GradeMax

Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number | Candidate Number

Thursday 14 May 2020

Morning (Time: 1 hour 45 minutes) | Paper Reference **WEC12/01**

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic performance and policy

You must have:
Source Booklet (enclosed)

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 Sections A, B and C.
- Answer **ONE** question in Section D.
- 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.*
- 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.

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SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 It is estimated that the marginal propensity to consume in China is 0.5. Assume that the Chinese Government increased its spending on infrastructure by ¥1.5 billion.

Ceteris paribus, what would be the final increase in GDP following this injection?

☒ **A** ¥0.50 bn

☒ **B** ¥0.75 bn

☒ **C** ¥2 bn

☒ **D** ¥3 bn

(Total for Question 1 = 1 mark)

2 The table shows the consumer price index (CPI) for the UK in January 2015 and January 2016.

	Consumer price index
January 2015	200
January 2016	206

(Source: https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23)

What can be deduced from this data over this period?

☒ **A** The purchasing power of money fell by 3%

☒ **B** The rate of inflation was 6%

☒ **C** The standard of living must have fallen by 3%

☒ **D** The price of exports increased by 6%

(Total for Question 2 = 1 mark)

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3 Which **one** of the following is an injection into the circular flow of income?

- ☒ **A** Savings
- ☒ **B** Exports
- ☒ **C** Imports
- ☒ **D** Taxation

(Total for Question 3 = 1 mark)

4 In the USA the number of part-time workers who would prefer full-time employment was 4.3 million in 2019.

This is an example of which **one** of the following?

- ☒ **A** Frictional unemployment
- ☒ **B** Protectionism
- ☒ **C** Underemployment
- ☒ **D** Resource utilisation

(Total for Question 4 = 1 mark)

5 The ILO unemployment rate in Spain fell from 21% in 2014 to less than 15% in 2018.

Which **one** of the following is most likely to be associated with this change in Spain's unemployment rate?

- ☒ **A** A fall in the negative output gap
- ☒ **B** A rise in the level of welfare payments
- ☒ **C** A fall in demand for exports
- ☒ **D** A rise in economic inactivity

(Total for Question 5 = 1 mark)

6 The chart shows the value of the Canadian dollar in terms of the US dollar exchange rate, January 2018 to December 2018.



(Source: https://www.cbc.ca/news/business/loonie-canadian-dollar-1.4964691)

What can be deduced from this chart?

☒ **A** Canadian exports will be less competitive in the USA

☒ **B** Canadian imports from the USA will be more competitive

☒ **C** Between the start of February and the end of June, the Canadian dollar increased in value against the US dollar

☒ **D** Between the start of October and the end of December, the Canadian dollar decreased in value against the US dollar

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B

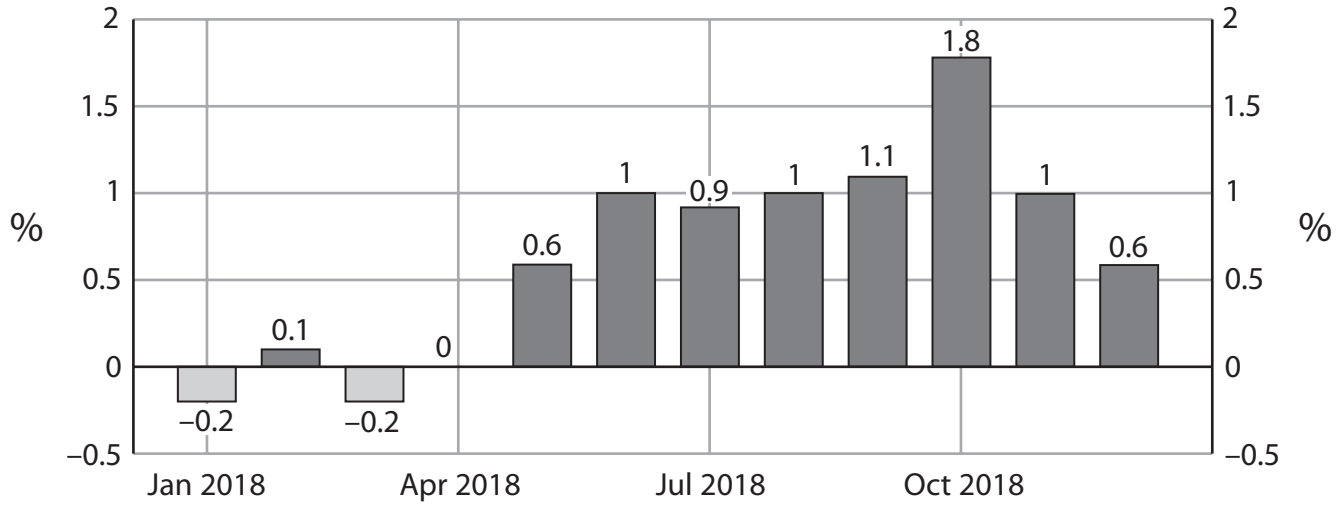
Answer ALL questions in this section in the space provided.

7 In 2017 real GDP per capita rose by 5.3% in Laos.

Explain **one** possible effect of this increase in real incomes on subjective happiness.

(Total for Question 7 = 4 marks)

8 The chart shows the annual rate of inflation recorded month by month for Greece in 2018.



(Source: https://tradingeconomics.com/greece/inflation-cpi)

With reference to the chart, explain the difference between deflation and disinflation.

(Total for Question 8 = 4 marks)

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9 In November 2018 Serbia's money supply increased by 8.4% year-on-year. This was a result of an increase in the availability of credit.

Explain **one** possible impact of this increase in the availability of credit on the level of investment on the economy of Serbia.

(Total for Question 9 = 4 marks)

10 In 2018 oil prices fell by 4.8% because of excess supply in the global market. Germany is a net importer of oil.

Draw an AD and SRAS diagram to show the possible impact of the fall in oil prices on the price level **and** real output on the German economy.

(Total for Question 10 = 4 marks)

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11 The table shows the nominal GDP and the population for India in 2012 and 2017.

Year	GDP (US$ billion)	Population (billion)	GDP per capita (US$)
2012	1827.6	1.2134	1506.2
2017	2597.5	1.2836	

Using the information above, calculate the change in GDP per capita between 2012 and 2017 in US$. Show your workings.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'Real wage growth' (Extract B, line 8).

(2)

(b) With reference to Figure 2, explain what is meant by a surplus on the balance of trade in goods and services.

(4)

(c) With reference to Extract A, analyse the possible impact of net migration on employment **or** unemployment in Australia.

(6)

(d) With reference to Extract B, examine the case for a reduction in the base rate of interest by the Australian central bank.

(8)

(e) Using the information provided, discuss the factors, other than net migration, that have contributed to economic growth in Australia up to 2018.

(14)

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(c) With reference to Extract A, analyse the possible impact of net migration on employment **or** unemployment in Australia.

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D BEGINS ON THE NEXT PAGE.

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2018 the US Government increased government spending and reduced taxation on high incomes. These policies contributed to an increase in the rate of economic growth and to an increase in income inequality.

Evaluate the view that fiscal policies always result in conflicts between macroeconomic objectives.

(Total for Question 13 = 20 marks)

OR

14 In January 2019 the Portuguese Government announced an increase of €20 billion of government spending on transport, energy and environmental projects. It aims to improve the productive potential of the economy.

Evaluate interventionist supply-side policies as a means of achieving economic growth.

(Total for Question 14 = 20 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 13** ☒ **Question 14** ☒

Write your answer here:

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TOTAL FOR SECTION D = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

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GradeMax

Pearson Edexcel International Advanced Level

Thursday 14 May 2020

Time: 1 hour 45 minutes | Paper Reference **WEC12/01**

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic performance and policy

Source Booklet

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Sources for use with Section C.

The Australian economy

Figure 1 Annual real GDP growth (%), 2012 to 2018

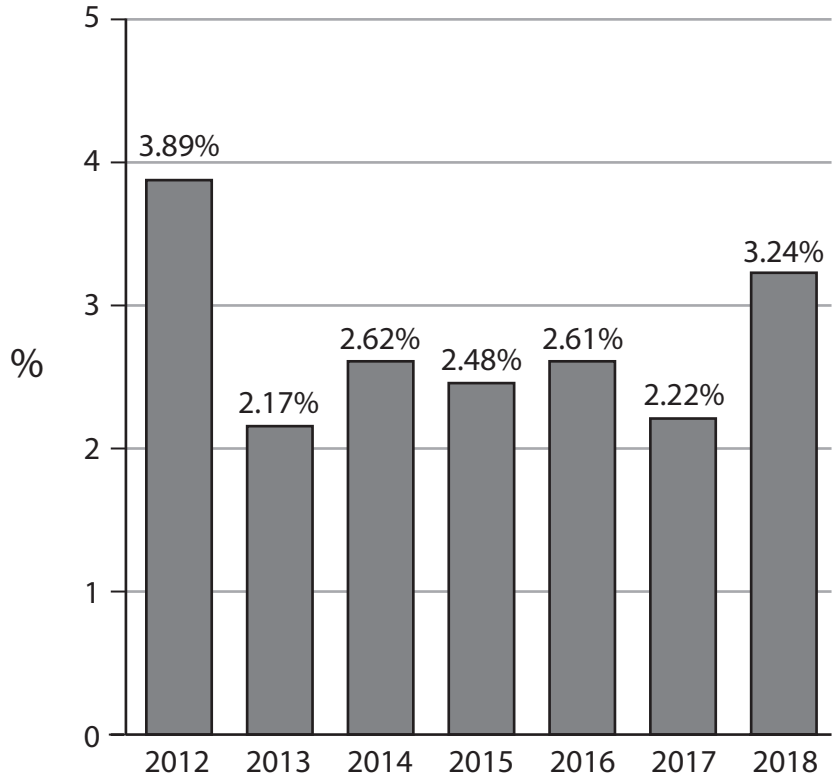
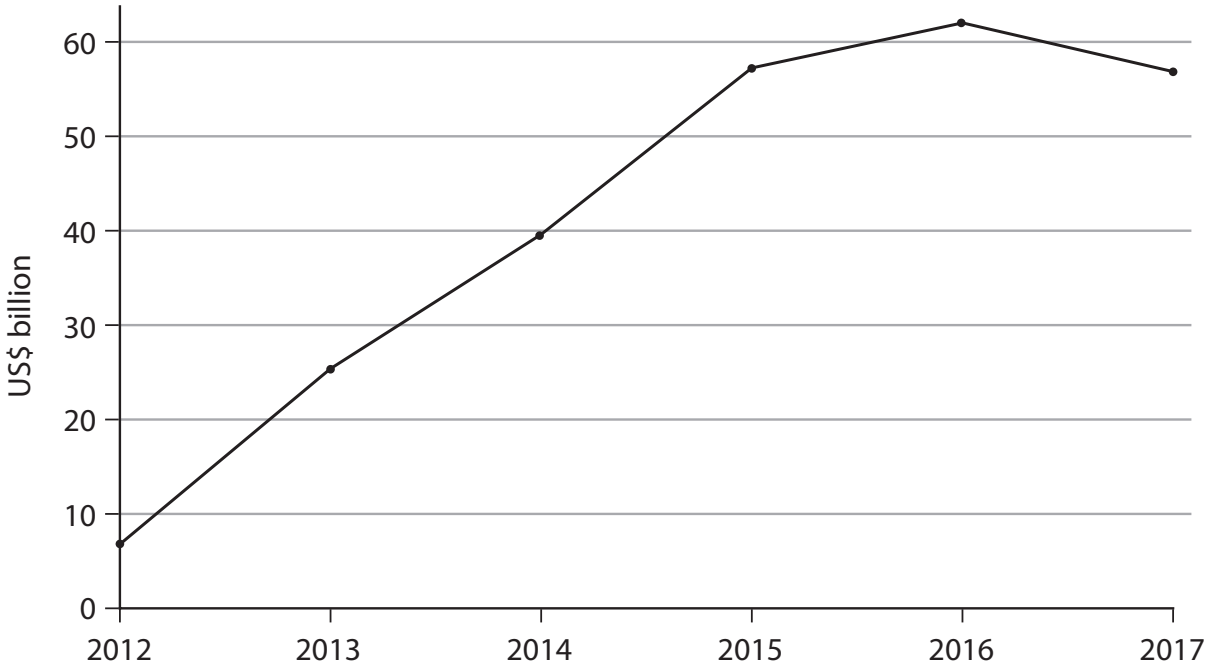


Figure 2 Balance of trade in goods and services, 2012 to 2017 (US$ billion)



Extract A State of the economy

Unlike most developed countries, Australia was not significantly affected by the global financial crisis and has continued to experience positive economic growth.

The Australian Government has encouraged migration into the country, although this is now limited to 190 000 permanent immigrants per year. Over 28% of the population are immigrants. Net migration has led to an increase in the Australian labour force. As many of the immigrants are highly skilled, this has had positive effects on the Australian economy. It has also resulted in an increase in consumption in the country.

Export growth has also been a significant reason for the increase in Australia's GDP. Australia's geography is very different to other developed countries. It is nearer to China than many other developed countries, which enables Australia to export its goods with relatively low shipping costs. There has been great demand from China for Australian exports, particularly sugar, copper, iron, coal, lead and zinc.

Australia is also a very popular tourist destination for Chinese citizens, as the flight is short. Tourism has increased by 50% since 2012 and now accounts for AU$29 billion and is Australia's fifth biggest export.

Australia has benefited from demand from foreign students wanting to study in the country. Over 540 000 international students enrolled in Australian schools and universities in 2018, an 80% increase in five years. Both tourists and students have a significant impact on the consumption of goods and services supporting further economic growth.

Government expenditure has increased on roads, bridges, ports, airports, schools and education. The Government aims to improve access for people and goods across Australia supporting both businesses and individuals.

Extract B Future prospects

The future for Australia does not look as promising as it once did. China demands around one-third of Australia's exported goods. China's economic growth has slowed as economies such as the USA, Japan and the Eurozone demand less Chinese goods. This has recently caused business confidence in China to fall, reducing the demand for Australia's commodity exports needed in manufacturing.

The Australian central bank is considering a reduction in the base rate of interest. Real wage growth fell between 2013 and 2018. However, private household consumption rose during that period. During 2018 house prices decreased and recorded a fall of 2.4% in the first quarter of 2019. However, some economists are forecasting an increase in Australia's inflation rate from 1.8% in 2018 to 2.3% in 2019. The central bank's target annual rate of inflation is between 2% and 3%.

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Acknowledgements

Figure 1 based on data taken from https://www.statista.com/graphic/1/263602/gross-domestic-product-gdp-growth-rate-in-australia.jpg

Figure 2 based on data taken from https://data.oecd.org/trade/trade-in-goods-and-services.htm

Extract A adapted from Australia Special Report, The Economist, 27 October 2018

Extract B https://www.theguardian.com/business/2019/jan/03/falling-dollar-reflects-global-concern-all-is-not-well-in-the-australian-economy

https://www.abc.net.au/news/2018-12-18/reserve-bank-policy-minutes-housing-correction-consumption/10630434

https://tradingeconomics.com/australia/housing-index?poll=2019-09-30

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