GradeMax

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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

Monday 16 October 2017 – 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.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of 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 The Kazakhstan Central Bank decreased the base interest rate from 15% to 13% in July 2016.

(a) Ceteris paribus, this is likely to lead to a decrease in

(1)

A economic growth

B investment

C unemployment

D aggregate supply

Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 In July 2016 the unemployment rate in Denmark was approximately 5%.

(a) Which one of the following is most likely to lead to an increase in real output without increasing the rate of inflation?

(1)

A An increase in income tax rates

B A reduction in unemployment benefits

C Asset purchases by Denmark's Central Bank

D Increase in the value of the currency (krone)

Answer ☐

(b) Explanation

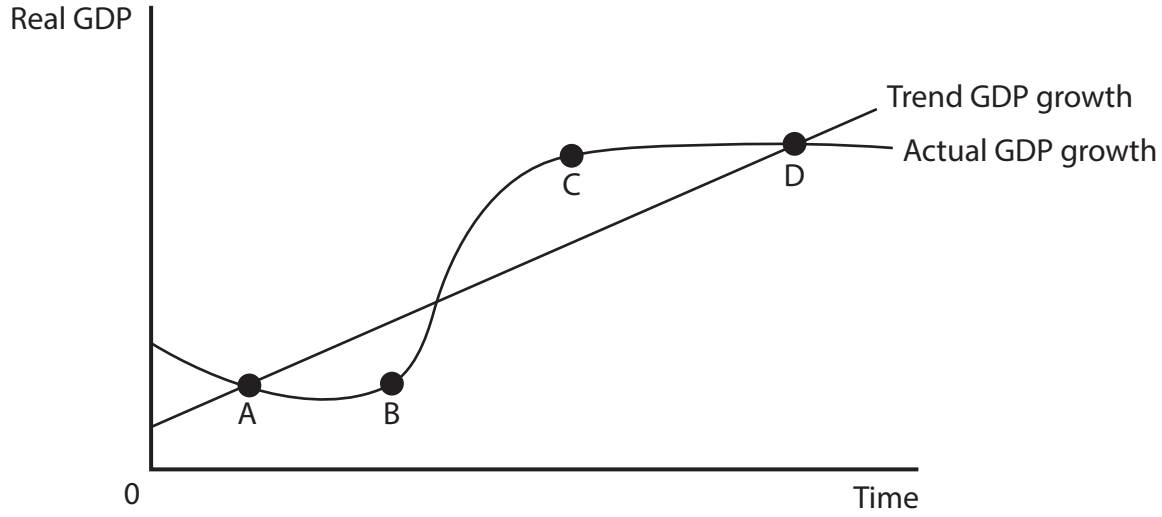
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(Total for Question 2 = 4 marks)

3 The diagram shows the trend growth of GDP for an economy compared with its actual GDP growth.

(a) At which point is there a positive output gap?

(1)



Answer

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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

4 Between 2011 and 2015 total investment spending fell in France.

(a) Ceteris paribus, this fall in investment is likely to have which of the following effects?

(1)

	Aggregate demand	Long-run aggregate supply
A	Fall	Rise
B	Rise	Fall
C	Rise	No change
D	Fall	Fall

Answer ☐

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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5 (a) Which one of the following is most likely to result in a supply-side shock to the United Kingdom economy?

(1)

A An increase in world commodity prices

B An increase in the UK unemployment rate

C An increase in UK house prices

D An increase in the availability of credit to households

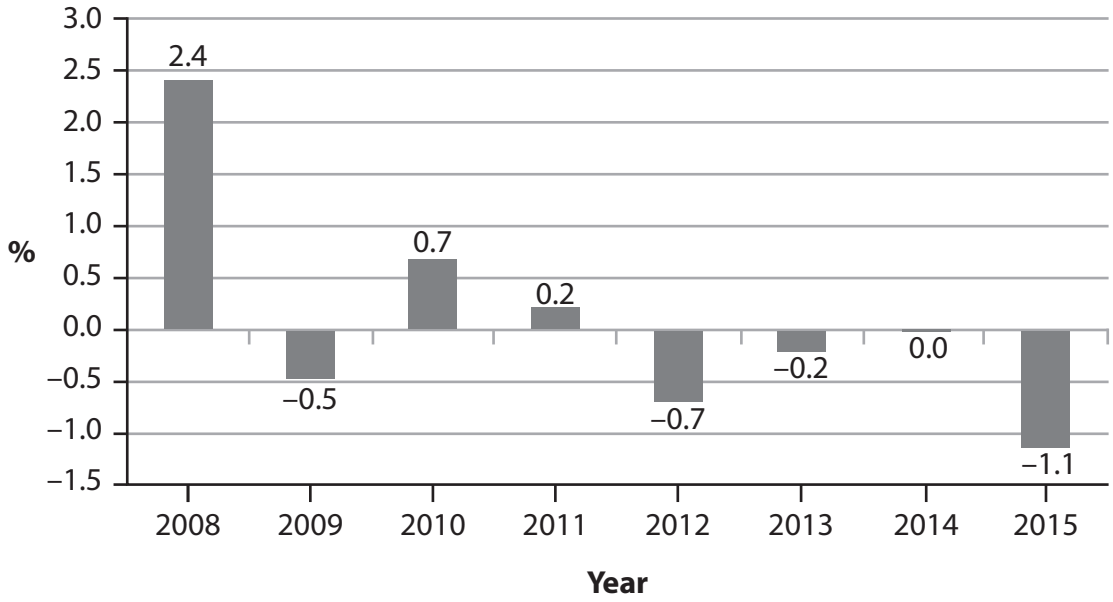
Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

6 The chart shows the annual percentage change in consumer prices for Switzerland, 2008–2015.



(a) It can be deduced that there was

(1)

A deflation in 2010

B a recession between 2012 and 2015

C an increase in consumer prices between 2012 and 2013

D an increase in consumer prices between 2010 and 2011

Answer ☐

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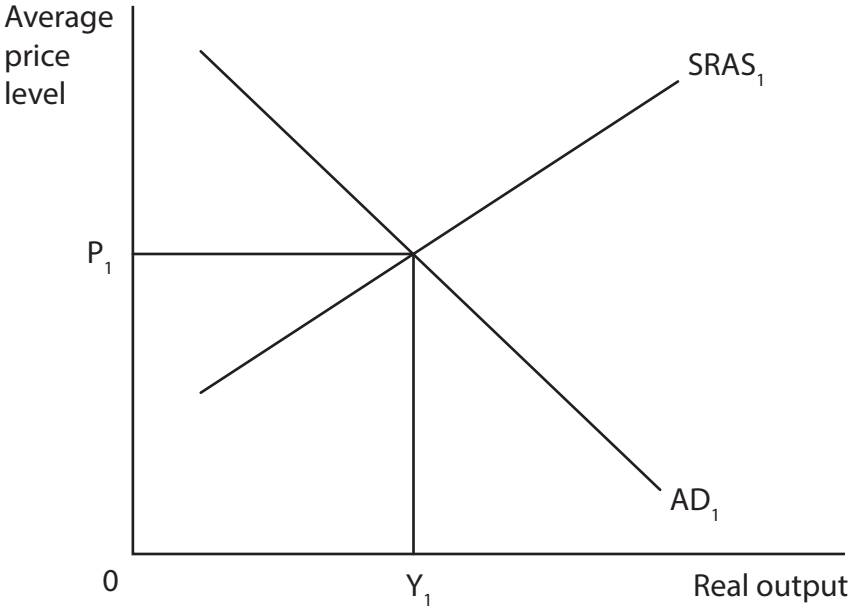
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(b) Explanation

(3)

(Total for Question 6 = 4 marks)

7 The diagram shows the aggregate demand (AD) and short-run aggregate supply (SRAS) curves for a developing economy.



(a) What would be the most likely effect of a decrease in the value of exports and an increase in the value of imports on the country's average price level and real output?

(1)

	Average price level	Real output
A	Fall	Rise
B	Fall	Fall
C	Rise	No change
D	No change	No change

Answer

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

8 Which one of the following is most likely to decrease the size of the multiplier?

(a) A decrease in the

(1)

A marginal propensity to consume

B marginal propensity to tax

C marginal propensity to import

D marginal propensity to save

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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QUESTION 9 BEGINS ON THE NEXT PAGE.

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 26.

9 The economy of Poland

Figure 1 Annual percentage change in real GDP and rate of inflation, 2008–2015

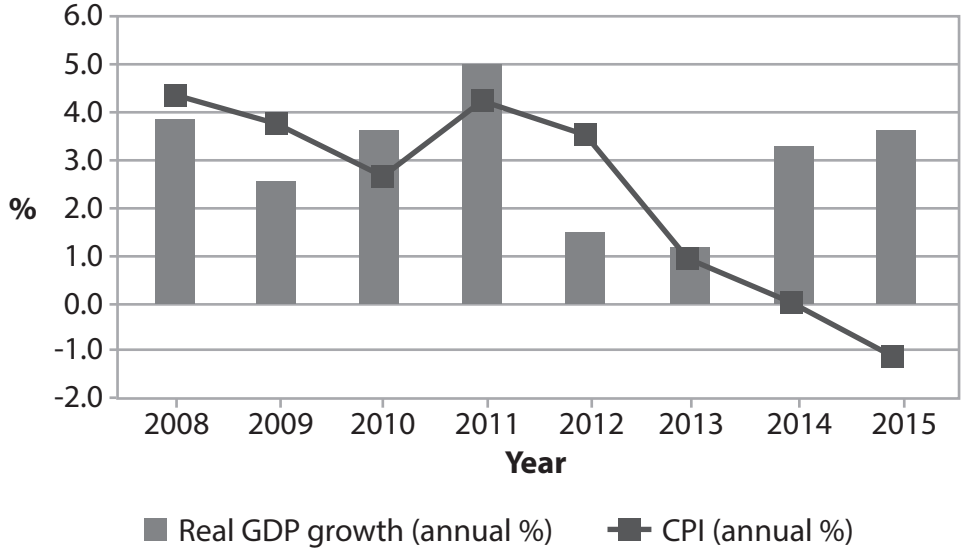
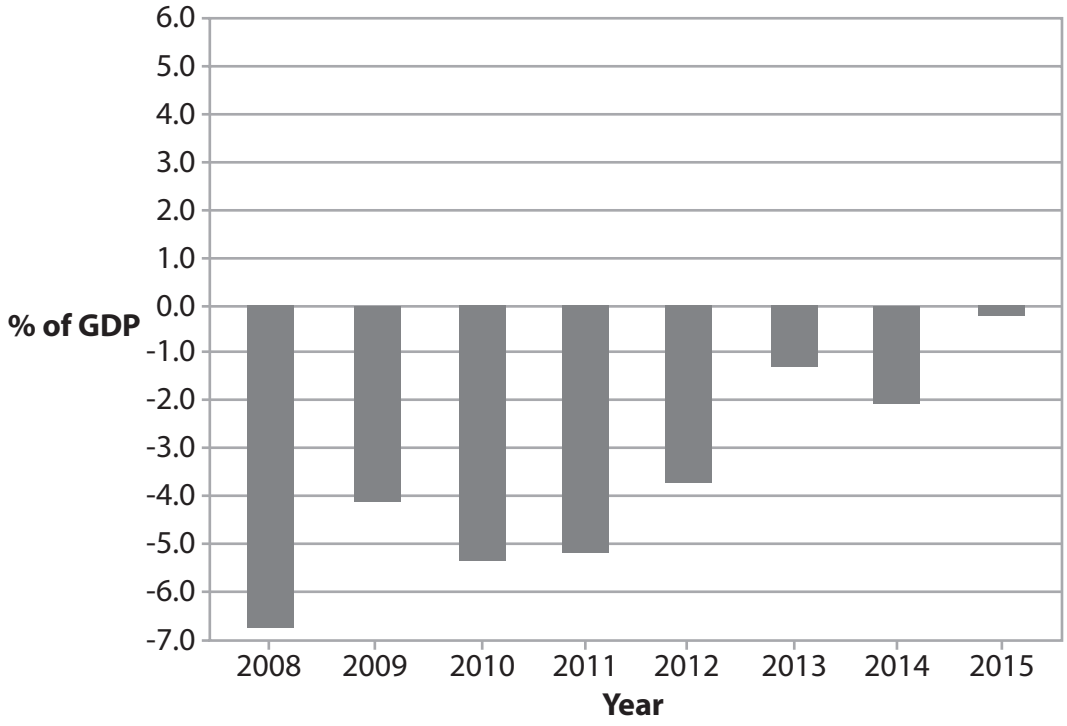


Figure 2 Current account of the balance of payments as a percentage of GDP, 2008–2015



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

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Extract 1 Government proposals to encourage investment and innovation

The Polish Government is proposing a package of measures, including tax breaks for investment, to encourage innovation and promote economic growth. The proposals would also remove the current five-year time limit on how long inventors can claim a share of commercial revenue from their inventions.

In 2017, the tax on revenue from intellectual and industrial property will be reduced. There will also be additional financial incentives for investment in research and development. One of the stated aims of the proposals is to create a "knowledge economy" in Poland and therefore help the country to become a high income economy.

(Source: adapted from http://www.thenews.pl/1/12/Artykul/266913, Government-proposals-to-encourage-innovation)

Extract 2 Inflationary pressures

After an extended period of falling consumer prices, inflationary pressures are expected to remain low until 2017. Since 2012, the annual rate of consumer price inflation has remained well below Poland's Central Bank target of 2.5%.

In mid-2014, there was deflation, mainly driven by falling energy and food prices. In 2016 and 2017, consumer prices are expected to rise slightly as a result of strong domestic demand and higher energy and food prices. Prices are also expected to increase due to the new tax on financial sector assets and the planned tax on the retail sector.

(Source: adapted from http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_poland_en.pdf)

(a) With reference to Figure 1, explain what is meant by annual percentage change in real GDP.

(4)

(b) With reference to the information provided and your own knowledge, assess the likely impact of an increase in investment on the economy of Poland.

(14)

(c) With reference to Figure 2, assess the likely economic impact of the trend in Poland's current account balance as a percentage of GDP since 2008.

(10)

(d) With reference to Extract 2, explain why Poland's Central Bank has an inflation target.

(6)

(e) With reference to the information provided and your own knowledge, evaluate the likely impact of deflation on the economy of Poland.

(14)

(a) With reference to Figure 1, explain what is meant by annual percentage change in real GDP.

(4)

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(b) With reference to the information provided and your own knowledge, assess the likely impact of an increase in investment on the economy of Poland.

(14)

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(10)

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(Total for Question 9 = 48 marks)

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

10 The economy of Turkey

Figure 1 Annual percentage change in real GDP and the current account of the balance of payments as a percentage of GDP, 2008–2015

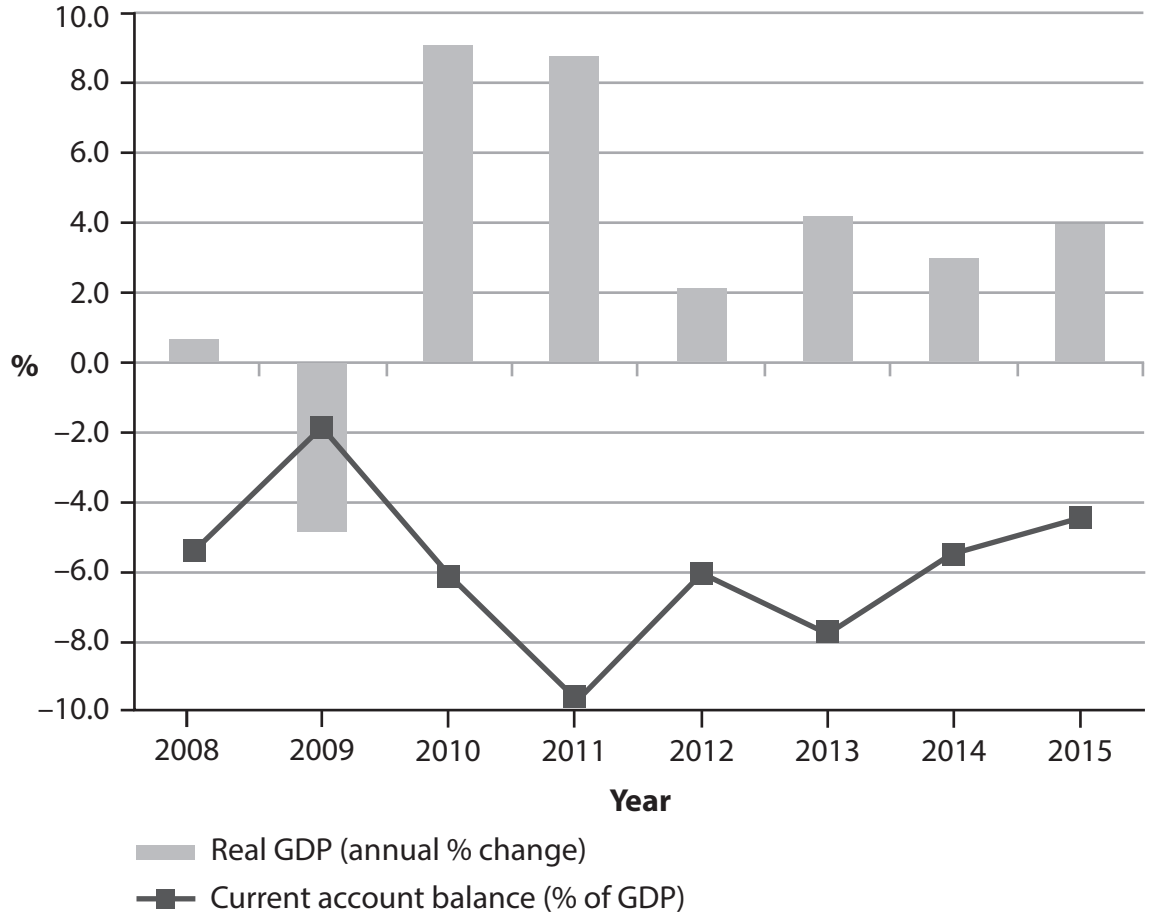


Figure 2 Inflation, household consumption expenditure and investment, 2008–2015

	2008	2009	2010	2011	2012	2013	2014	2015
Inflation, consumer prices (annual %)	10.4	6.3	8.6	6.5	8.9	7.5	8.9	7.7
Household consumption expenditure (% of GDP)	69.8	71.5	71.7	71.2	70.2	70.8	68.9	68.7
Investment (% of GDP)	21.8	14.9	19.5	23.1	20.1	20.6	20.0	18.5

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

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Extract 1 Economic growth

In 2015, the Turkish economy grew by 4%, which was significantly higher than the average rate of the growth of the EU economies.

Turkey may become the seventh fastest growing global economy in 2016, following India, the Philippines, China, Indonesia, Malaysia and Spain.

(Source: adapted from http://www.yenisafak.com/en/economy/turkey-overtakes-eu-in-economic-growth-2530542)

Extract 2 Economic reforms

Economists say the Turkish Government needs to speed up reforms to increase labour productivity. This may be achieved by deregulation of the labour market.

Turkish economic growth currently relies heavily on consumption. More investment is needed. Therefore, Turkey needs more incentives for firms to invest and households to save.

Economists propose that tax incentives should be offered to firms to invest in research and development, for example lower corporate tax on profits.

In 2016, the tax charged on the sale of new homes of more than 150 square metres was reduced from 18% to 8%. The new incentive on house ownership is an important opportunity for those who want to buy a house and provides a boost to the construction industry.

(Source: adapted from http://gulfnews.com/business/economy/turkey-needs-more-reforms-to-boost-growth-deputy-pm-says-1.1893417)

(a) With reference to Figure 1, explain what is meant by the term current account of the balance of payments.

(4)

(b) With reference to the information provided, assess the possible causes of the relatively high rate of economic growth in Turkey.

(10)

(c) With reference to Figure 2, explain how the consumer price index is calculated.

(6)

(d) With reference to the information provided and your own knowledge, assess the likely economic effects of Turkey's rate of consumer price inflation.

(14)

(e) With reference to the information provided and your own knowledge, evaluate policies intended to reduce Turkey's reliance on consumption as the main contributor to its economic growth.

(14)

(a) With reference to Figure 1, explain what is meant by the term current account of the balance of payments.

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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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