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

Wednesday 13 January 2021

Afternoon (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.

Turn over ▶

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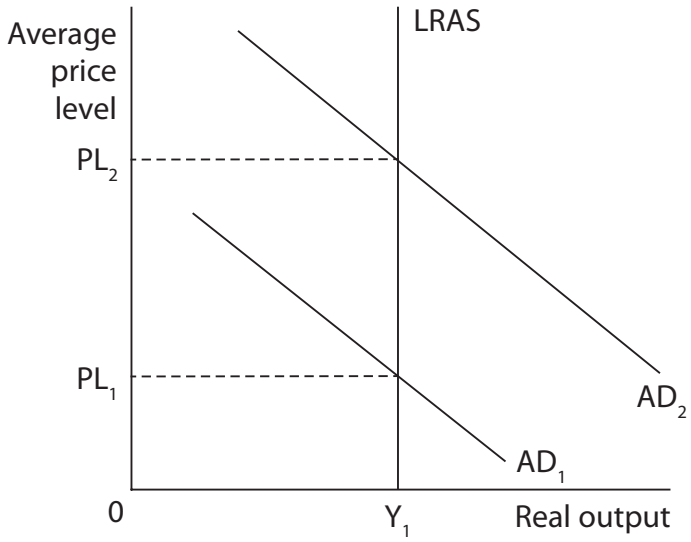
SECTION A

Answer ALL questions in this section.

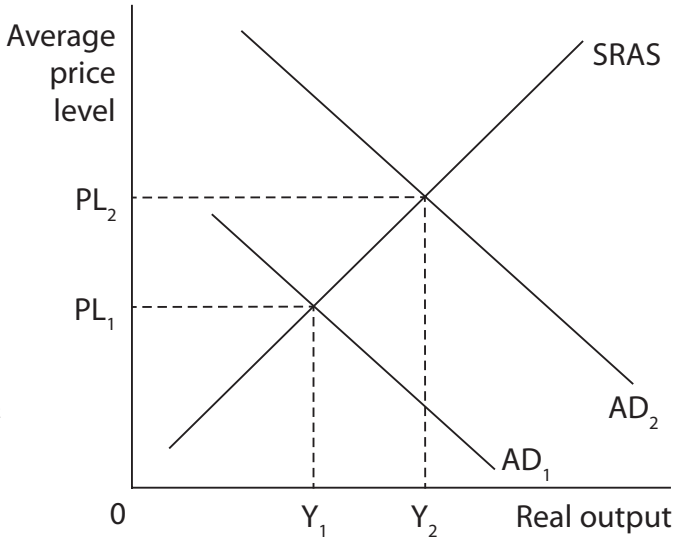
Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 Which **one** of the following aggregate demand and aggregate supply diagrams below illustrates an economy experiencing **potential** economic growth?

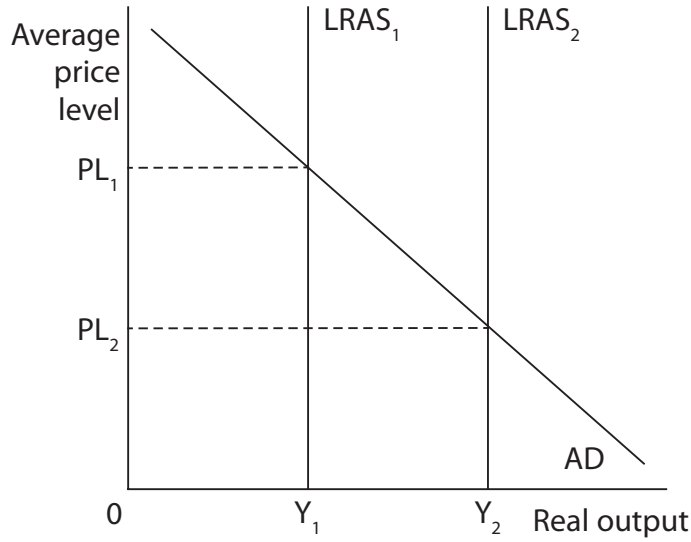
☒ **A**



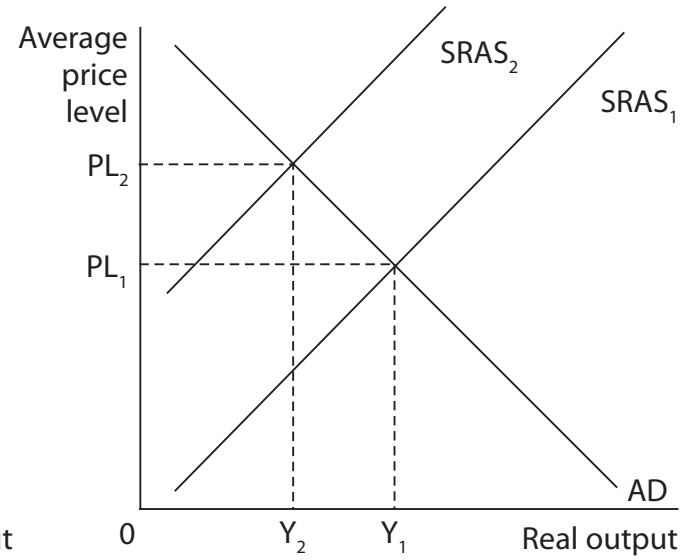
☒ **B**



☒ **C**



☒ **D**



(Total for Question 1 = 1 mark)

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2 The table shows the annual percentage change in South Korea's producer (wholesale) price index.

Date	Annual percentage change in producer price index (%)
July 2019	–0.3
August 2019	–0.6
September 2019	–0.7

Which **one** of the following was the most likely effect of the changes shown in South Korea?

- ☒ **A** The real incomes of households were likely to fall
- ☒ **B** Cost-push inflation was likely to occur
- ☒ **C** Consumer prices were likely to fall
- ☒ **D** Its central bank was likely to raise the base rate of interest

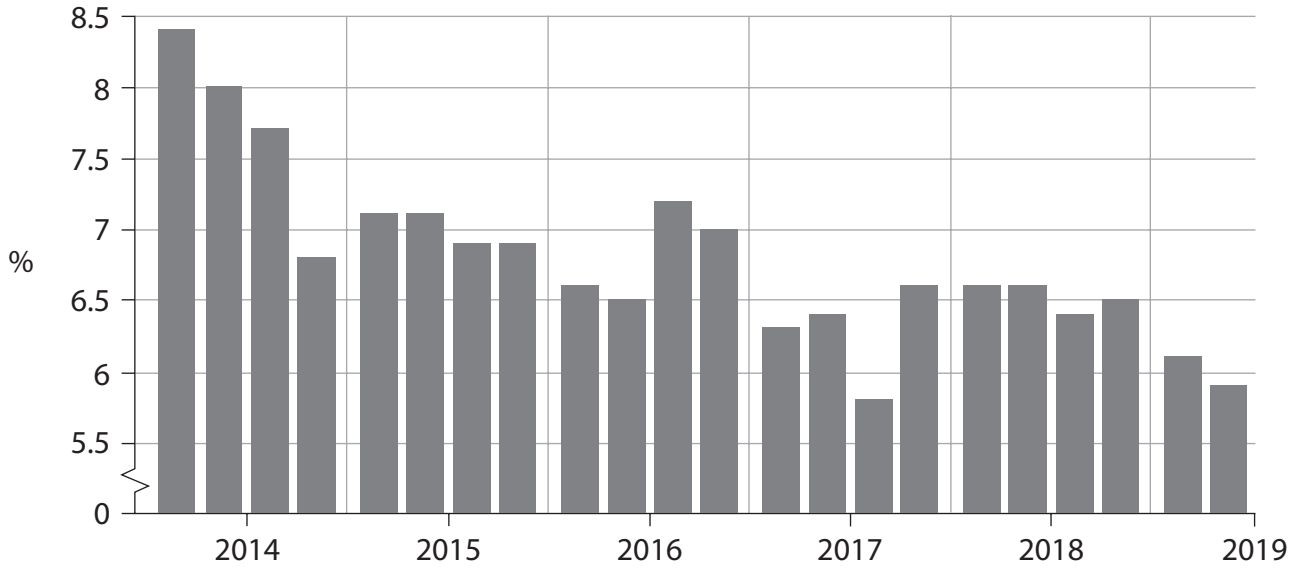
(Total for Question 2 = 1 mark)

3 Which **one** of the following is most likely to cause a deterioration in a developed country's trade balance?

- ☒ **A** An increase in the non-price competitiveness of the country's products
- ☒ **B** A fall in the real incomes of the country's citizens
- ☒ **C** A fall in the non-price competitiveness of a major trading partner's products
- ☒ **D** An increase in the country's exchange rate against other currencies

(Total for Question 3 = 1 mark)

4 The chart shows Portugal's household savings ratio by quarter, Q1 2014–Q2 2019.



According to the long-term trend in the chart, *ceteris paribus*, which **one** of the following is most likely to have risen in Portugal?

- ☒ **A** Consumption
- ☒ **B** Exports
- ☒ **C** Unemployment
- ☒ **D** Withdrawals

(Total for Question 4 = 1 mark)

5 Which **one** of the following statements about the Keynesian long-run aggregate supply (LRAS) curve is correct?

- ☒ **A** The curve is perfectly inelastic at the full employment level of real output
- ☒ **B** The curve is relatively elastic at the full employment level of real output
- ☒ **C** The curve is relatively inelastic at high levels of spare capacity
- ☒ **D** The curve is perfectly inelastic at high levels of spare capacity

(Total for Question 5 = 1 mark)

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6 An economy has the following injections into, and withdrawals from, its circular flow of income in one year.

Injections ($bn)		Withdrawals ($bn)	
Government spending	500	Taxation	400
Investment	150	Saving	200
Exports	450	Imports	550

Which **one** of the following can be concluded from the data?

☒ **A** The economy has a government budget surplus

☒ **B** There is a net withdrawal out of the economy

☒ **C** The economy has a balance of trade surplus

☒ **D** There is a net injection into the economy

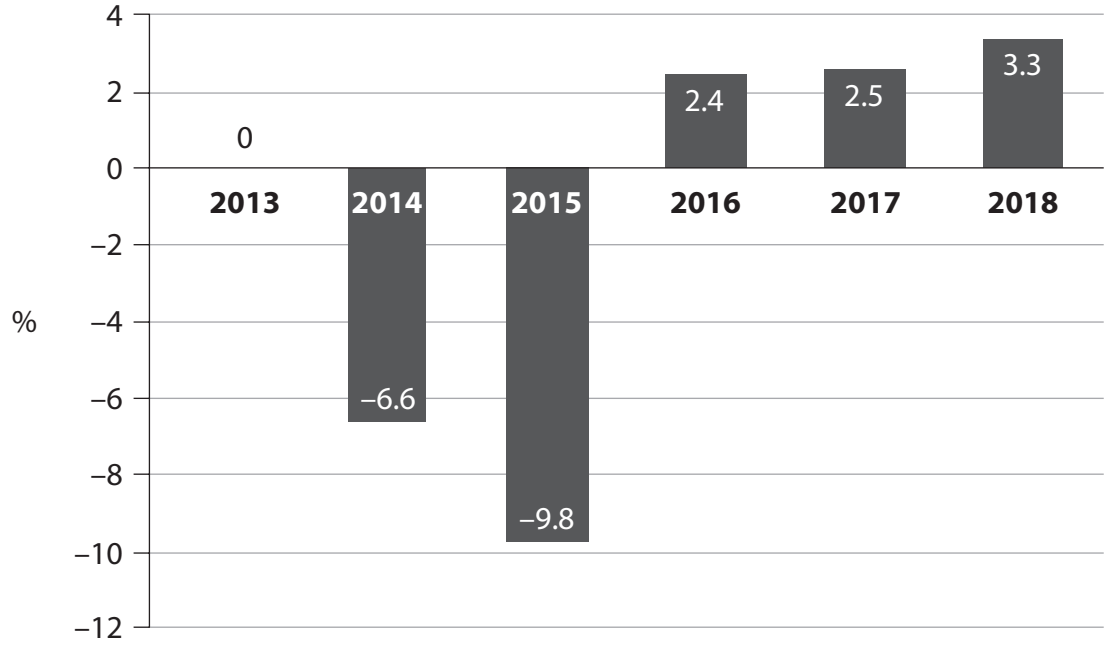
(Total for Question 6= 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION B

Answer ALL questions in this section in the spaces provided.

7 The chart shows the real economic growth rate of the Ukrainian economy, 2013–2018.



With reference to the chart, explain the difference between positive economic growth rates and negative economic growth rates.

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8 Between early 2012 and mid-2019 Brazil's productivity fell by over 40%.

Draw a LRAS and AD diagram to show the possible impact of this change in productivity on the average price level and real output level in Brazil.

(Total for Question 8 = 4 marks)

9 The table shows the average value of personal disposable income in China, in Chinese RMB, 2014–2018.

Year	Personal disposable income (Chinese RMB)
2014	29 381
2015	31 790
2016	33 616
2017	36 396
2018	39 251

Using 2018 as the base year, calculate an index number for personal disposable income in 2014. Show your workings.

(Total for Question 9 = 4 marks)

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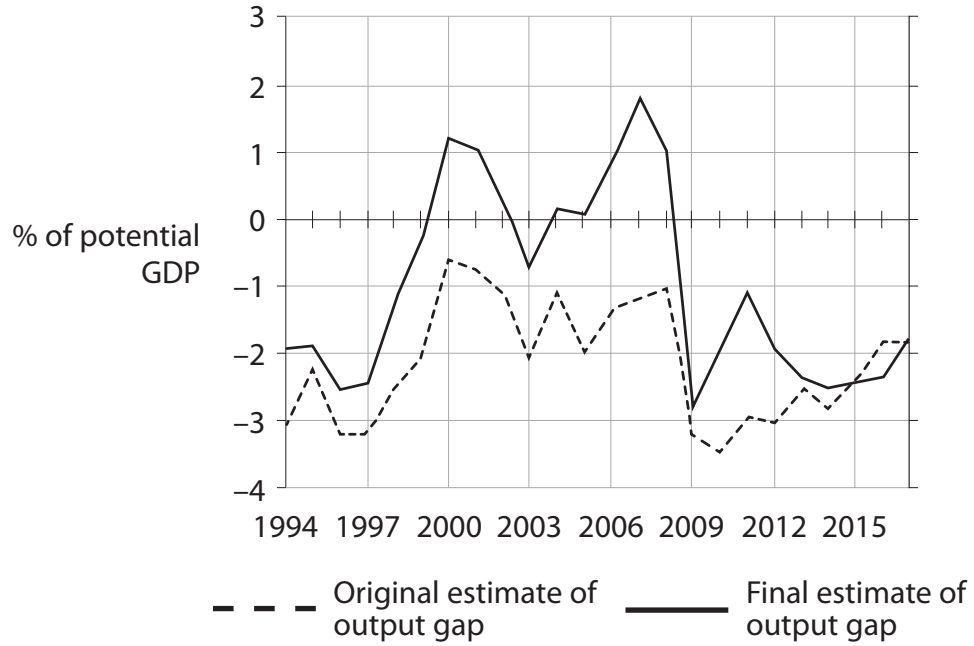
10 In August 2019 the American President, Donald Trump, criticised America's central bank. He said that the US economy was healthy because there was no inflation and that it was decisions made by the central bank that were limiting economic growth.

Explain **one** role of a central bank.

(Total for Question 10 = 4 marks)

11 The chart shows two estimates made by the International Monetary Fund of the size of the French economy's output gap for the years 1994 to 2017.



(Source: https://www.imf.org/en/Publications/WP/Issues/2019/09/20/How-Informative-Are-Real-Time-Output-Gap-Estimates-in-Europe-48645)

With reference to the chart, explain **one** reason why it might be difficult to measure the size of an economy's output gap.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C BEGINS ON THE NEXT PAGE.

SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

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

12 (a) Define the term 'Purchasing Power Parity (PPP)', (Figure 1).

(2)

(b) With reference to Figure 1, explain the difference between GDP per capita and GNI per capita.

(4)

(c) With reference to Figure 1, analyse **two** limitations of using GNI per capita PPP data to compare living standards in the Philippines between 2000 and 2018.

(6)

(d) With reference to Extract A, examine **two** reasons why the Philippine economy was forecast to grow from 2019 to 2021.

(8)

(e) Discuss how supply-side policies might 'help the Philippines to achieve economic growth' (Extract A, lines 12–13).

Illustrate your answer with an appropriate diagram(s).

(14)

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12 (a) Define the term 'Purchasing Power Parity (PPP)', (Figure 1).

(2)

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(c) With reference to Figure 1, analyse **two** limitations of using GNI per capita PPP data to compare living standards in the Philippines between 2000 and 2018.

(6)

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(d) With reference to Extract A, examine **two** reasons why the Philippine economy was forecast to grow from 2019 to 2021.

(8)

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(e) Discuss how supply-side policies might 'help the Philippines to achieve economic growth' (Extract A, lines 12–13).

Illustrate your answer with an appropriate diagram(s).

(14)

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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 From 2008 to 2018 Thailand's GDP per capita increased by 100%. Over the same period national happiness in Thailand also rose. However, from 2008 to 2018 India's GDP per capita increased by 80% but national happiness fell.

Evaluate the view that achieving a government's macroeconomic objectives is likely to result in an increase in national happiness.

(Total for Question 13 = 20 marks)

OR

14 Between January 2020 and May 2020 the global oil price decreased from $63 a barrel to $31 a barrel.

Evaluate the view that falling global oil prices will always benefit a country's macroeconomy.

(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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Pearson Edexcel International Advanced Level

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Economics

International Advanced Subsidiary
Unit 2: Macroeconomic performance and policy

Source Booklet
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Sources for use with Section C.

The economy of the Philippines

Figure 1 Standard of living indicators for the Philippine economy, selected years 2000–2018

Year	GDP per capita (current US$)	GNI per capita (current US$)	GDP per capita *PPP (current international $)	GNI per capita *PPP (current international $)
2000	1 039	1 220	3 361	3 940
2005	1 194	1 430	4 255	5 050
2010	2 124	2 460	5 468	6 590
2015	2 867	3 510	7 313	8 850
2018	3 103	3 830	8 935	10 720

*PPP Purchasing Power Parity

Extract A Supply-side reforms and economic growth

Despite global uncertainties, the Philippine economy remains strong. The World Bank has forecast that it will grow by 5.8% in 2019 and by 6.0% in both 2020 and 2021.

Economic growth may slow in the first half of 2019. This may be explained by the weakening global economy, rising protectionism and a slowdown in public sector investment in the Philippines. However, levels of consumption should stay high. This is because of lower inflation rates, higher employment rates and rising real wages. Also, more workers are finding jobs in industries other than agriculture. This has helped to increase average incomes in the country. The continuing expansion of financial services and tourism in the Philippines means that the services sector is also likely to grow.

At the same time, the Government is using a range of supply-side policies. These policies include both interventionist and free market measures. It hopes that these will help the Philippines to achieve economic growth that creates high-paying jobs and reduces poverty. One interventionist policy is to start some infrastructure investment projects earlier than planned. The free market policies being used include:

- introducing the 'Ease of Doing Business Law' to cut the costs of bureaucracy for firms
- deregulating the rice market to increase competition
- introducing a law to allow greater competition in the country's retail sector, which should boost local productivity
- making amendments to the country's laws to allow the foreign ownership of firms in key sectors. This includes the telecommunication and transportation industries. By encouraging foreign direct investment, the Government hopes to increase productivity in these areas.

A report by the World Bank finds that promoting competition in this way will be beneficial to the Philippine economy over the longer term. However, the report also notes that many industries within the country are still dominated by just a few firms. It therefore recommends additional reforms to increase competition, including:

- further reductions in bureaucracy to make it easier to start a business
- further reductions in restrictions on both foreign and domestic investors
- ensuring that state-owned firms compete on fair terms with private sector businesses. This should promote the more efficient use of public funds.

Acknowledgements

Figure 1 data from The World Bank

Extract A adapted from: 'Philippines: High impact projects and critical reforms key to regaining higher growth', World Bank Press Release, 10 October 2019, Press Release No.: 2019/12/PH, https://www.worldbank.org/en/news/press-release/2019/10/10/philippines-high-impact-projects-and-critical-reforms-key-to-regaining-higher-growth