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OCR AS ECONOMICS: QUESTIONS BY TOPIC

Aggregate Demand and Aggregate Supply

OCR AS Economics H060 — Topic MACRO 1

27 questions · 59 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

Questions run from the lowest mark tariff to the highest, so similar questions sit together.

Click any row below to jump straight to that question.

On every question page, click the header (top right) to jump to its mark scheme, and click again to jump back.

Mark schemes are collected together at the end of this booklet, cropped from the genuine OCR mark-scheme grid.

27 questions · 59 marks · lowest tariff first

	QUESTION	SOURCE	MARKS	PAGE
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27.	Section C (Essay), Q17*	H060/02 Macroeconomics · November 2020	20 marks	43

QUESTIONS

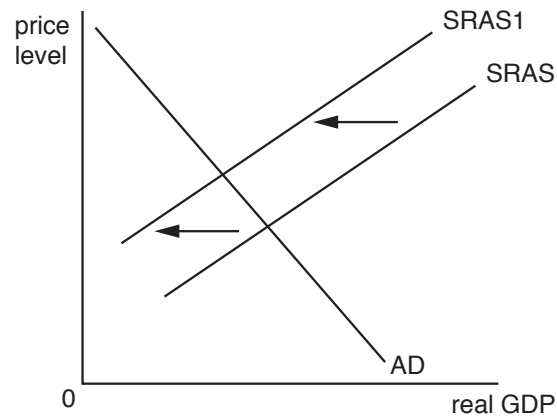
27 questions · 59 marks · lowest tariff first

1-MARK QUESTION

23 questions in this booklet

5

- 11 What could cause the shift in the short-run aggregate supply curve from SRAS to SRAS1 shown in the diagram below?

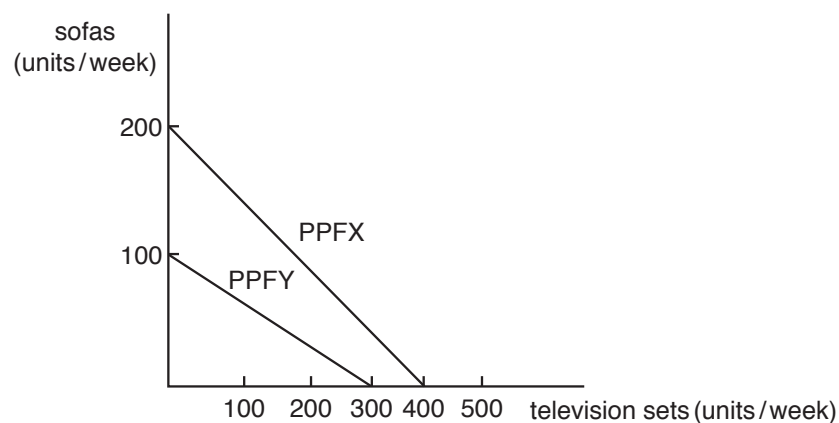


- A A fall in the money supply
- B A fall in the rate of interest
- C A rise in government spending
- D A rise in wage rates

Your answer

[1]

- 12 In the diagram below PPFX represents the production possibility curve for Country X and PPFY represents Country Y.



Which of the following is correct?

- A Country X has a comparative advantage in the production of sofas
- B Country X has a comparative advantage in the production of television sets
- C Country Y has an absolute advantage in the production of sofas
- D Country Y has an absolute advantage in the production of television sets

Your answer

[1]

2

SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

1 Which of the following would **not** be included in the national income figures?

- A A teacher's pay
- B Rent paid by tenants to a landlord
- C Taxable interest on any savings
- D Unemployment benefits

Your answer

[1]

2 Which factor would be most likely to lead to an increase in the size of the labour force?

- A An increase in income tax levels
- B An increase in inward migration
- C An increase in unemployment benefits
- D A reduction in the retirement age

Your answer

[1]

3 In which circumstance will structural unemployment arise?

- A A bricklayer leaves his employment voluntarily
- B A construction worker is laid off during a period of bad weather
- C An increase in the base rate of interest reduces demand for all goods
- D Automation results in factory workers being made redundant

Your answer

[1]

4 Which of the following is an injection into the circular flow of income?

- A Consumer expenditure
- B Exports
- C Savings
- D Taxation

Your answer

[1]

3

- 5 The size of a country's multiplier is 2.5. Its marginal rate of taxation is 0.1 and its marginal propensity to save is 0.1. What is the value of its marginal propensity to import?

A 0.05
 B 0.2
 C 0.4
 D 2.3

Your answer

[1]

- 6 What will cause the public sector net cash requirement (PSNCR) in the UK to decrease in the short run?

A More workers paying the higher rate of income tax
 B The economy entering a recession
 C The government embarking on a programme of capital spending
 D The government reflating the economy through cuts in direct taxation

Your answer

[1]

- 7 The Monetary Policy Committee decides to raise the UK base rate of interest by 1%. Which combination of effects is this likely to cause?

	Investment	Exchange rate
A	Decrease	Appreciate
B	Decrease	Depreciate
C	Increase	Appreciate
D	Increase	Depreciate

Your answer

[1]

- 8 Which of the following is a supply side policy measure?

A Deregulation
 B Devaluation
 C The imposition of higher rates of income tax
 D The introduction of an inflation rate target

Your answer

[1]

4

- 8 In 2015 the value of the Chilean peso fell substantially against the US dollar because of falling copper prices (Chile's key export). The Chilean government considered selling off foreign exchange reserves in response to this. Which exchange rate system does this information suggest Chile is operating?
- A Fixed
 - B Floating
 - C Hybrid
 - D Purchasing Power Parity

Your answer

[1]

- 9 The data below outlines changes to the index of prices in a country between 2014 and 2017.

Year	2014	2015	2016	2017
Price Index	99.1	100	103.1	106.4

What was the inflation rate in 2017?

- A 3.2%
- B 3.3%
- C 6.4%
- D 7.4%

Your answer

[1]

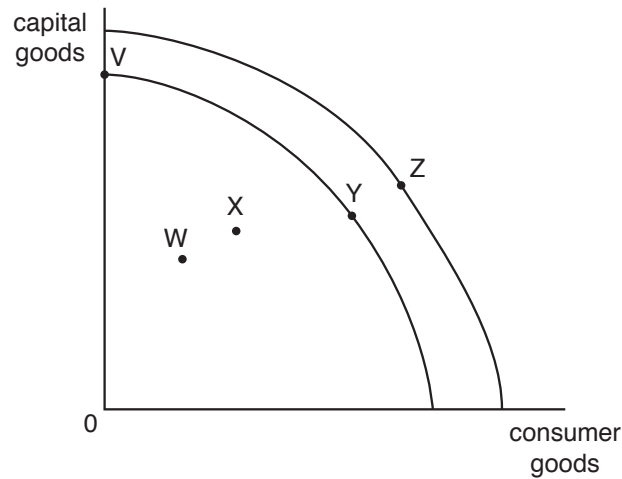
- 10 Some economists argue that one of the potential impacts of the UK voting to leave the European Union is that the long run aggregate supply curve will shift to the left. What could be the cause of this?
- A A decrease in immigration
 - B A fall in the value of the pound
 - C An increase in input prices
 - D An increase in trade with countries outside of the European Union

Your answer

[1]

3

- 5 What movement represents short run economic growth in the production possibility frontier diagram below?



- A V to Y
- B W to X
- C Y to X
- D Y to Z

Your answer

[1]

- 6 Which of the following is **not** a method of measuring national income?

- A Expenditure
- B Income
- C Input
- D Output

Your answer

[1]

- 7 In which of the following cases is the international competitiveness of domestic producers most likely to improve?

- A A decrease in domestic wage rates combined with an increase in labour productivity abroad
- B An appreciation of the exchange rate and a decrease in domestic wage rates
- C An exchange rate depreciation combined with an increase in wage rates abroad
- D An increase in domestic labour productivity accompanied by an increase in domestic wage rates

Your answer

[1]

3

- 4 The table shows the value of a country's consumption and disposable income over a three-year period.

Year	Consumption (£bn)	Disposable Income (£bn)
2013	760	775
2014	805	825
2015	840	865

What is the marginal propensity to consume in the country for 2014?

- A 0.90
- B 0.98
- C 1.02
- D 1.11

Your answer

[1]

- 5 Which of the following is a direct tax in the UK?

- A Council tax
- B Excise duty
- C Income tax
- D Value added tax

Your answer

[1]

- 6 Which of the following will **always** cause an increase in the value of the multiplier assuming that the marginal propensity to tax is constant?

- A Decrease in marginal propensity to save and decrease in marginal propensity to import
- B Decrease in marginal propensity to save and increase in marginal propensity to import
- C Increase in marginal propensity to save and decrease in marginal propensity to import
- D Increase in marginal propensity to save and increase in marginal propensity to import

Your answer

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- D Increase in marginal propensity to save and increase in marginal propensity to import

Your answer

[1]

5

9 What impact will a fall in investment have on the aggregate demand curve?

- A Movement down the aggregate demand curve
- B Movement up the aggregate demand curve
- C Shifts the aggregate demand curve to the left
- D Shifts the aggregate demand curve to the right

Your answer

[1]

10 UK government spending on the new high-speed railway line from London to Birmingham is likely, in the short run, to:

- A increase the budget deficit
- B increase the current account deficit
- C reduce the budget deficit
- D reduce the current account deficit

Your answer

[1]

11 The interest rate paid to savers is 5% per year. However, the real rate of interest is only 2% per year. What is the rate of inflation?

- A 2.5%
- B 3%
- C 7%
- D 10%

Your answer

[1]

12 China's increased production of steel has led to the closure of UK steel manufacturers. This is likely to cause which of the following types of unemployment?

- A Cyclical
- B Frictional
- C Seasonal
- D Structural

Your answer

[1]

13 What impact is an appreciation of Sterling against the US Dollar likely to have?

- A More UK consumers will go on holiday to the USA
- B More US consumers will buy UK exports
- C UK consumers will buy fewer US imports
- D UK firms will increase the Sterling prices of their exports

Your answer

[1]

2

SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

- 1 In the model of the circular flow of income, which of the following will cause national income to increase?

A An increase in government spending
B An increase in imports
C An increase in savings
D An increase in taxes

Your answer

[1]

- 2 What type of policy is deregulation?

A Exchange rate
B Fiscal
C Monetary
D Supply side

Your answer

[1]

- 3 Which of the following is a definition of hyperinflation?

A Prices are constant
B Prices are falling
C Prices are rising at a slower rate than previously
D Prices are rising excessively

Your answer

[1]

- 4 Which of the following may lead to a UK balance of payments current account deficit?

A An appreciation of the UK pound
B An increase in tariffs on UK imports
C Lower UK inflation relative to other countries
D Research and development subsidies for UK firms

Your answer

[1]

- 5 If government spending increases significantly during a recession, it may cause a:

A capital account surplus
B current account surplus
C cyclical budget deficit
D structural budget deficit

Your answer

[1]

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4

- 9 The table shows the tax paid by individuals at different levels of income.

Annual Income	Tax paid
£20 000	£2250
£25 000	£2500
£30 000	£3000
£35 000	£4500
£40 000	£7000

What is the marginal tax rate if an individual's annual income increases from £30 000 to £35 000?

- A 10%
- B 13%
- C 30%
- D 50%

Your answer

[1]

- 10 Which of the following is **not** a component of aggregate demand?

- A Consumption
- B Exports
- C Investment
- D Wealth

Your answer

[1]

- 11 The exchange rate at the start of 2020 was £1 = \$2. By the end of the year, the pound appreciated by 50% against the dollar. If a UK firm sells £10 000 of products to the USA, how many dollars will it receive after the currency appreciation?

- A \$10 000
- B \$15 000
- C \$20 000
- D \$30 000

Your answer

[1]

- 12 Which of the following is a component of the current account?

- A Foreign direct investment
- B Portfolio investment
- C Primary income
- D Reserve assets

Your answer

[1]

5

- 13 For a country, the CPI was 108 in 2018 and 120 in 2019. What was the inflation rate, to the nearest whole number, as measured by CPI in 2019?

A -12%
B +10%
C +11%
D +12%

Your answer

[1]

- 14 There is a sharp rise in unemployment in the economy. What will be the likely impact if automatic stabilisers already exist in the economy?

A Aggregate demand will fall by less than it otherwise would have
B Aggregate demand will fall by more than it otherwise would have
C Aggregate demand will rise faster than it otherwise would have
D Aggregate supply will fall faster than it otherwise would have

Your answer

[1]

- 15 The table shows the nominal GDP for a country.

Year	Nominal GDP (£m)
2019	1500
2020	1800
2021	2000

Between 2019 and 2020 the rate of inflation was 3%. What was the country's real GDP in 2020, at 2019 prices (to the nearest pound)?

A £1456m
B £1545m
C £1748m
D £1854m

Your answer

[1]

3

- 6 The table shows the value of imports and exports for a country in 2019.

	£bn
Imports of goods	740
Imports of services	275
Exports of goods	545
Exports of services	950

What was the balance of trade in goods?

- A – £675 bn
- B – £195 bn
- C + £480 bn
- D + £1285 bn

Your answer

[1]

- 7 The UK government is planning to limit immigration. What impact may this have on the UK economy in the short-run?

- A Shift aggregate demand to the left
- B Shift aggregate demand to the right
- C Shift aggregate supply to the left
- D Shift aggregate supply to the right

Your answer

[1]

- 8 Which of the following is **most** likely to occur in the boom phase of the economic cycle?

- A GDP falls and unemployment increases
- B GDP increases slowly and unemployment falls
- C Investment expenditure and unemployment increase
- D Unemployment falls and asset values increase

Your answer

[1]

4

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£30 000	£3000
£35 000	£4500
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Your answer

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- A \$10 000
- B \$15 000
- C \$20 000
- D \$30 000

Your answer

[1]

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- A Foreign direct investment
- B Portfolio investment
- C Primary income
- D Reserve assets

Your answer

[1]

5

- 10 The table shows the tax paid by an individual at different levels of income.

Annual income	Tax paid
£20 000	£1000
£25 000	£2000
£30 000	£3000
£35 000	£3500
£40 000	£4500

What is the change in the average tax rate for an individual if their annual income increases from £25 000 to £30 000?

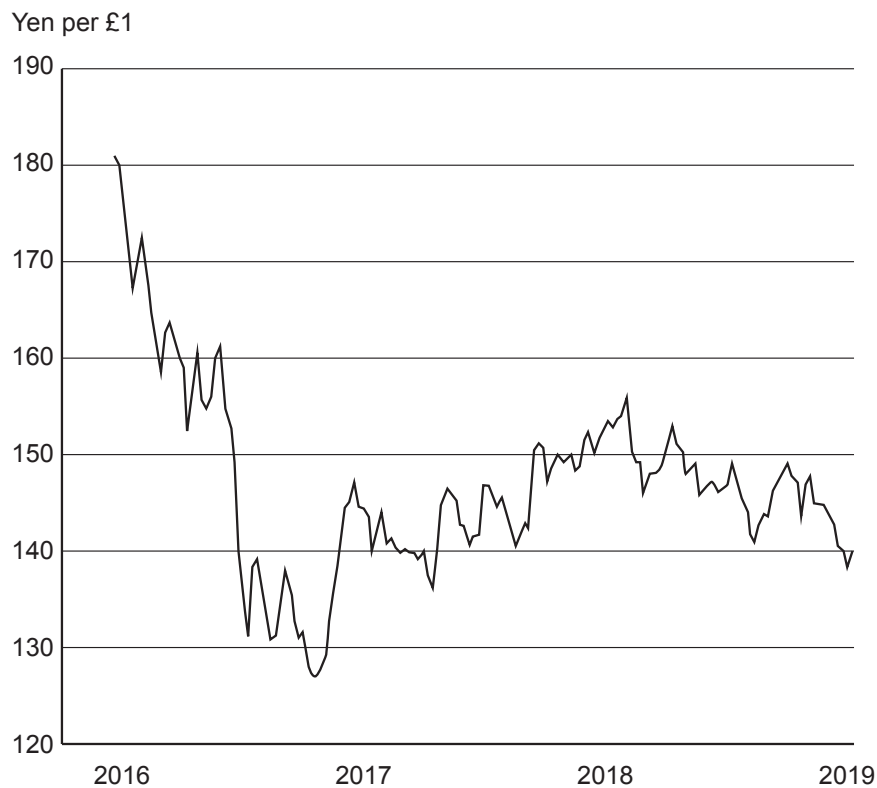
- A 2%
- B 8%
- C 10%
- D 20%

Your answer

[1]

6

- 11 The chart shows the Yen to Sterling (£) exchange rate between 2016 and 2019.



What was the change in the exchange rate between 2016 and 2019?

- A Sterling appreciated by 29%
- B Sterling depreciated by 22%
- C Yen appreciated by 29%
- D Yen depreciated by 22%

Your answer

[1]

- 12 What is the **most** likely impact of legislation to reduce the power of trade unions?

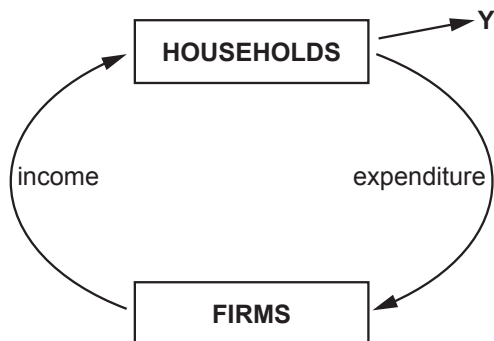
- A Aggregate demand shifts left
- B Aggregate demand shifts right
- C Aggregate supply shifts left
- D Aggregate supply shifts right

Your answer

[1]

3

- 5 The diagram shows the circular flow of income.



Which of these could be shown by **Y** on the diagram?

- A Exports
- B Government expenditure
- C Investment
- D Savings

Your answer ☐

[1]

- 6 What is **included** in the calculation of RPI inflation but **excluded** from the calculation of CPI inflation?

- A Children's clothes
- B Council tax
- C Medicines
- D Petrol

Your answer ☐

[1]

- 7 What will lead to an upward movement along the aggregate demand curve?

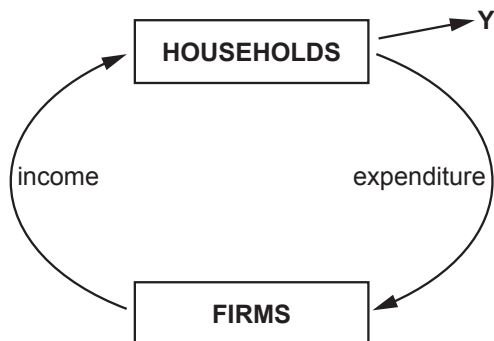
- A An increase in consumption
- B An increase in government expenditure
- C An increase in investment
- D An increase in the price level

Your answer ☐

[1]

3

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Which of these could be shown by **Y** on the diagram?

- A Exports
- B Government expenditure
- C Investment
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Your answer

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Your answer

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- A An increase in consumption
- B An increase in government expenditure
- C An increase in investment
- D An increase in the price level

Your answer

☐

[1]

6

- 13 The table shows expected changes in the next year to the main components of aggregate demand.

Component	Change in value (£m)
Consumption	+5
Exports	+8
Government expenditure	−7
Imports	+6
Investment	−2
Savings	0
Taxation	0

What impact will this have on the value of aggregate demand?

- A Decreases
- B Increases
- C Stays the same
- D Unable to say

Your answer

[1]

- 14 Which factor is assumed to be fixed when constructing a short run aggregate supply curve?

- A Exchange rates
- B Oil prices
- C Technology
- D Wage rates

Your answer

[1]

- 15 The table shows the nominal GDP for a country.

Year	Nominal GDP (£m)
2021	160 000
2022	220 000

The price index was 110 in 2022 (2021 = 100).

What is the country's real growth rate from 2021 to 2022 (to the nearest whole number)?

- A 25%
- B 27%
- C 38%
- D 51%

Your answer

[1]

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4

7 What is an example of a contractionary monetary policy?

- A Increasing government expenditure by £1bn
- B Increasing interest rates by 1%
- C Increasing quantitative easing by £100m
- D Increasing VAT by 2%

Your answer

[1]

8 Which of these is **most** likely to cause an increase in the rate of inflation?

- A An increase in labour productivity and a higher price of oil
- B An increase in technological advancements and falling employment
- C An increase in the budget deficit and falling consumer confidence
- D An increase in the minimum wage and a depreciation of the exchange rate

Your answer

[1]

9 The table shows the tax paid by an individual at different levels of income.

Annual income (£)	Tax paid (£)
15 000	1200
25 000	1700
35 000	2500
50 000	4000

What is the marginal tax rate for an individual whose annual income increases from £25 000 to £35 000?

- A 2%
- B 5%
- C 7%
- D 8%

Your answer

[1]

4

- 9 A UK retailer purchases agricultural products from Europe which cost the retailer €12500. The retailer sells these items for a total of £14 000. How much profit or loss has the retailer made, if the exchange rate at the time of purchase was £1 = €1.25?

A Loss of £1625
B Loss of £1825
C Profit of £1500
D Profit of £4000

Your answer

☐

[1]

- 10 Which of the following is a feature of a regressive tax system?

A Tax paid as a percentage of income decreases when income increases
B Tax paid as a percentage of income increases when income increases
C Tax paid as a percentage of income is the same for all income levels
D Tax paid does not change as a percentage of income

Your answer

☐

[1]

- 11 Which of the following will cause aggregate supply to shift to the right?

A Increase in corporation tax rates
B Increase in marginal propensity to import
C Increase in national minimum wage
D Increase in subsidies for research and development

Your answer

☐

[1]

- 12 When the Bank of England uses quantitative easing it:

A buys government bonds
B buys sterling
C sells government bonds
D sells sterling

Your answer

☐

[1]

- 13 Which of the following is a supply side policy?

A Changes to the overall level of income tax
B Exchange rate manipulation
C National minimum wage
D Quantitative easing

Your answer

☐

[1]

4

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Your answer

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B Exchange rate manipulation
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D Quantitative easing

Your answer

☐

[1]

3

5 Disinflation is when:

- A price levels in an economy continue to increase at a moderate rate
- B price levels in an economy fall
- C price levels in an economy increase at a slower rate than previously
- D price levels increase at a very fast rate

Your answer

[1]

6 You earn £15 000 in a year. The first £10 000 is tax free and any other income is taxed at 20%. What is the average rate of income tax you have paid?

- A 6.67%
- B 13.33%
- C 20.00%
- D 33.33%

Your answer

[1]

7 The table shows the real GDP and population for a country.

Year	Real GDP (2000 prices)	Population
2005	\$60 million	3 million
2015	\$80 million	5 million

What is the percentage change in real GDP per capita from 2005 to 2015?

- A Increase of 20%
- B Increase of 25%
- C Reduction of 20%
- D Reduction of 25%

Your answer

[1]

8 Which of the following is likely to cause a fall in a country's level of economic growth in the short term?

- A Appreciation of the country's currency relative to its major trading partners
- B Fall in the inflation rate relative to its major trading partners
- C Increase in the country's budget deficit
- D Reduction in government regulations

Your answer

[1]

2-MARK QUESTIONS

1 question in this booklet

7

SECTION B

Answer **all** the questions in this section.

UK interest rates rise for the first time in more than 10 years

The Bank of England raised interest rates in November 2017 from 0.25% to 0.5%, the first increase since July 2007. The move reverses the cut in August 2016 which was made following the vote by the UK to leave the European Union.

The interest rate rise came with the UK economy experiencing higher than expected growth in the three months to September 2017. Gross domestic product for the quarter rose by 0.4%, compared with 0.3% in each of 2017's first two quarters. The biggest contributor to growth in the third quarter was the service sector which expanded by 0.4%. Construction fell by 0.7% in the quarter, accelerating from the 0.5% decline recorded in the previous three months.

With 32.2 million people in work in the UK in November 2017, unemployment remained low. According to the claimant count measure of unemployment, 823 900 people were unemployed. However, the labour force survey (LFS) reported that 1.44 million people were unemployed over the same period.

Mark Carney, the Governor of the Bank of England, said that the Bank expected the UK economy to grow at about 1.7% for the next few years which would require "...about two more interest rate increases over the next three years".

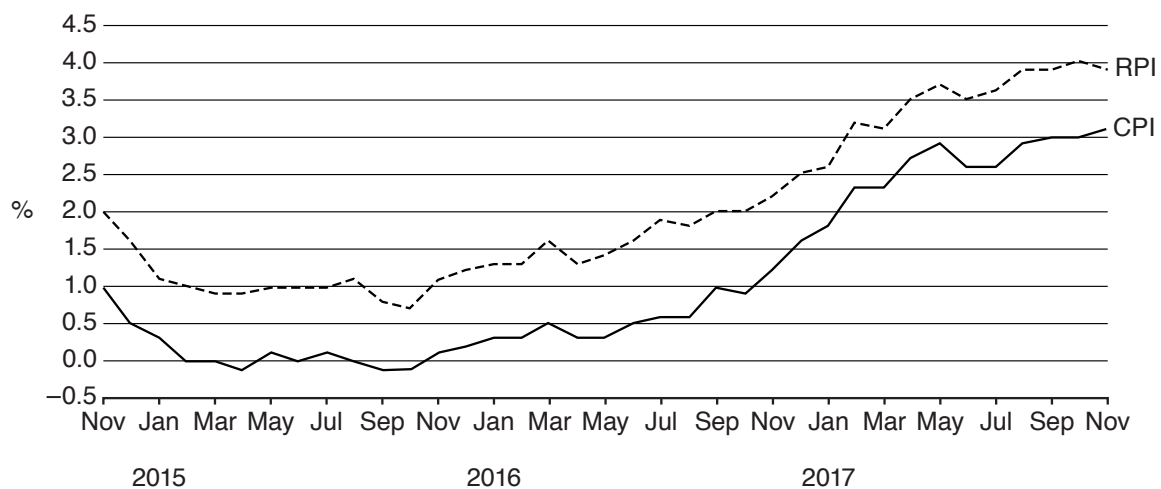
Almost four million households face higher mortgage interest payments after the interest rate rise, but it should give savers a modest lift in their returns. The main losers will be households with a variable rate mortgage. This may increase the withdrawals from the circular flow of income.

The pound fell about 1% against the US Dollar and Euro. Sterling dropped more than a cent against the two currencies to \$1.3130 and €1.1280 respectively. Changes in exchange rates with its trading partners are important to the UK, as international trade really matters for the economy. About 28% of the goods and services produced in the UK are sold abroad, while 30% of what the UK buys comes from other countries.

In common with most developed economies, the UK's share of global export markets has declined over the last 30 years. This decline has been mainly in goods. Traditional manufacturing exports, which are often considered as high volume and low skill, have declined due to new entrants in the international market. However, the UK remains competitive in high value sectors such as aerospace, pharmaceuticals and chemicals. The UK's share of knowledge intensive sectors, such as business and financial services, continues to rise. The UK is one of the largest exporters of these services. The major trading partners of the UK, as well as other nations such as developing countries, have also changed over time.

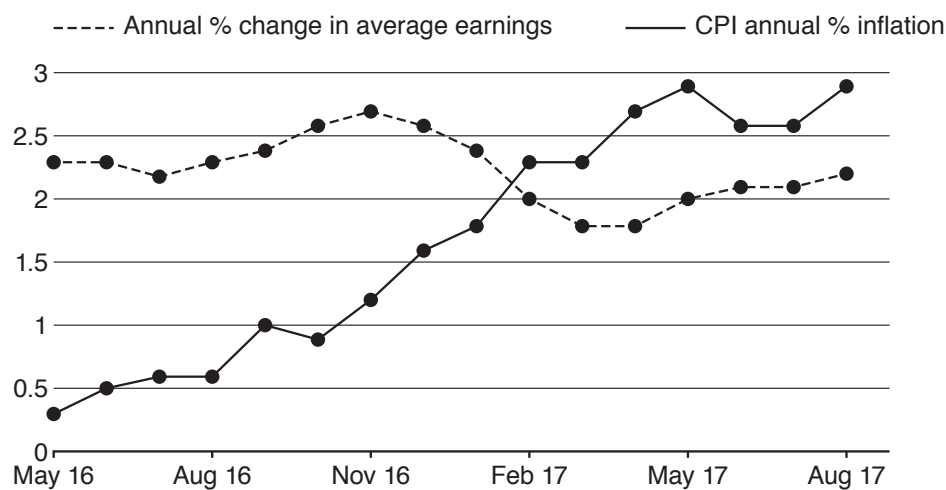
Source: Adapted from BBC News

8



Source: ONS

Fig. 1 UK Inflation 2015–2017



Source: BBC

Fig. 2 Changes in UK average earnings and CPI

	2000	2005	2010	2015
UK goods exported to the EU as a percentage of UK goods exported to the world	60.1%	58.0%	53.7%	47.0%
UK services exported to the EU as a percentage of UK services exported to the world	40.9%	42.2%	40.8%	39.4%

Source: Adapted from ONS

Fig. 3 Value of UK trade with the EU as a percentage of UK total exports to the world

11

- (e) Explain what is a 'withdrawal from the circular flow of income'.

..... [2]

- (f)*** Evaluate whether comparative advantage can be used to explain the changes in global trade patterns. **[10]**

[illegible]

4-MARK QUESTIONS

1 question in this booklet

8

SECTION B

UK exports to the European Union fall by 40%

The UK's exports of goods to the European Union (EU) fell by 40.7% in January 2021, according to the Office for National Statistics (ONS), while imports decreased by 28.8%. The figures showed the biggest drop since records began in 1997 and were the first since new trading rules between the UK and the EU came into existence. In contrast, the UK's trade with non-EU countries grew by 1.7% in January.

5

It is not just tariffs that could threaten exports. The additional risk is that non-tariff barriers – such as checks on meat and poultry – will increase exporters' costs sharply. These costs will have to be passed on in higher prices, reducing exporters' competitiveness. Food exporters especially are now feeling the impact.

The ONS found that in January 2021 GDP in the UK was down 2.9%, compared to the previous month, which was a "notable hit". The economy was 9% smaller than it was before the start of the Covid pandemic. Estimates for November 2020 to January 2021 showed 1.7 million people were unemployed, about 5.1% of the workforce. The unemployment rate was at a near five-year high, having risen by 1.1% over the previous 12 months.

10

Retailers, restaurants, and hairdressers were all affected by lockdowns during the Covid pandemic. Research found a 28% fall in output from the food services and accommodation sectors between December 2020 and January 2021. This "reflected many cafés and restaurants giving up on offering takeaway and delivery services, while the pandemic was raging". The research also found that households had cut back on non-essential expenditure, sending retail and wholesale output down by 9%. In contrast, UK household savings peaked in the second quarter of 2020, reaching £92 billion compared to £33 billion in the first quarter of 2020, due to the shutdown of businesses and low confidence in the economy.

15

Manufacturing also saw its first decline since April 2020, with car production falling significantly. However, increases in health services, from vaccine production and increased testing, partially offset the declines in other industries.

20

Following a trade deal announced in September 2020, nearly all exports to Japan will be tariff free, increasing the demand for UK goods in Japan. UK tariffs on imported Japanese cars will be removed by 2026. The deal is expected to boost trade between the UK and Japan by about £15 billion. Critics of the trade deal said it will boost UK GDP by only 0.07%, a fraction of the trade that could be lost with the EU.

25

9

Fig. 1

UK trade in goods with the EU 2019–2021 (seasonally adjusted)

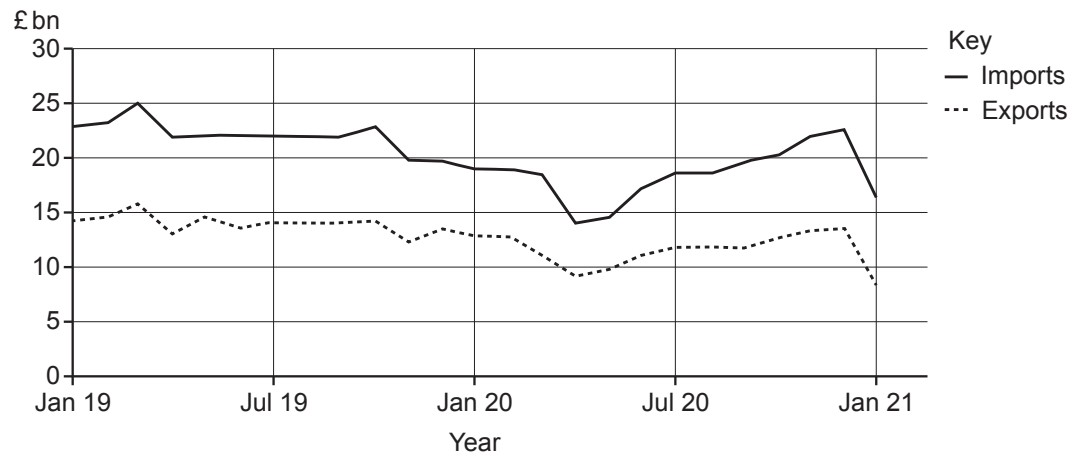
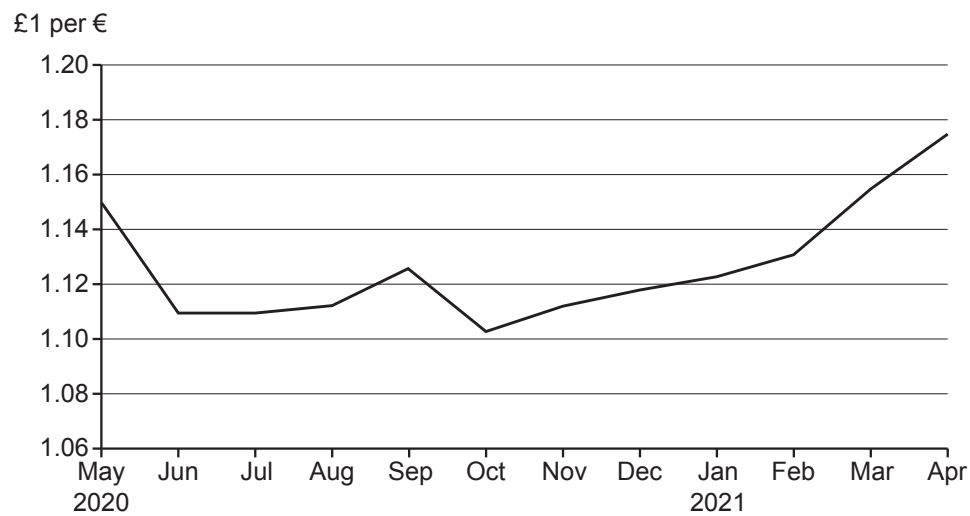


Fig. 2

Sterling to euro exchange rate 2020–2021



11

- (c) The trade deal with Japan (**lines 26–30**) may have an impact on the exchange rate between Sterling and the Japanese Yen.

Using a diagram, explain the possible impact on the Sterling to Yen exchange rate of an increase in demand from Japan for UK goods.

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..... [4]

- (d) Using information from the **Extract**, explain how the UK’s circular flow of income would have been affected during 2020 and 2021.

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..... [4]

10-MARK QUESTIONS

1 question in this booklet

10

SECTION B

UK government spending pushes debt to £2 trillion

The UK national debt has risen above £2 trillion due to spending to support the economy during the coronavirus pandemic. This comes mainly from the introduction of public health measures and new government policies to support businesses and individuals.

In July 2020, the Chancellor announced a package worth up to £30 bn, which includes plans to protect jobs, help younger workers and encourage spending. This includes the 'Job Retention Scheme', where struggling employers can put their workers on furlough. This means they temporarily stop working and the government pays them 80% of their wages, up to a maximum of £2500 per month. In most cases, the alternative would have been for the employers to make some or all of their workers redundant. Increases were also announced to some welfare payments for the unemployed. 5

A number of training initiatives have also been introduced to provide support for young workers. These include:

- the 'Kickstart scheme' which is a £2 bn fund to pay for six-month work placements for 16 to 24-year-olds who are on universal credit
- a £1000 grant for employers who take on a new trainee aged 16–24 with the aim to triple trainee numbers 15
- doubling the number of work coaches at Jobcentre Plus centres with extra help for young jobseekers
- £150 m for the 'Flexible Support Fund' which provides help for jobseekers.

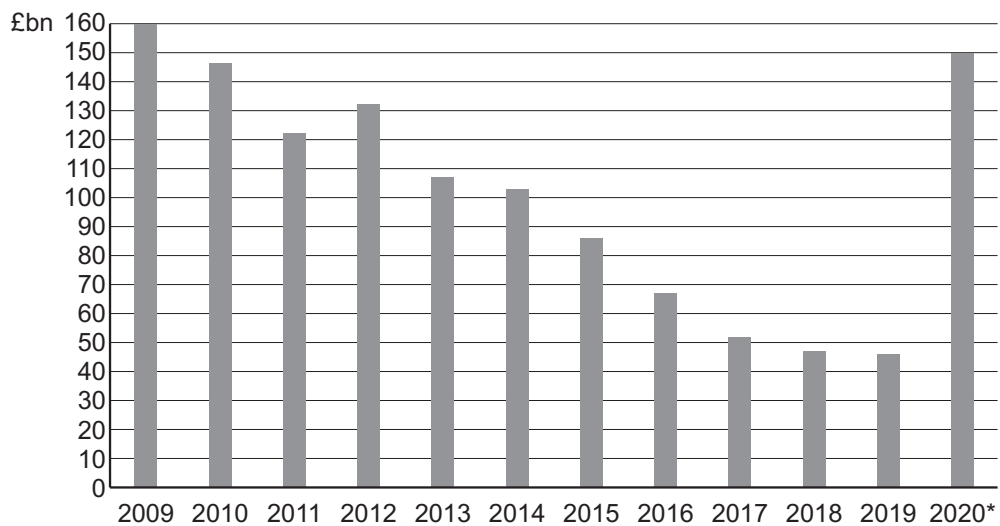
Measures have also been announced to improve energy efficiency and infrastructure. These include £1 bn of grants to public sector organisations to improve energy efficiency and £50 m to improve the energy efficiency of socially rented homes. A £5.6 bn package of infrastructure measures was also announced, including hospitals, school buildings, transport and housing. 20

The sales tax (VAT) included in the price of food, accommodation and leisure attractions will also be cut from 20% to 5% until at least March 2021. Tax revenue has been hit hard by the pandemic as people and businesses earn and spend less. 25

Source: Adapted from [bbc.co.uk/news](https://www.bbc.co.uk/news), Summer 2020

11

Fig. 1
UK Government Budget Deficit 2009–2020

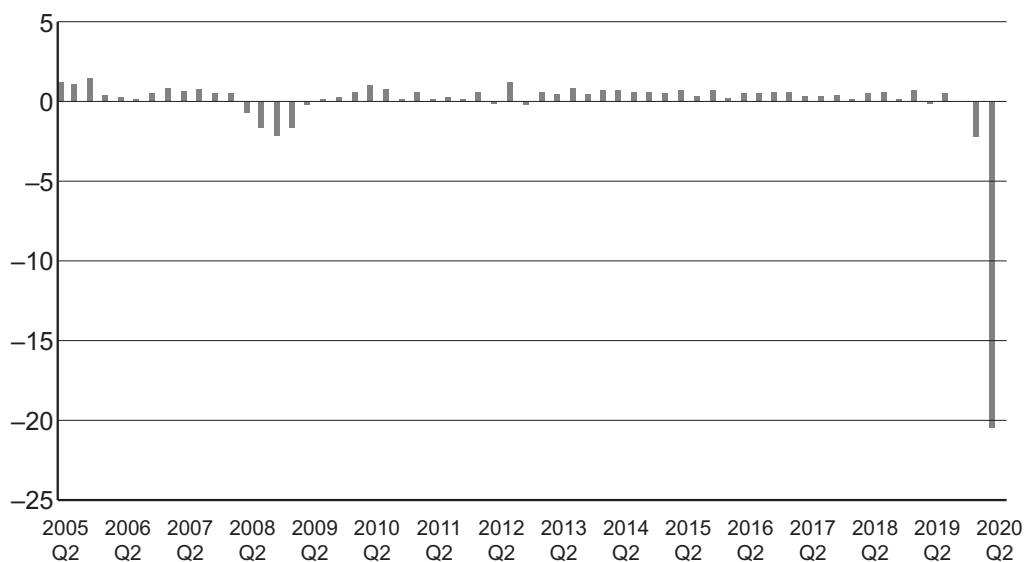


*2020 data is up to July only

Source: ONS

Fig. 2
UK GDP Growth (Q2 2005 to Q2 2020)

Quarter on quarter GDP growth (%)



Source: ONS

14

(e)* Evaluate how the change in income for employees placed on furlough may have affected UK consumption. **[10]**

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting practice. There are no margins, text, or other markings on the page.

Handwriting practice area consisting of multiple horizontal dotted lines for writing.

Handwriting practice area with horizontal dotted lines.

20-MARK QUESTIONS

1 question in this booklet

SECTION C

Answer Question 17 **or** 18.

- 17* In Japan, the government introduced a fiscal tax reform plan in 2018, including increased taxes for high-income earners and smokers, as well as the creation of a 'departure tax' targeting tourists leaving Japan.

Evaluate, using an appropriate diagram(s), the effects of this change in taxation on the Japanese government's ability to achieve macroeconomic objectives. **[20]**

OR

- 18*** The UK current account deficit increased by 24%, to £9.7 billion, in the three months up to April 2018.

In China, as a result of an acceleration in import growth, the current account surplus fell to \$28.8 billion in April 2018.

Evaluate, using an appropriate diagram(s), whether a large current account imbalance should be a concern for any government. **[20]**

Question no.

[illegible]

Handwriting practice area with horizontal dotted lines.

MARK SCHEMES

official OCR mark schemes

11	D	Rationale A This will cause a decrease in aggregate demand (AD).. B This will cause an increase in AD and AS. C This will cause an increase in AD. D Correct: Wage levels are a determinant of AS. A rise in wage levels will increase the costs of production causing SRAS to fall	1	✓
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4	B	Rationale A. Consumer expenditure is part of the circular flow. B. Correct: Exports are an injection as they add to spending in the economy. C. Savings are a leakage/withdrawal of spending from the economy. D. Taxation is a leakage/withdrawal of spending from the economy	1	
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5	C	Rationale A $0.1 + 0.1 + 0.05 = 2.5$. B Correct: $1/0.1 + 0.1 + ? = 2.5$. So $1/0.4 = 2.5$. $0.4 - 0.2 = 0.2$. C $0.1 + 0.1 + 0.2 = 0.4$. D $2.5 - 0.2$.	2	✓
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10	A	A Correct: a reduction in the quantity of labour in the economy would reduce the productive capacity, shifting long run aggregate supply to the left. B This would make exports more price competitive, shifting aggregate demand to the right. C This would increase costs of production for domestic firms, shifting the short run aggregate supply curve to the left. D This would improve the balance of payments, potentially impacting upon aggregate demand	AO3	
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6	C	A This is a method for measuring national income B This is a method for measuring national income C Correct: Because some inputs may not be utilised fully or efficiently the amount of inputs is not a method of measuring national income D This is a method for measuring national income	AO1	
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4	A	Economic growth increases Rationale: A Correct: change in consumption/change in income 45/50 B consumption/income (805/825) – this is the apc C income/consumption (825/805) D change in income/change in consumption 50/45	2	Yes
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5	C	Change in income change in consumption curve Rationale: A indirect, levied on value of property B indirect, tax levied on spending C Correct: tax levied on individual D indirect, tax levied on spending	2	
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6	A	Finance ministers are spending Rationale: A Correct: Both will increase multiplier B Depends on the relative size of changes in marginal propensity to save and marginal propensity to import C Depends on the relative size of changes in marginal propensity to save and marginal propensity to import D Increase in both will reduce the multiplier	3	
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9	C	Every time there is a decrease in investment, the aggregate demand curve shifts left. Rationale: A If the price level falls B If the price level rises C Correct: As investment falls, AD falls shifting left D Shift right needs investment to increase	1	
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Question	Answer	Score	Marking Comments
1	A Rationale: A Correct: Injection B Leakage C Leakage D Leakage	1	

10	D	$\frac{20,000 - 10,000}{10,000 - 50,000}$ Rationale: A Component of AD B Component of AD C Component of AD D Correct: Not component of AD	1	
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14	A	Q 120-100 Rationale: A Correct Automatic stabilisers reduce fluctuations in the economy B Automatic stabilisers do not make matters worse C AD will fall D Automatic stabilisers impact AD	1	
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7	C	LESS WORKERS Rationale: A No effect on AD in short-run B No effect on AD in short-run C Correct: Less workers reducing potential output D Requires an increase in size of workforce, more immigration	3	
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9	C	Correct: Boom Rationale: A $(3000 - 2500) / (30,000 - 25,000)$ and the average tax rate at £30,000 B Average tax rate at £35,000 to nearest whole number C Correct: $(4500 - 3000) / (35,000 - 30,000)$ D $(7000 - 4500) / (40,000 - 35,000)$	2	Yes
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10	A	Unemployment Rationale: A Correct: $(3000/30000)-(2000/25000)$ B $2000/25000$ C $3000/30000$ D $(3000-2000)/(30000-25000)$	2	Yes
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12	D	Reasons for the shift in the AS curve: A Impacts AS B Impacts AS C Would require a less flexible labour market D Correct: AS shifts right as supply of labour increases	2	
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5	D	Correct: Expansionary policy Rationale: A Injection B Injection C Injection D Correct: Withdrawal	1	
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7	D	Change in AD curve Rationale: A Shift right B Shift right C Shift right D Correct: Movement along AD curve	1	
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13	A	Rationale: A Correct: $5-2-7+(8-6)=$ minus 2 B $5+8-7+6-2=10$ C $8-2-6=0$ D Can be calculated	1	Yes
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9	D	Suppose the aggregate demand curve is given by $Y = 35000 - 100P$ and the short-run aggregate supply curve is given by $P = 800 + 0.0001Y$. What is the short-run equilibrium level of output? Rationale: A 800/35000 B 1700/35000 C 2500/35000 D Correct: 800/10000	2	Yes
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10	A	Correct: £12,000 / £20 = £10,000, £17,000 - £10,000 = £7,000 profit Rationale: A Correct: As income rises, tax paid as a proportion falls B Progressive C Proportional D Indirect – not related to income	1	
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11	D	~~D Indirect – not related to income~~ Rationale: A AS shifts left B AD shifts left C AD shifts right D Correct AS shifts right	2	
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6	A	Hyperinflation Rationale: A Correct: $(5000 \times 0.2)/15000$ B $(10000 \times 0.2)/15000$ C $(15000 \times 0.2)/15000$ D $5000/15000$	2	Yes
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16	e	Explain what is a 'withdrawal from the circular	2	Two marks for a definition of a withdrawal.
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16	(d)	Using information from the Extract, explain how the UK's circular flow of income would have been affected during 2020 and 2021. Exports to the EU fell <i>by 40.7%</i> (1). This will lead to a decrease in the circular flow of income (1) because exports are an injection (1). Savings increased <i>to £92bn</i> (1) this will lead to a decrease in the circular flow of income (1) as savings are a withdrawal (1). Imports <i>fell by 28.8%</i> (1). The circular flow of income would have increased (1) as imports are a withdrawal (1). Economic growth/GDP fell <i>by 2.9%/ 9% over the pandemic</i> (1). There will be a decrease in the circular flow of income (1). Consumption of non-essential goods fell (1).	4	Annotate with  Up to two marks for relevant evidence from the case study Up to two marks for explaining the effect on the circular flow Candidates must recognise the impact on circular flow for four marks Award any other relevant data taken from the case study – no need to quote the actual figures and dates. Do NOT reward examples that are not from the case study
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16	(e)	Evaluate how the change in income for employees placed on furlough may have affected UK consumption. Level 3 (7-10 marks) Good – strong analysis of how the change in income for employees placed on furlough may have affected consumption. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the impact on UK consumption of employees placed on furlough. Strong evaluation should include a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (4-6 marks) Reasonable analysis of how the change in income for employees placed on furlough may have affected consumption. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the impact on UK consumption of employees placed on furlough.	10 (AO2 x1 AO3 x4 AO4 x5) Employees placed on furlough will experience a fall in their income, as they will receive 80% of their prior income only. This will mean as income falls these consumers are likely to reduce their consumption of goods and services. However, as this is only a small reduction in income and if this change in income is only expected to be for a short period of time, consumers are unlikely to change their consumption patterns. Those who receive incomes at the upper end of the scale up to £2,500 per month are already receiving high levels of income, therefore they may not change their level of consumption, but savings would be lower than when they were earning 100% of their usual income. Lower income households are more likely to reduce consumption, as all or most of usual income would be used for consumption of goods and services. However, current income is not the only factor affecting consumption. Consumption also depends on: • Due to the pandemic, there were far fewer visits to shopping centres, restaurants, and other leisure facilities. Most consumers, even those earning their full income, reduced their consumption causing a fall in AD in the economy as consumers spent more time at home. • Changes to household rather than individual income had a greater impact. • Wealth – If consumers have a high level of savings, they can draw upon these savings, and they may continue to consume the same level of goods and services despite the fall in income. If house prices increase, homeowners may also feel wealthy and consume at higher levels. • Consumer expectations - households may decide they need to save more given the uncertainty in the future and potential job losses.
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Question	Answer	mark	Guidance
17*	Evaluate, using an appropriate diagram(s), the effects of this change in taxation on the Japanese government's ability to achieve macroeconomic objectives. Level 4 (16-20 marks) Good knowledge and understanding of how an increase in taxes may affect other macroeconomic objectives. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the extent of how a change in taxation may affect other macroeconomic objectives, weighing up both sides/comparing alternatives and reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 3 (11-15 marks) Good knowledge and understanding of how an increase in taxes may affect other macroeconomic objectives. Good analysis of how a change in taxation affects other macroeconomic objectives. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.	20 (AO1*3 AO2*4 AO3*6 AO4*7)	Macroeconomic objectives include low and stable inflation, full employment, sustained and sustainable economic growth, more equal distribution of income and a sustainable balance of payment position. There have been changes to direct taxation- higher rate income tax at the top end, indirect taxes - tax on smoking and a departure tax change. This may help the Japanese government to earn more tax revenue and therefore help to reduce fiscal deficit/attain balanced budget. This may provide funds to increase government spending which could increase AD in the short term and lead to LR economic growth. However, this depends on whether the government increases government expenditure as government revenue increases. The level of income equality is likely to improve as income taxes become more progressive and higher income earners are paying more taxes. If the additional tax revenue is spent by the government on areas such as welfare benefits, healthcare and education this will further benefit lower income earners. The effect of the income tax change depends on the extent of how disincentivised higher income workers are. Workers may work less hours – (c.f. Laffer curve). Income tax revenue may not increase by as much as expected due to tax evasion and also tax avoidance. Tax evasion maybe be difficult if there are strong governance systems in place. As income taxes increase this is an increased withdrawal from the circular flow of income and will reduce AD from AD1 to AD2.