfers	–27 162

(Source: adapted from http://ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2013/)

(a) From this data it can be deduced that there was a

(1)

A surplus in the trade in goods balance

B deficit on the current account

C deficit in the trade in services balance

D surplus on the current account

Answer ☐

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(b) Explanation

(3)

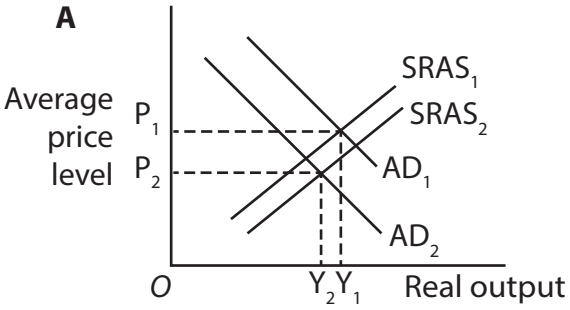
(Total for Question 2 = 4 marks)

3 (a) Which one of the following aggregate demand (AD) and short run aggregate supply (SRAS) diagrams represents the most likely effect on an economy of a substantial currency depreciation?

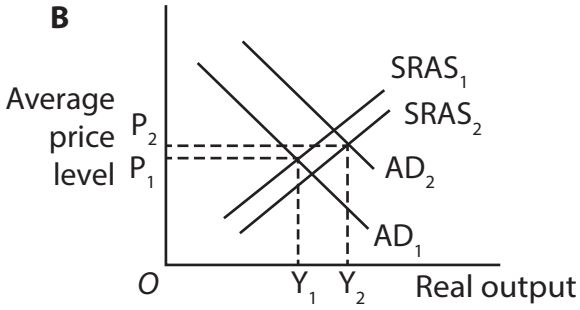
(1)

In each diagram the original equilibrium is represented by P_1 and Y_1.

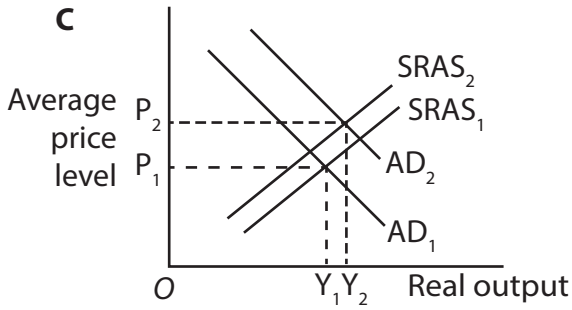
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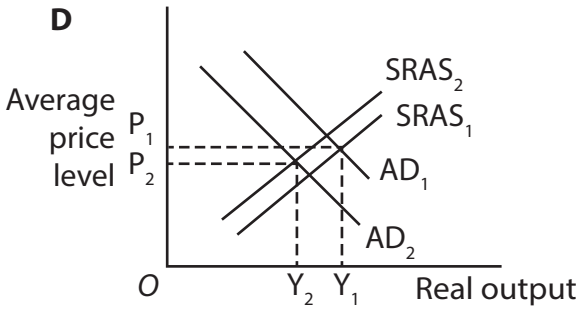
B



C



D



Answer

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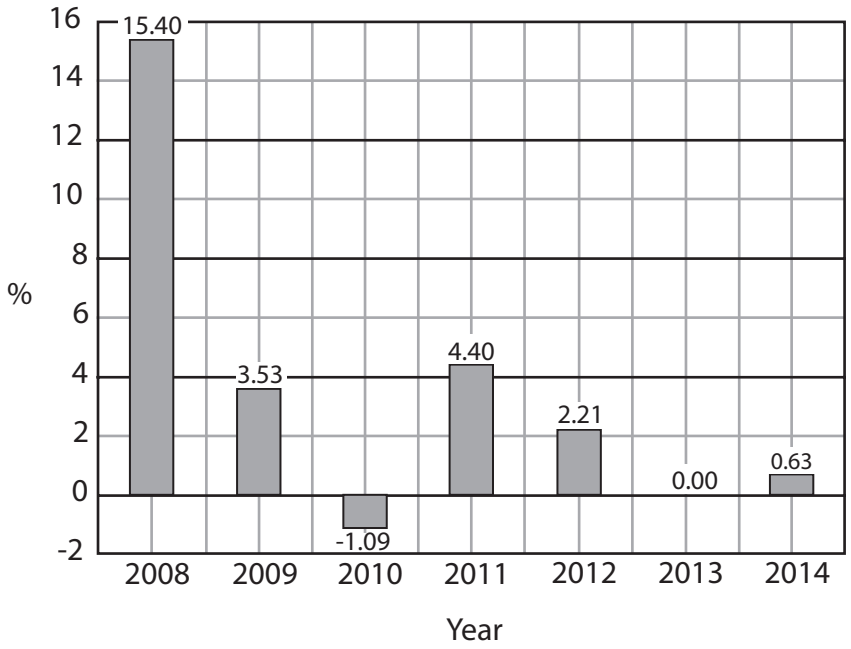
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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

4 The chart below shows the annual percentage change in consumer prices as measured by the consumer price index (CPI) for Latvia between 2008 and 2014.



(a) From this chart it can be deduced that

(1)

A average prices were lower in 2009 than in 2008

B there was deflation from 2011 to 2013

C there was a recession from 2011 to 2012

D average prices were higher in 2014 than in 2008

Answer

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(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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5 The table below shows total GDP and population for selected countries in 2014.
(You should use the last column for your calculations.)

Country	Total GDP (US$ billion)	Population (million)	GDP per capita (US$)
Brazil	2 346	203	
Russia	1 861	144	
India	2 067	1 239	
China	10 360	1 368	

(Source: http://www.tradingeconomics.com/australia/indicators)

(a) From the data it can be deduced that GDP per capita was

(1)

A $12 924 in Brazil

B lowest in Russia

C $1 668 in India

D highest in China

Answer ☐

(b) Explanation

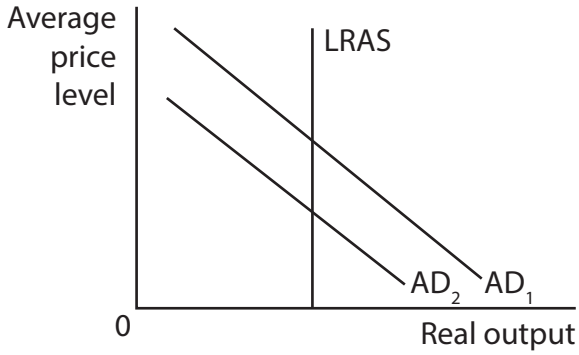
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(Total for Question 5 = 4 marks)

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6



(a) Which one of the following is most likely to cause the shift in the aggregate demand curve from AD_1 to AD_2 as shown in the above diagram?

(1)

A An increase in net imports

B An increase in investment

C An increase in government spending

D An advance in production technology

Answer ☐

(b) Explanation

(3)

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(Total for Question 6 = 4 marks)

7 (a) Which one of the following is most likely to occur when an economy is in recession?

(1)

A Increasing investment and real output

B Rising profits and a positive output gap

C Falling consumption and a negative output gap

D Falling unemployment and rising profits

Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 In 2014, foreign tourist spending in the USA exceeded spending by US tourists overseas by $72 billion.

(a) The most likely result of this was

(1)

A a net withdrawal from the USA circular flow of income

B a net injection into the USA circular flow of income

C a depreciation in the value of the US dollar

D a reduction in the level of the USA's real output

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

SECTION B

Answer EITHER Question 9 OR Question 10.

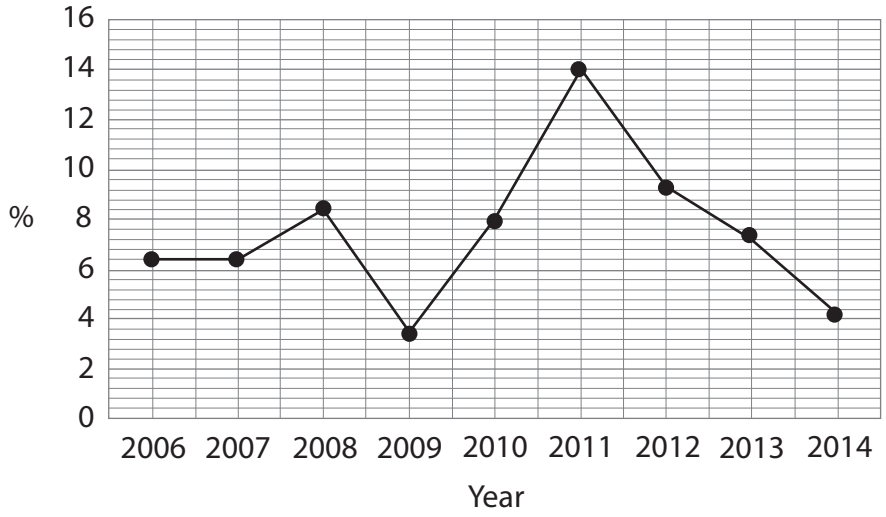
You should spend 55 minutes on this section.

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

Question 10 starts on page 28.

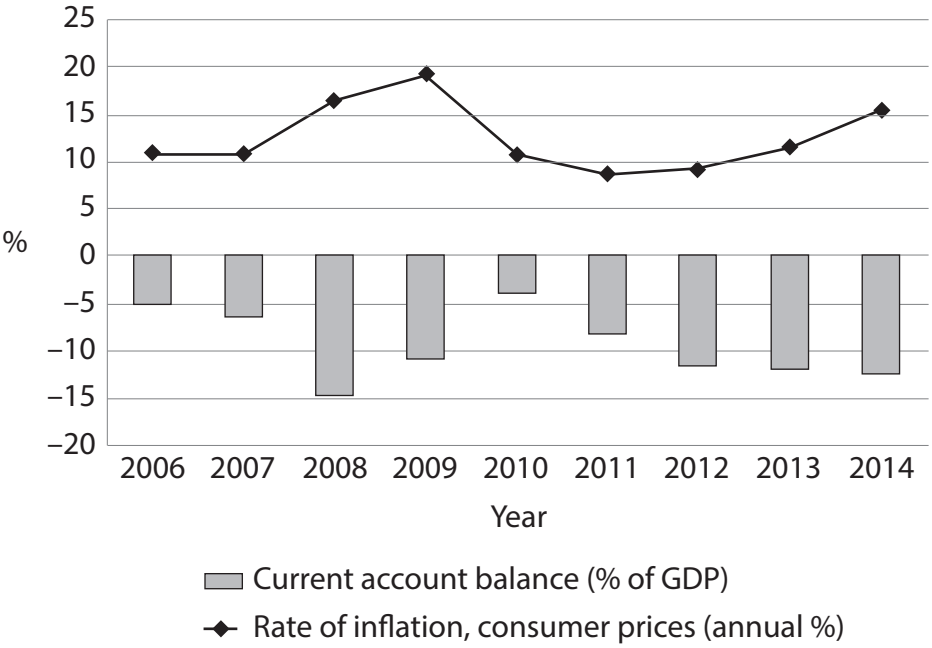
9 The economy of Ghana

Figure 1 Annual % real GDP growth, 2006–2014



(Source: http://www.worldbank.org/en/country/ghana)

Figure 2 Inflation and balance of payments on current account, 2006–2014



(Source: http://www.worldbank.org/en/country/ghana)

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Extract 1 Economic development in Ghana

Although Ghana experienced economic growth in 2014, the economy faced major challenges in the form of an energy shortage, a rising rate of inflation and higher interest rates.

Over the medium term, the economy is projected to recover. This is largely because of higher oil and gas production, increased private sector investment and public sector infrastructure spending, combined with greater political stability.

Ghana's economic growth over the past 10 years has helped the country achieve the Millennium Development Goal (MDG) of halving the proportion of the population living in absolute poverty. However, there is evidence of growing differences in economic development, living standards and income inequality between regions. Progress in the achievement of other MDGs remains mixed, with the 2015 targets likely to be missed.

(Source: http://www.africaneconomicoutlook.org)

Extract 2 Ghana's need for GDP Growth

According to Ghana's President, the country needs annual GDP growth above 8% to create jobs for its expanding population. With a population of 25 million, Ghana experienced rapid economic growth for several years resulting from exports of cocoa, oil and gold. However, growth slowed after 2011 and is forecast to be only 3.9% in 2015 because of a fall in commodity prices and declining tax revenues. The value of Ghana's currency, the cedi, fell by about 20% at the start of 2015.

(Source: http://www.ngrguardiannews.com/2015/08/ghana-needs-gdp-growth-above-8-pct-to-cope-with-rising-population/)

(a) With reference to the information provided, analyse **two** possible reasons why Ghana's rate of economic growth has decreased since 2011.

(6)

(b) With reference to Figure 2, briefly explain how the rate of inflation is measured using the consumer price index.

(4)

(c) Assess the likely impact on Ghana's economy of 'increased private sector investment and public sector infrastructure spending' (Extract 1, lines 5-6). Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)

(d) With reference to the information provided, assess the likely causes of the trend in Ghana's current account balance as a proportion of GDP since 2010.

(10)

(e) With reference to the information provided and your own knowledge, evaluate the likely effects of high rates of inflation on living standards.

(14)

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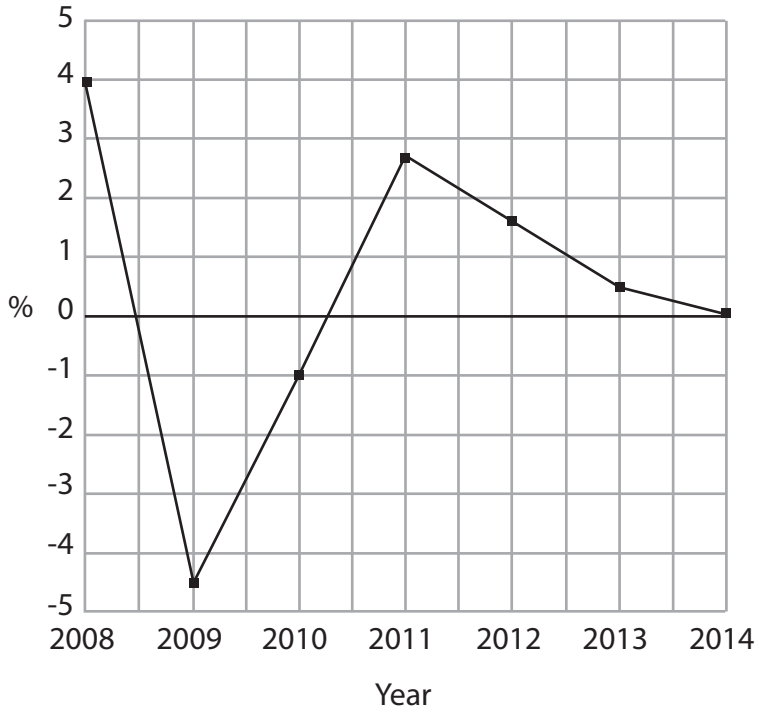
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QUESTION 10 BEGINS ON THE NEXT PAGE.

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

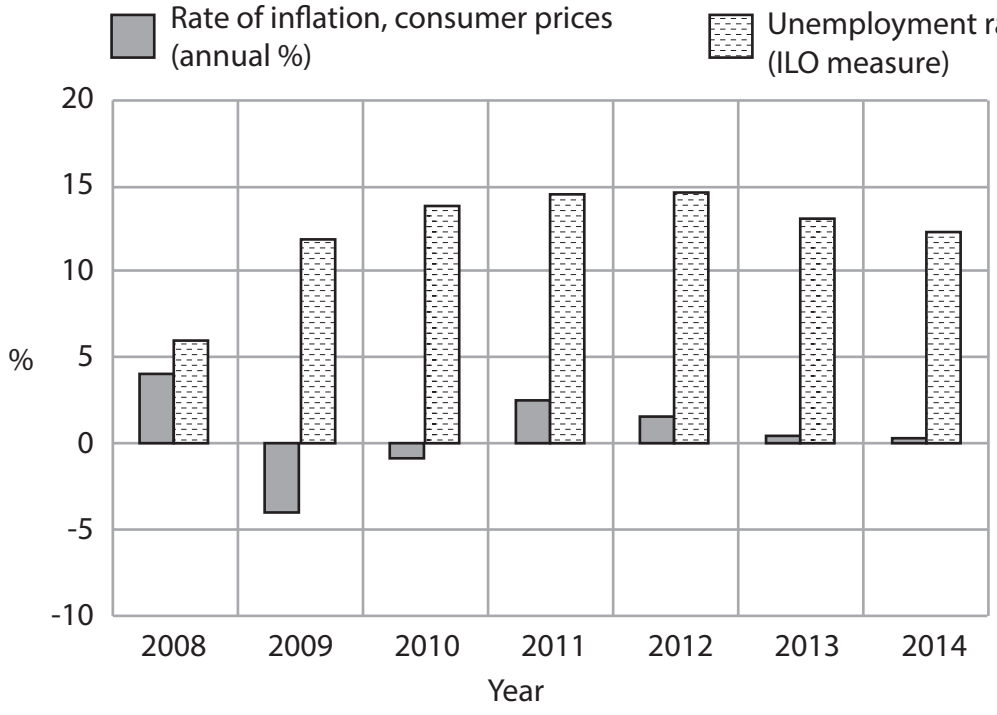
10 The economy of Ireland

Figure 1 Annual % real GDP growth, 2008–2014



(Source: http://data.worldbank.org/country/ireland)

Figure 2 Inflation and unemployment, 2008–2014



(Source: http://data.worldbank.org/country/ireland)

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Extract 1 Ireland's GDP growth

Ireland's GDP grew at a quarterly rate of 1.9% in the three months to June 2015 and 2.1% in the previous quarter, which was much higher than the 0.7% forecast.

Ireland's strong rate of economic growth has been supported by investment by foreign companies in recent years. GDP growth means the Government collects more tax revenues. House prices rose by 10% in July 2015 compared to the same month in 2014. Retail sales grew by 11.5% between June and July but the overall level of consumer spending remains low. Investment rose by 19.2% in the third quarter of 2015, as businesses gained the confidence to invest.

Government spending fell during the second quarter of 2015. However, in August the Irish Government stated that it had identified €1.5 billion that it could allocate to cutting tax or upgrading public investment in its October 2015 budget. Previous public spending cuts have caused reduced investment in the health service, education system, childcare services and public transport.

(Source: http://www.ft.com/fastft/389871/irelands-economic-recovery-slows-q2)

Extract 2 Number of people in work hits 6-year high

As the level of unemployment in Ireland continues to fall, August 2015 figures indicate the number of people currently working is the highest it has been in six years. At the end of the second quarter, some 1 958 700 people were classed as employed, representing an increase of 57 100. This growth was accompanied by a 0.6% rise in the number of people in the labour force. The sectors which have seen the most significant gains in employment in the past year are construction and the financial sector.

The rate of unemployment fell from 10% to 9.6% in the second quarter of 2015. It is the 12th quarter in a row in which the jobless rate has fallen.

Meanwhile, figures for immigration and emigration have also been released. Some 69 300 people moved to Ireland between April 2014 and April 2015, an increase of 8 500 on the previous year. Over the same time period 80 900 emigrated, a decrease of 1 000. Some 30 400 emigrants were aged between 15 and 25, bringing the total number of 15-to-25-year-olds who have emigrated in the last seven years to 223 600.

(Source: http://www.irishexaminer.com/ireland/number-of-people-in-work-hits-6-year-high-350449.html)

(a) With reference to Figure 2, briefly explain how the International Labour Organisation (ILO) unemployment rate is measured.

(4)

(b) With reference to Extract 1 and your own knowledge, analyse the impact of an increase in investment on economic growth.

(6)

(c) With reference to the information provided and your own knowledge, assess the likely economic effects of net outward migration on Ireland's economy.

(14)

(d) To what extent is there a conflict between the objectives of low unemployment and a low rate of inflation? Refer to Figure 2 in your answer.

(10)

(e) Evaluate the likely impact on Ireland's economy of demand-side policies aimed at increasing consumer spending. Illustrate your answer with an aggregate demand and aggregate supply diagram.

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(Total for Question 10 = 48 marks)

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

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