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OCR AS ECONOMICS: QUESTIONS BY TOPIC

Economic Policy Objectives

OCR AS Economics H060 — Topic MACRO 2

77 questions · 273 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.

77 questions · 273 marks · lowest tariff first

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66. Section B, Q16(c)	H060/02 Macroeconomics · June 2023	4 marks	125
67. Section B, Q16(c)	H060/02 Macroeconomics · November 2020	4 marks	128
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QUESTIONS

77 questions · 273 marks · lowest tariff first

1-MARK QUESTION

43 questions in this booklet

2

SECTION A

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

Write your answer for each question in the box provided.

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- 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]

6

- 13 Which of the following will increase the size of the current account deficit on the UK's balance of payments in the short run?

- A An increase in loans by UK banks to Polish firms
- B An increase in the number of French tourists taking UK holidays
- C An increase in UK foreign direct investment in the USA
- D An increase in UK foreign aid given to Ethiopia

Your answer

[1]

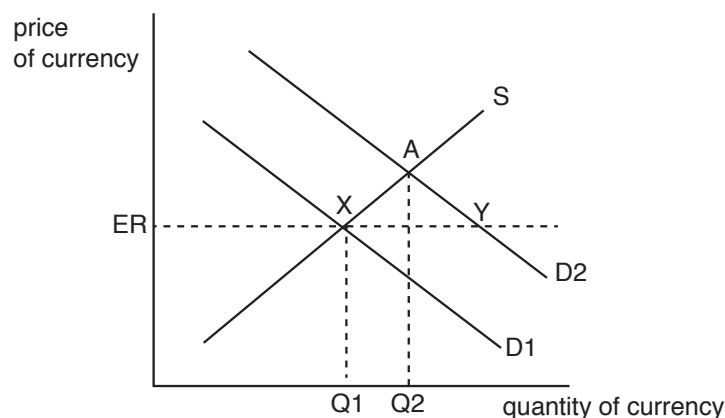
- 14 A country experiences a decline in its exports and its imports. Which of the following is most likely to have caused these changes?

- A A decrease in the country's exchange rate
- B A decrease in the extent to which the country specialises
- C An increase in both incomes at home and abroad
- D An increase in trade liberalisation policies adopted at home and abroad

Your answer

[1]

- 15 The diagram below shows the demand for and supply of a currency on the foreign exchange market. The country is committed to maintaining the foreign exchange rate at ER. If the demand for the currency shifts to D_2 which one of the following policies could be pursued to maintain the fixed exchange rate ER?



- A A cut in domestic interest rates
- B A cut in unemployment benefits
- C A subsidy given to domestic producers
- D The purchase of the domestic currency on the foreign exchange markets

Your answer

[1]

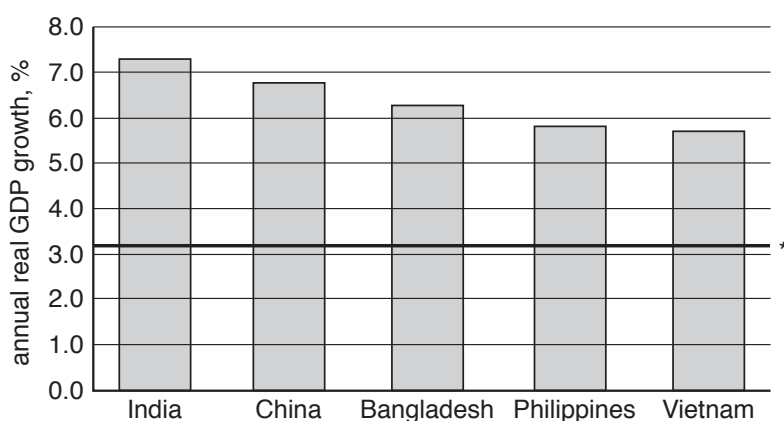
7

SECTION B

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

India's rise to the top

Economists are predicting that India will be the third biggest economy by 2030. Economic growth across emerging and developing countries in Asia has been aided by low international oil and commodity prices. However, any changes to global prices could slow down the rate of economic growth in these countries. Furthermore, slower than expected growth in China and Japan and increases in US interest rates may reverse flows of foreign direct investment to Asia affecting the growth of some of the fastest growing Asian economies. The rates of real GDP growth in five major Asian economies are shown in Fig. 1 below:



*The solid line represents annual average GDP growth rate for the global economy in 2015.

Fig. 1 Changes in real GDP in the top five fastest-growing Asian Economies: 2015 (forecast)

India's annual growth rate was predicted to reach 7.3% in 2015, higher than predicted figures for the other countries shown. India's economic growth was credited to increases in public and private investment in infrastructure, simplifying income tax bands and reducing corporation tax rates, which have helped to boost investor confidence. Lower oil import prices were expected to help increase household real disposable income and help to drive down the rate of inflation. The average inflation rate in India in 2015 was 5.9%, compared to an average rate of 6.4% in 2014.

India's inflation rate is influenced by changes in the country's exchange rate. Fig. 2 shows that the number of units of India's currency, the rupee, that had to be sold to purchase one US dollar has changed over the period 2011 to 2015.

8

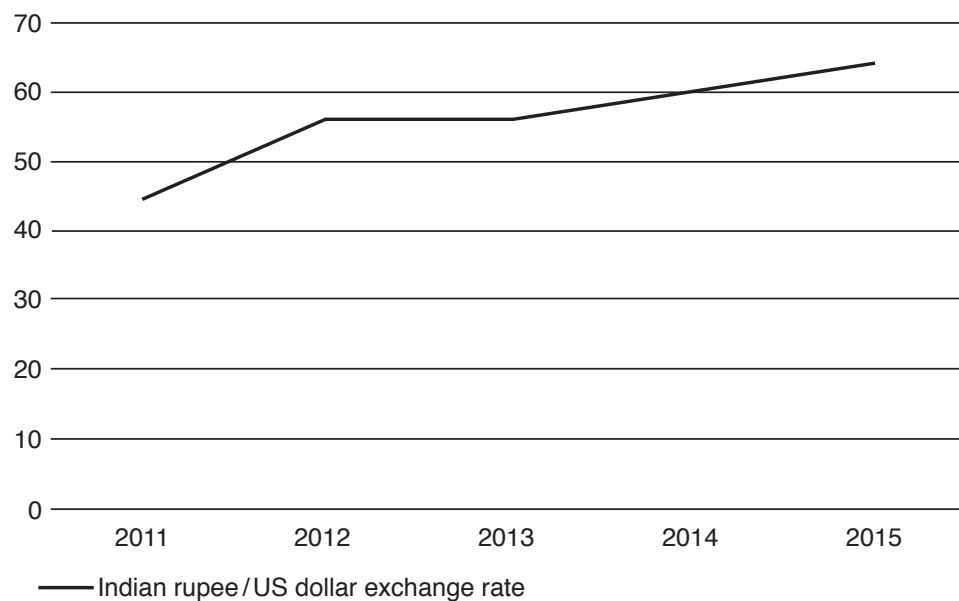


Fig. 2 Indian currency units (rupees) per US\$ 2011 – 2015

Changes in the country's exchange rate influences the current account position on its balance of payments. In turn, changes in the current account position can affect the country's unemployment rate. Fig. 3 shows the balance on India's current account and the country's unemployment rate over the period 2011 and 2015.

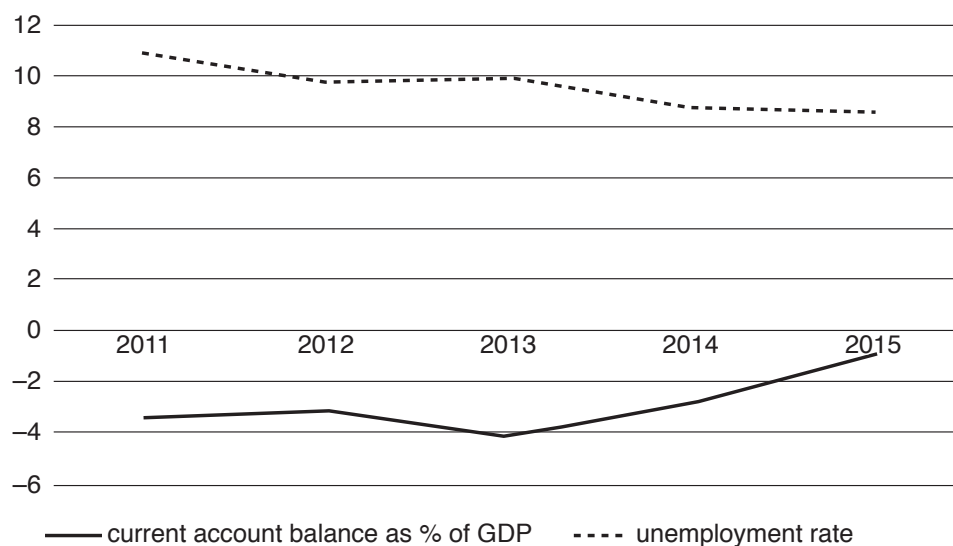


Fig. 3 India's current account balance and unemployment 2011 – 2015

9

- 16 (a) Using Fig. 1, compare the average economic growth rate of the five countries with the average global economic growth rate.

.....
..... [1]

- (b) Using information from the case study, explain **one** benefit of lower oil prices in India.

.....
.....
.....
..... [2]

- (c) Using Fig. 2, explain what happened to the value of the Indian rupee between 2011 and 2015.

.....
.....
.....
..... [2]

- (d) Using Fig. 3:

- (i) Describe the relationship between India's current account balance and its unemployment rate over the period shown.

.....
.....
.....
..... [2]

2

SECTION A

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

Write your answer for each question in the box provided.

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- D Unemployment benefits

Your answer

[1]

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- 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

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- 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

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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]

2

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- 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]

5

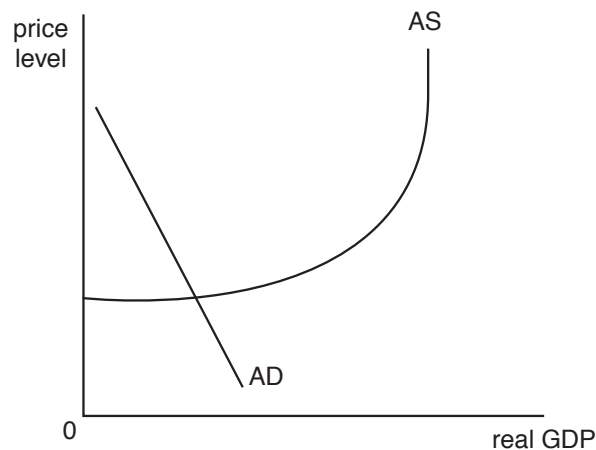
- 11 When will an appreciation of the currency result in the current account of the balance of payments improving?

Option	PED for exports	PED for imports
A	-0.4	-0.3
B	-0.5	-0.6
C	-0.6	-0.4
D	-0.7	-0.7

Your answer

[1]

- 12 The diagram below illustrates the macroeconomic equilibrium in an economy. Given the interest rate in the economy is 0.1%, which policy is the government most likely to pursue in these circumstances?



- A Contractionary monetary policy
- B Expansionary fiscal policy
- C Expansionary monetary policy
- D Supply side policy

Your answer

[1]

6

13 Which of the following would be classed as a monetary policy measure?

- A Devaluing the exchange rate
- B Increasing the personal tax allowance
- C Reducing government expenditure on education
- D Subsidising firms' investment in research and development

Your answer

[1]

14 Following the financial crisis, the UK experienced its deepest recession for more than 50 years between 2008 and 2009. Which type of unemployment did this cause?

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

Your answer

[1]

15 Between 1990 and 1992, UK citizens were charged a Community Charge commonly known as the poll tax – a single flat-rate per capita tax on every adult at a rate set by the local authority. What type of tax was this?

- A Indirect
- B Progressive
- C Proportional
- D Regressive

Your answer

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Your answer

[1]

7

SECTION B

Answer **all** the questions in this section.**Shortages, inflation and oil slump hit Venezuela**

Global oil production had slowed to approximately 83 million barrels per day in 2016, from about 84 million in mid-2015. As global oil production slowed down over the period, the economic impact on key oil-exporting economies became clear. Fig. 1 shows key macroeconomic data (projected for 2016 and 2017) for four countries dependent on oil exports.

Country	Real GDP growth rate (%)		Consumer Prices (%)		Current Account Balances (% of GDP)		Unemployment (%)	
	2016	2017	2016	2017	2016	2017	2016	2017
Nigeria	2.3	3.5	10.4	12.4	-2.8	-1.8	Data not available	
Norway	1.0	1.5	2.8	2.5	6.5	7.3	4.6	4.4
Saudi Arabia	1.2	1.9	3.8	1.0	-10.2	-6.1	Data not available	
Venezuela	-8.0	-4.5	481.4	1,642.8	-6.0	-2.5	17.4	20.7

Fig. 1 Real GDP growth rate, Consumer Prices, Current Account Balances and Unemployment data

Oil production in Venezuela has been estimated to account for more than 95% of Venezuela's export income, and the country had been suffering from falling oil production for some time. The price of Venezuela's oil exports also continued to fall during the period. This coupled with lengthy queues for Venezuelan citizens outside supermarkets due to food shortages, and rocketing inflation, caused increased tensions. Police enforced a policy limiting patrons to two shopping days a week and banned overnight queues. However, this was the start of difficult times for Venezuelans, as inflation continued to increase at a significant rate.

8

Venezuela's inflation rate for 2015 can be seen in Fig. 2 below:

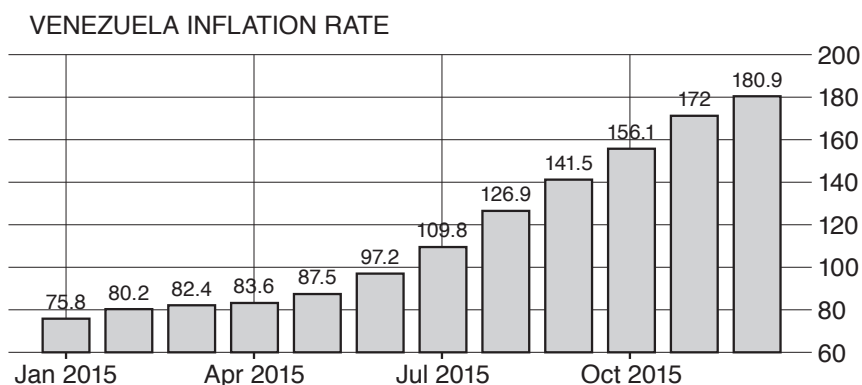


Fig. 2 Venezuela Inflation rate % (2015)

Furthermore, unemployment rates in the country continued to fluctuate over the period, as can be seen in Fig. 3 below:

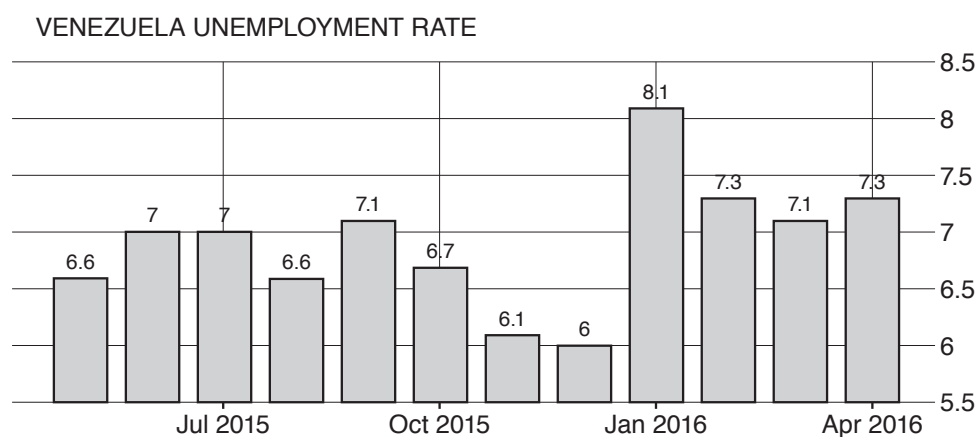


Fig. 3 Venezuela Unemployment rate % (May 2015 – April 2016)

In an attempt to stabilise the Venezuelan economy, the president Nicolás Maduro embarked on a world tour of China, Russia and several OPEC nations in order to gain funds and to try and convince other oil producers to curtail production. In Beijing, Maduro announced that China agreed to invest more than \$20bn (£13.2bn) in Venezuela.

9

- 16 (a) Define the term 'current account balance'.

.....

.....

.....

..... [2]

- (b) Using Fig. 1, what is the projected state of Venezuela's current account balance in 2017?

.....

..... [1]

- (c) Using Fig. 1, compare the projected real GDP growth rates for Venezuela and Nigeria over 2016 and 2017.

.....

.....

.....

..... [2]

- (d) Using Fig. 2 and 3:

- (i) Describe the relationship between Venezuela's inflation rate and its unemployment rate from the period October to December 2015.

.....

.....

.....

..... [2]

2

SECTION A

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

Write your answer for each question in the box provided.

- 1 If a country's tax receipts are \$520bn and government expenditure is \$540bn, which of the following best describes the state of the macroeconomy?

- A Budget deficit
- B Budget surplus
- C Current account deficit
- D Current account surplus

Your answer

[1]

- 2 What could explain the trade-off between the policy objectives of economic growth and the balance of payments?

- A Economic growth caused by technological progress reduces the price of exports
- B If high earners see their income rise more than low earners then the benefits of growth will not be shared equally
- C Rising output increases the amount of goods and services available to export
- D When income rises the demand for imports increases

Your answer

[1]

- 3 A woman lost her job as a solicitor two months ago. She has since been searching for employment as a hotel manager. She has been too embarrassed to apply for any state benefits and has been living off her savings. Would she be classified as unemployed on the claimant count measure and the Labour Force Survey (ILO) measure?

	Claim count measure	Labour Force Survey (ILO) measure
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

Your answer

[1]

- 4 In what economic climate would money be most at risk of **not** fulfilling its function as a medium of exchange?

- A Deflation
- B Disinflation
- C Hyperinflation
- D Inflation

Your answer

[1]

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2

SECTION A

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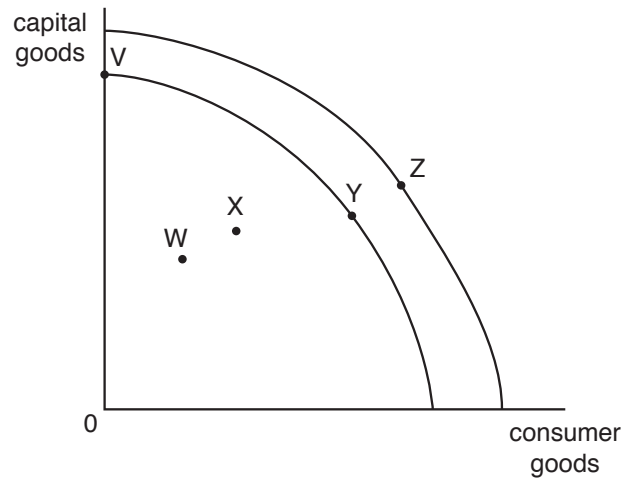
Your answer

[1]

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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]

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]

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

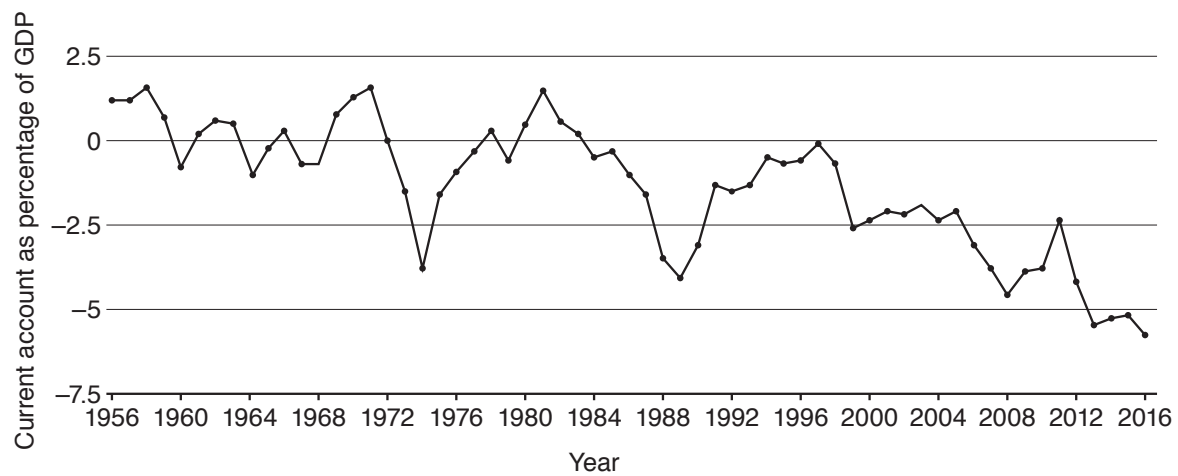
Your answer

☐

[1]

6

14 The diagram below shows the current account position on the UK balance of payments.



What is true over most of the period from 1956 to 2016?

- A The current account deficit has improved
- B The current account was balanced
- C The gap between the value of goods and services the UK exports and imports has fallen
- D The UK imported a greater value of goods and services than it exported

Your answer

[1]

15 What impact is a decrease in quantitative easing of £200bn by the Bank of England most likely to have?

- A Increase economic growth and increase inflation
- B Increase economic growth and reduce inflation
- C Reduce economic growth and increase inflation
- D Reduce economic growth and reduce inflation

Your answer

[1]

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".

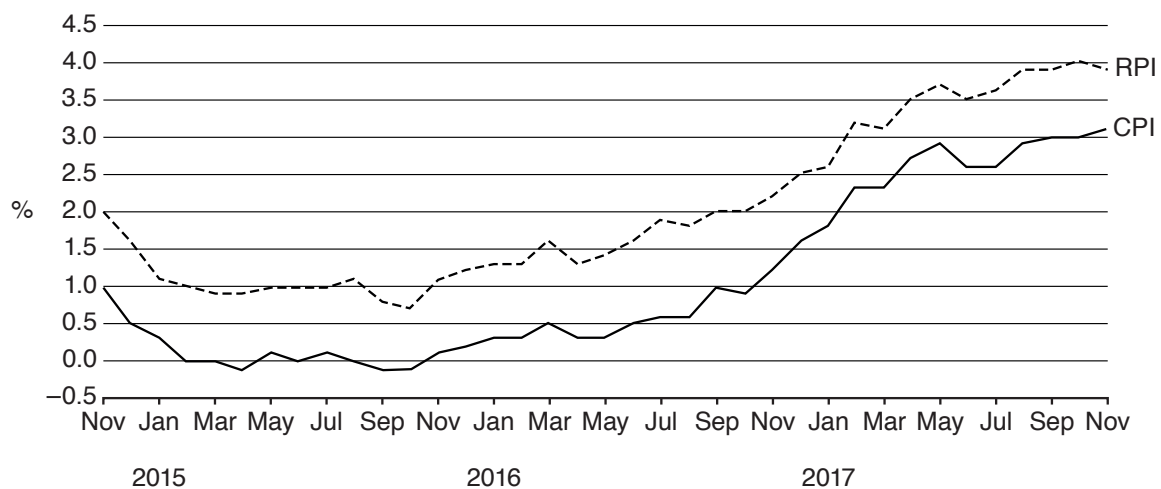
Almost four million households face higher mortgage interest payments after the interest rate rise, but it should give savers a modest lift in their returns. The main losers will be households with a variable rate mortgage. This may increase the withdrawals from the circular flow of income.

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.

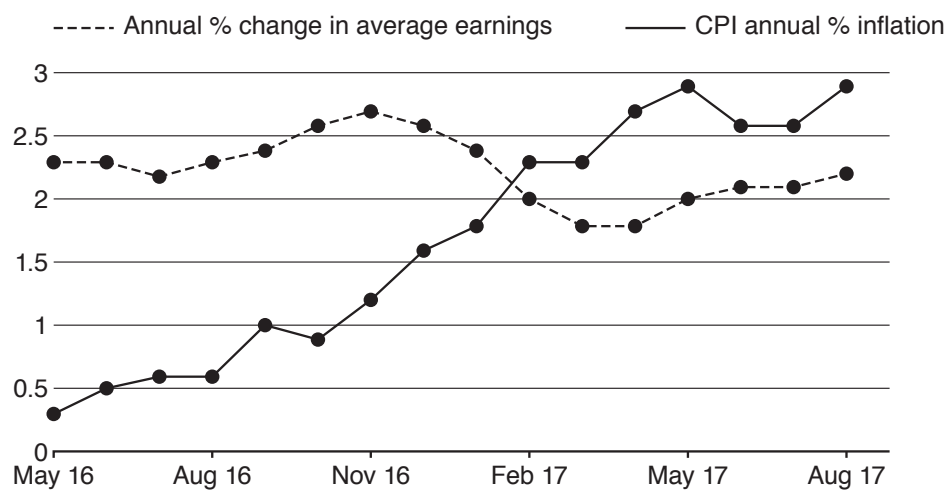
Source: Adapted from BBC News

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

9

- 16 (a) (i) Using Fig. 1, compare the RPI and CPI measures of inflation during 2017.

.....

.....

.....

..... [2]

- (ii) State **one** reason why the RPI measure of inflation may differ from the CPI measure.

.....

..... [1]

- (b) Using Fig. 2, explain what happened to the UK standard of living between February 2017 and August 2017.

.....

.....

.....

..... [2]

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 is an instrument of fiscal policy?

- A Income tax
- B Interest rates
- C Quantitative easing
- D Regulation

Your answer

[1]

2 What is Gross Domestic Product?

- A The average value of output per person produced in a country
- B The employment rate
- C The size of the workforce
- D The total value of goods and services produced in a country

Your answer

[1]

3 An increase in long run aggregate supply may lead to:

- A higher inflation and a fall in real output
- B higher unemployment and lower inflation
- C lower inflation and an increase in real output
- D lower unemployment and a fall in real output

Your answer

[1]

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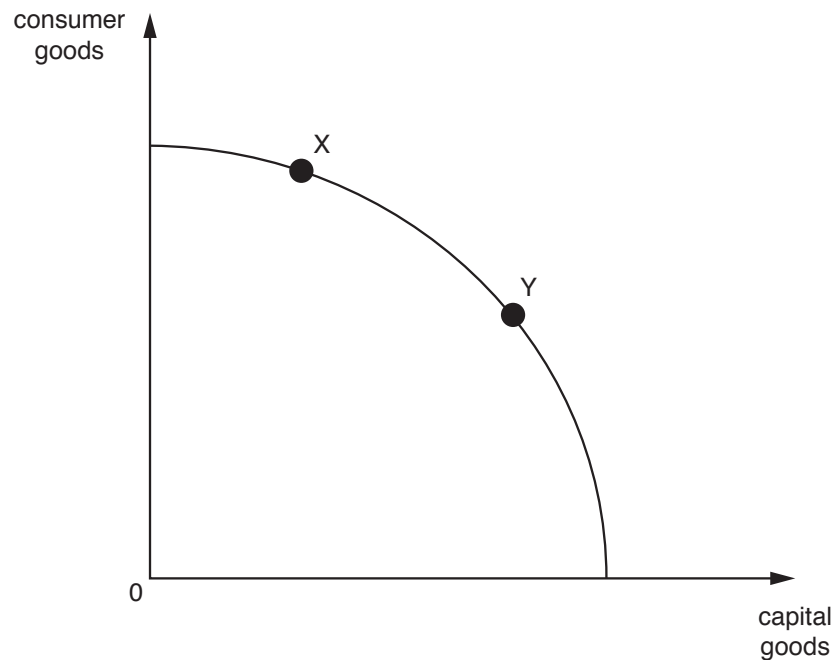
- A higher inflation and a fall in real output
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- C lower inflation and an increase in real output
- D lower unemployment and a fall in real output

Your answer

[1]

4

- 7 In the diagram below, two countries X and Y, are operating on the same production possibility frontier.



What is likely to be true about country X?

- A It will have higher economic growth in the future than country Y
- B It will have lower economic growth in the future than country Y
- C It will have negative economic growth in the future
- D It will have the same level of economic growth in the future as country Y

Your answer

[1]

- 8 A country's average price of imports increases by 20% and its average price of exports increases by 14%. Calculate to the nearest whole number what will happen to the country's terms of trade?

- A Fall by 5%
- B Fall by 30%
- C Improve by 5%
- D Improve by 43%

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]

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[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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2

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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]

7

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

Year	Nominal GDP (£m)
2020	200 000
2021	300 000

Between 2020 and 2021 the rate of inflation was 5%.

The population of the country was 10 million in 2020 and increased by 8% in 2021.

What is the country's real GDP per capita in 2021, at 2020 prices (to the nearest pound)?

- A £19 444
- B £26 455
- C £27 778
- D £28 571

Your answer

[1]

- 14 Which of these would be the **most** effective in reducing expenditure on imports?

- A Increased government expenditure on welfare payments
- B Increased indirect taxation
- C Reduced interest rates
- D Reduced research and development subsidies for UK firms

Your answer

[1]

2

SECTION A

Write your answer to each question in the box provided.

1 Which of these is a tool of monetary policy?

- A Income tax
- B Interest rates
- C Subsidies to firms
- D Welfare payments

Your answer

[1]

2 Frictional unemployment occurs when:

- A cheap steel from abroad reduces demand for UK steelworkers
- B farm workers do not have a job during the winter months
- C the economy is in a period of recession
- D workers are transferring between jobs

Your answer

[1]

3 Which economic activity is found in the secondary sector?

- A Banking
- B Growing corn
- C Producing cars
- D Providing insurance

Your answer

[1]

4 Competition policy is an example of:

- A exchange rate policy
- B fiscal policy
- C monetary policy
- D supply side policy

Your answer

[1]

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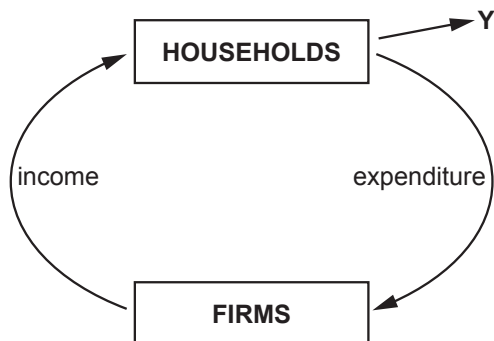
- A exchange rate policy
- B fiscal policy
- C monetary policy
- D supply side policy

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]

4

- 8 The table shows components of the balance of payments for a country in 2020.

	£bn
Capital transfers	15
Exports of goods and services	75
Foreign direct investment	20
Imports of goods and services	60
Portfolio investment	30
Primary income	25
Secondary income	10

What was the current account balance in 2020?

- A** £50 bn
B £100 bn
C £115 bn
D £170 bn

Your answer

[1]

- 9 Which of these is a method to calculate a country's gross domestic product?

- A** Expenditure
B Financial account
C Input
D Labour force survey

Your answer

[1]

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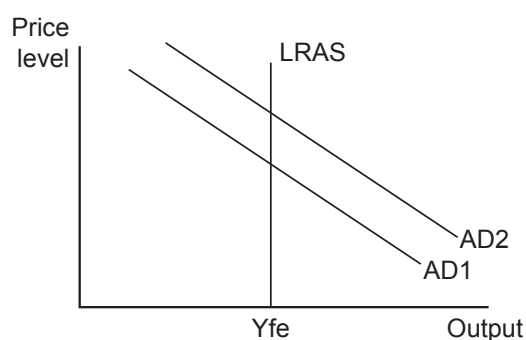
10 Which group will be part of the labour force survey measure of unemployment?

- A People claiming job seeker's allowance and not available for work
- B People without a job and actively seeking work in the last two weeks and available to start work the next week
- C People without a job and actively seeking work in the last four weeks and available to start work in the next two weeks
- D People working part-time but seeking other work

Your answer ☐

[1]

11 The diagram shows an increase in aggregate demand from AD1 to AD2.



What impact will this have on the economy?

- A Increased output only
- B Increased unemployment
- C Inflation and increased output
- D Inflation only

Your answer ☐

[1]

12 Which option will **not** improve labour market flexibility?

- A Better information about job vacancies
- B Increasing the minimum wage
- C Limiting the power of trade unions
- D Retraining of workers

Your answer ☐

[1]

5

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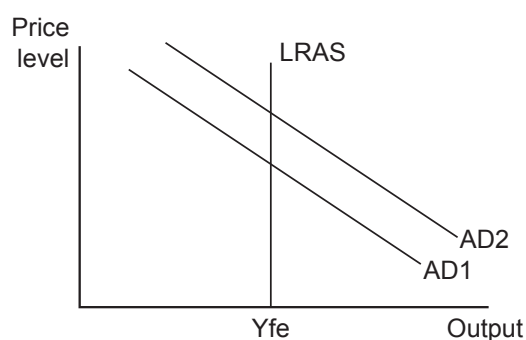
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Your answer

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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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2

SECTION A

Write your answer to **each** question in the box provided.

1 A government budget deficit occurs when:

- A imports exceed exports
- B its expenditure is less than its revenue
- C its expenditure is more than its revenue
- D the national debt is decreasing

Your answer

[1]

2 What is **not** an example of a supply side policy?

- A Increasing expenditure on education
- B Increasing the rate of income tax
- C Investing in road infrastructure
- D Providing subsidies for research and development

Your answer

[1]

3 What would be the **least** effective way to increase long run economic growth?

- A Increase government expenditure on welfare payments
- B Increase labour productivity
- C Increase the level of technology
- D Increase the number of women joining the workforce

Your answer

[1]

3

4 What is the difference between real and nominal values of economic variables?

- A The exchange rate
- B The inflation rate
- C The interest rate
- D The tax rate

Your answer

[1]

5 Which stage of the economic cycle occurs when actual GDP is above its trend value?

- A Boom
- B Recession
- C Recovery
- D Trough

Your answer

[1]

6 In 2022, a basket of goods and services cost £1350.
In 2023, the same basket cost £1674.

What is the value of the price index for 2023 based on 2022 being the base year?

- A 48
- B 81
- C 124
- D 193

Your answer

[1]

3

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Your answer

[1]

5

- 14 The table shows the retail price index for a country.

Year	Retail price index
Year 1	93.4
Year 2	99.5
Year 3	100.0

What is the inflation rate in Year 2?

- A 0.5%
B 6.1%
C 6.5%
D 6.6%

Your answer

[1]

- 15 The table shows the value of the main components of the UK's balance of payments in 2018.

	£m
Current account	-92 457
Financial account	+77 182
Net errors and omissions	+18 497

What is the value of the capital account?

- A £0 m
B -£3222 m
C -£15 275 m
D +£95 679 m

Your answer

[1]

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SECTION B

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

Rising discontent in Iran

Iran's economy was badly affected for several years by trade restrictions imposed by the international community. In 2016 most sanctions were lifted, the economy recovered quickly and GDP grew 12.3%, according to the Central Bank of Iran. Much of that growth was attributed to the oil and gas industry. The International Monetary Fund (IMF) said growth had begun to spread to the non-oil sector and predicted that GDP would expand by 4.2% in the 2017/18 financial year. However, the recovery has not been as significant as many Iranians had hoped. 5

Inflation has fluctuated greatly in Iran since 1979. In 2013 inflation reached 31%, as the economic sanctions reduced Iran's oil revenue, but has steadily decreased since then. The World Bank expects inflation to remain around 12% over the next three years.

The Iranian government has proposed a budget for the financial year starting in March 2018 that would see its expenditure increase by about 6% to \$104bn. However, that would represent a cut in real terms. 10

The official unemployment rate is 12.4%, but in some parts of the country it is more than 60%. Young people – more than half of the population of 79.9 million is under 30 – are among the worst affected. The International Labour Organisation (ILO) estimates that 26.7% of 15–24 year olds are unemployed. Underemployment is also high at 12.4% among 15–24 year olds. 15

The IMF has warned that, despite the high economic growth rate, not enough jobs are being created to absorb the large number of people entering the labour market. Analysts say that is because most of the recovery can be attributed to the oil industry, which is not labour-intensive. Iran's currency, the Rial, has also fallen in value by more than 450%. 20

The World Bank says that poverty in Iran fell between 2009 and 2013 to about 8%, although it increased to 10.5% in 2014. It estimates that 8.2 million people were living on less than \$5.50 per day in 2014. About 2%, or 196 000 people, were living on less than \$1.90.

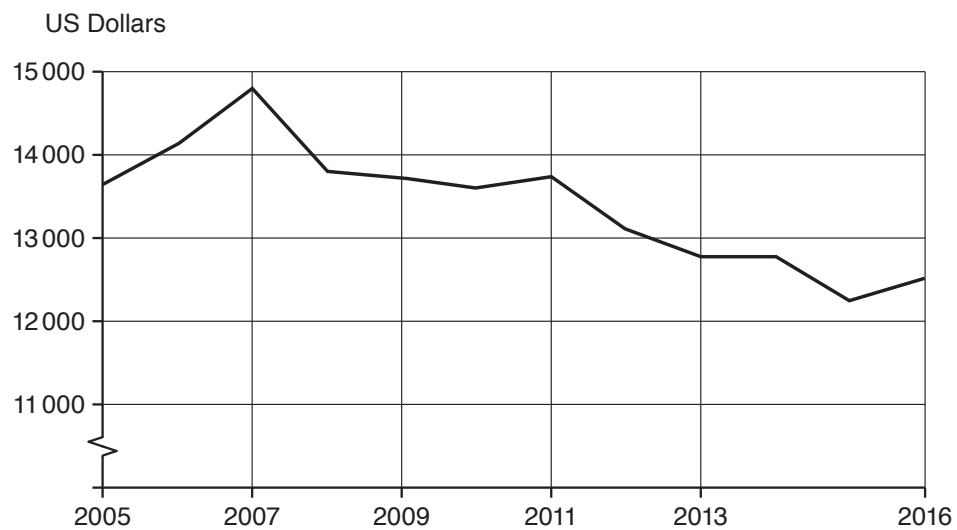
Most families are dependent on a monthly cash payment from the government worth about \$13 received by 77 million Iranians. The proposed budget would cut these payments by \$5.3bn in total, which would reportedly affect 30 million people. Proposals also exist to raise the price of petrol by 50%. 25

The consumption of bread, milk and red meat in Iranian households has decreased by between 30% and 50% over the past 10 years. With Iranians becoming poorer in real terms, and the prices of many basic foodstuffs increasing by about 40% in the past year, many people simply cannot afford to buy as much food. 30

Source: Adapted from BBC News

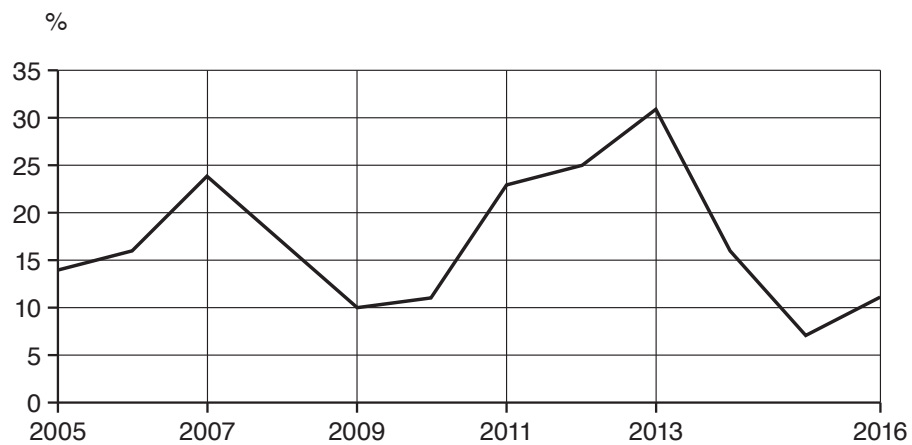
7

Fig. 1 Real household income in Iran 2005–2016



Source: Central Bank of Iran

Fig. 2 Changes in prices in Iran 2005–2016



Source: Central Bank of Iran

8

- 16 (a) (i) Using Fig. 1, explain the change in real household income in Iran from 2007 to 2016.

.....

.....

.....

..... [2]

- (ii) Government expenditure is likely to increase from March 2018 by 6% (lines 10–11).
State why this increase represents “a cut in real terms”.

.....

..... [1]

- (b) Using Fig. 2, explain what happened to inflation in Iran between 2009 and 2013.

.....

.....

.....

..... [2]

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

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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

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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
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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

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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%
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Your answer

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2-MARK QUESTIONS

15 questions in this booklet

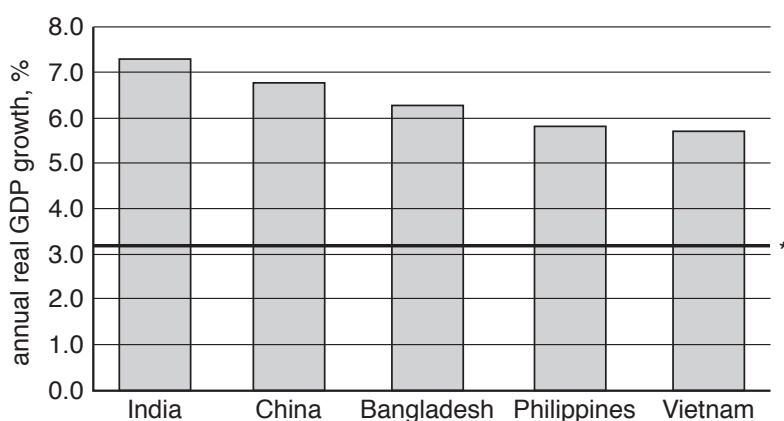
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SECTION B

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

India's rise to the top

Economists are predicting that India will be the third biggest economy by 2030. Economic growth across emerging and developing countries in Asia has been aided by low international oil and commodity prices. However, any changes to global prices could slow down the rate of economic growth in these countries. Furthermore, slower than expected growth in China and Japan and increases in US interest rates may reverse flows of foreign direct investment to Asia affecting the growth of some of the fastest growing Asian economies. The rates of real GDP growth in five major Asian economies are shown in Fig. 1 below:



*The solid line represents annual average GDP growth rate for the global economy in 2015.

Fig. 1 Changes in real GDP in the top five fastest-growing Asian Economies: 2015 (forecast)

India's annual growth rate was predicted to reach 7.3% in 2015, higher than predicted figures for the other countries shown. India's economic growth was credited to increases in public and private investment in infrastructure, simplifying income tax bands and reducing corporation tax rates, which have helped to boost investor confidence. Lower oil import prices were expected to help increase household real disposable income and help to drive down the rate of inflation. The average inflation rate in India in 2015 was 5.9%, compared to an average rate of 6.4% in 2014.

India's inflation rate is influenced by changes in the country's exchange rate. Fig. 2 shows that the number of units of India's currency, the rupee, that had to be sold to purchase one US dollar has changed over the period 2011 to 2015.

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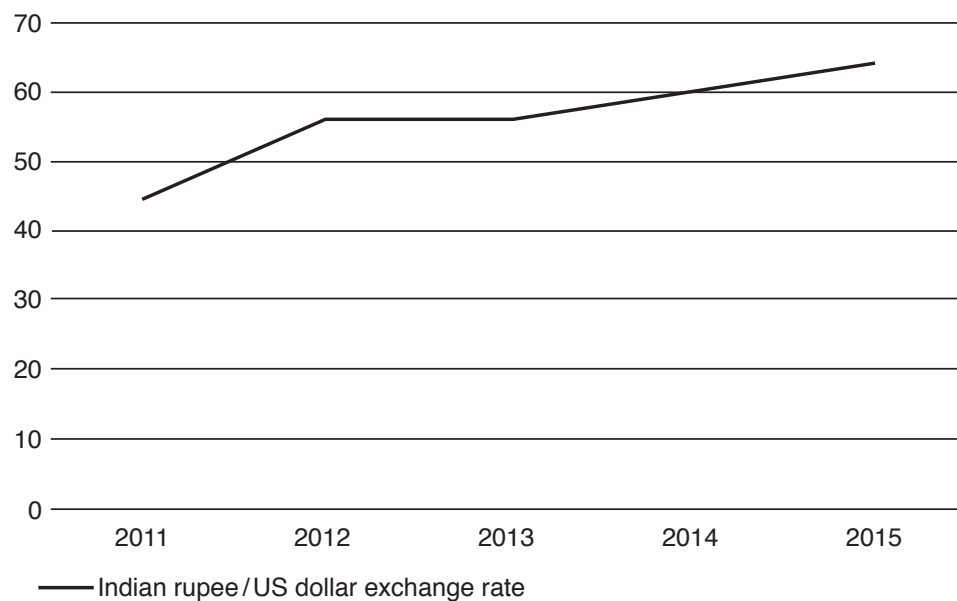


Fig. 2 Indian currency units (rupees) per US\$ 2011 – 2015

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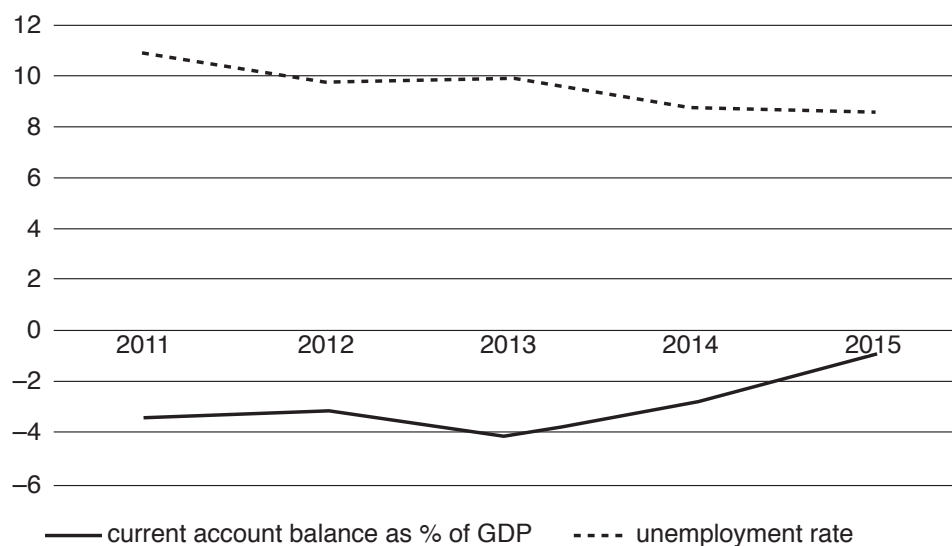


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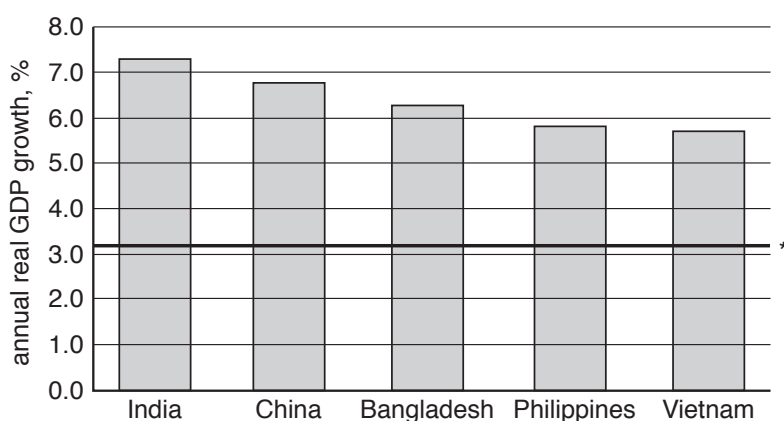
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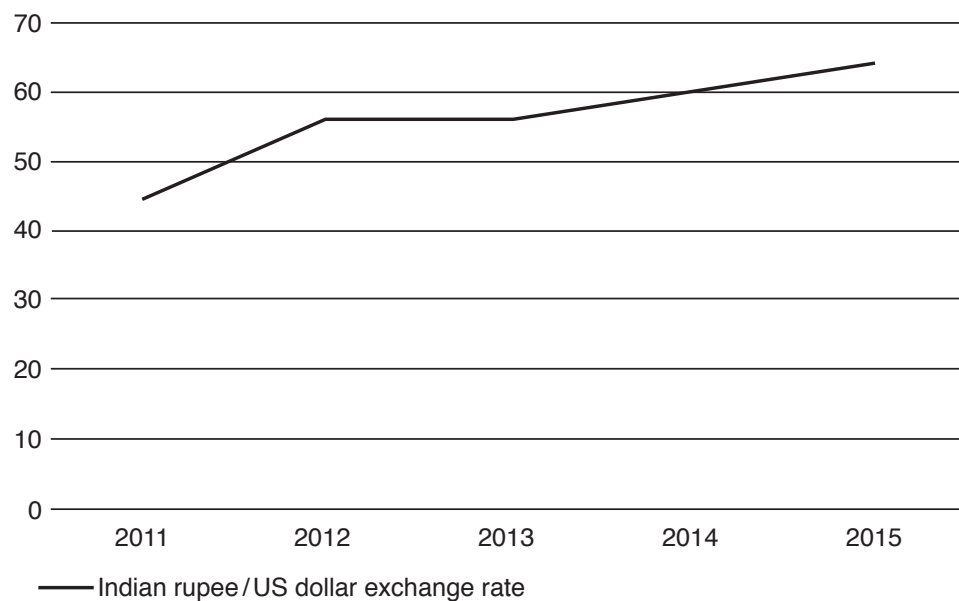


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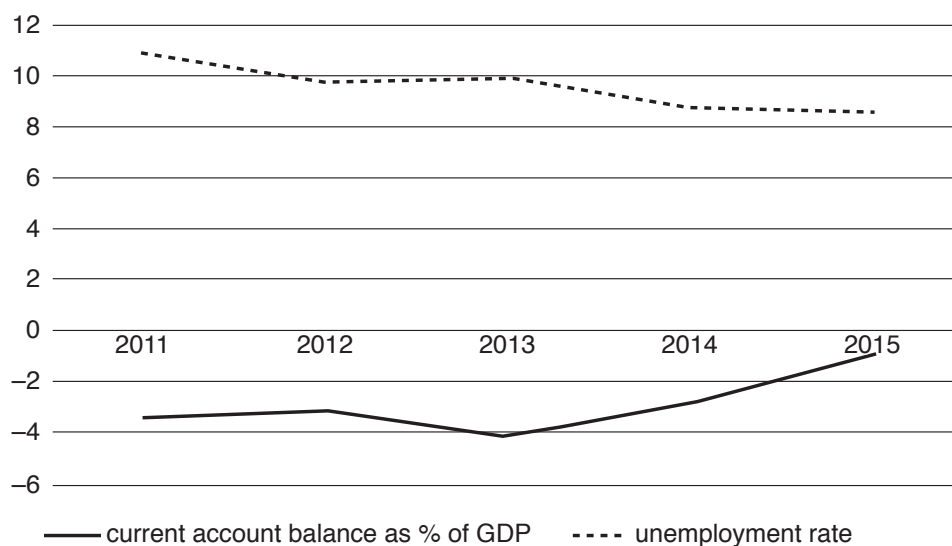


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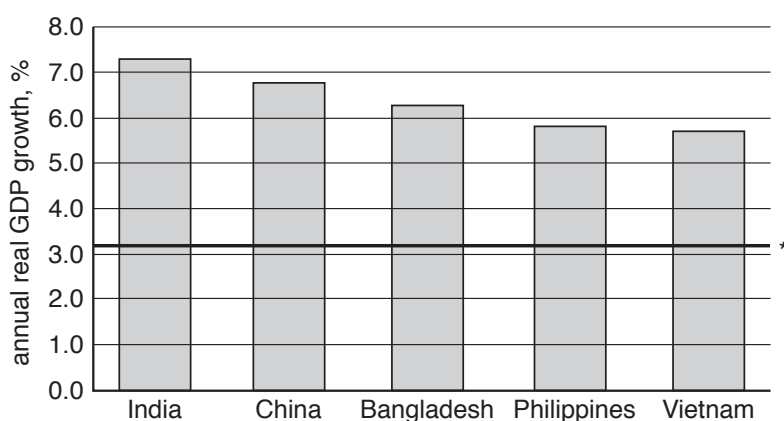
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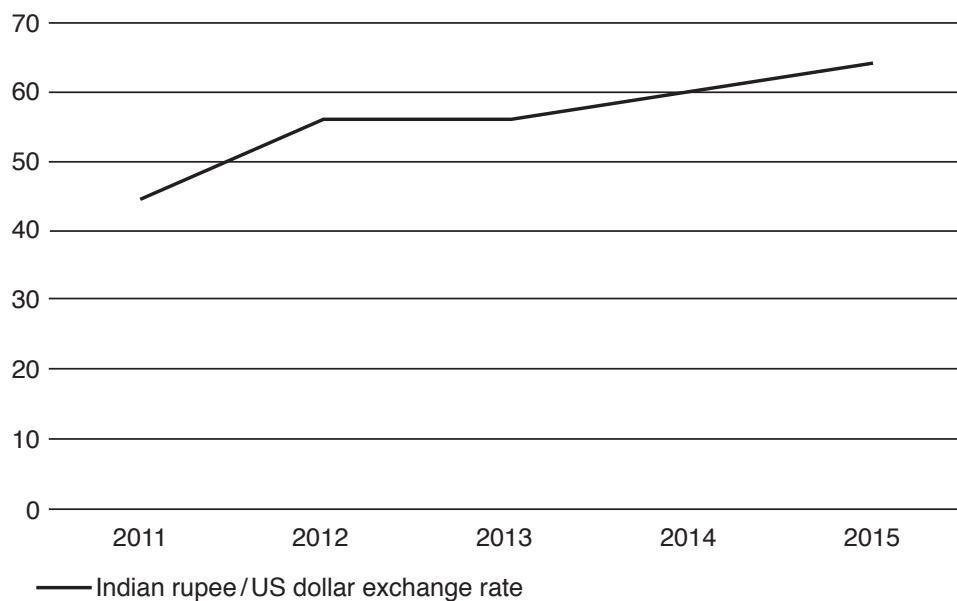


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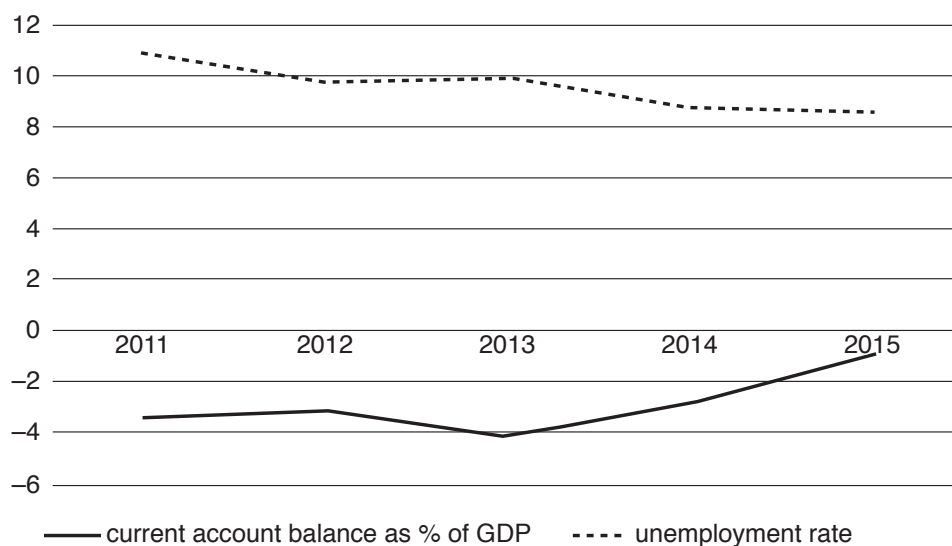


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SECTION B

Answer **all** the questions in this section.**Shortages, inflation and oil slump hit Venezuela**

Global oil production had slowed to approximately 83 million barrels per day in 2016, from about 84 million in mid-2015. As global oil production slowed down over the period, the economic impact on key oil-exporting economies became clear. Fig. 1 shows key macroeconomic data (projected for 2016 and 2017) for four countries dependent on oil exports.

Country	Real GDP growth rate (%)		Consumer Prices (%)		Current Account Balances (% of GDP)		Unemployment (%)	
	2016	2017	2016	2017	2016	2017	2016	2017
Nigeria	2.3	3.5	10.4	12.4	-2.8	-1.8	Data not available	
Norway	1.0	1.5	2.8	2.5	6.5	7.3	4.6	4.4
Saudi Arabia	1.2	1.9	3.8	1.0	-10.2	-6.1	Data not available	
Venezuela	-8.0	-4.5	481.4	1,642.8	-6.0	-2.5	17.4	20.7

Fig. 1 Real GDP growth rate, Consumer Prices, Current Account Balances and Unemployment data

Oil production in Venezuela has been estimated to account for more than 95% of Venezuela's export income, and the country had been suffering from falling oil production for some time. The price of Venezuela's oil exports also continued to fall during the period. This coupled with lengthy queues for Venezuelan citizens outside supermarkets due to food shortages, and rocketing inflation, caused increased tensions. Police enforced a policy limiting patrons to two shopping days a week and banned overnight queues. However, this was the start of difficult times for Venezuelans, as inflation continued to increase at a significant rate.

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Venezuela's inflation rate for 2015 can be seen in Fig. 2 below:

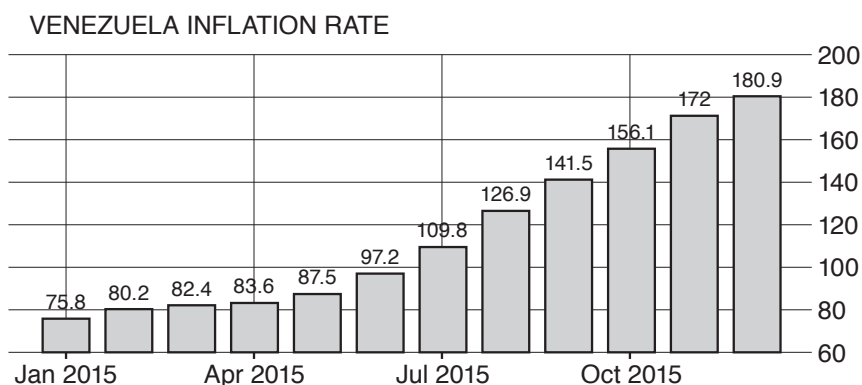


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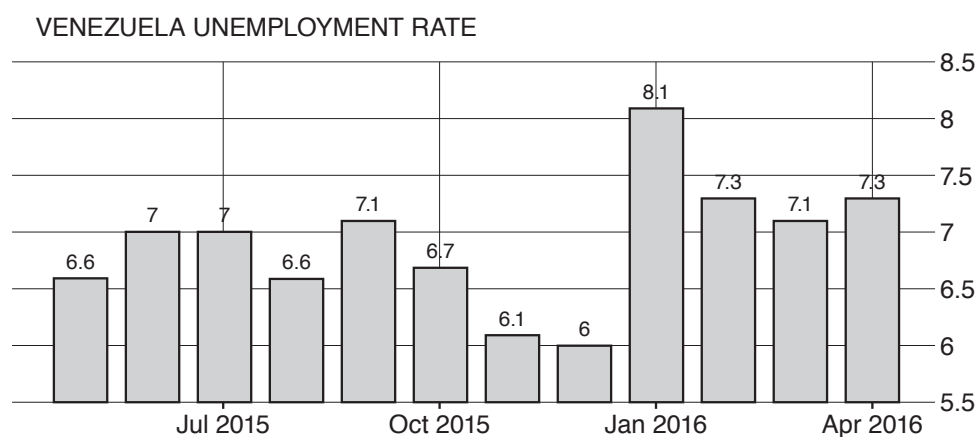


Fig. 3 Venezuela Unemployment rate % (May 2015 – April 2016)

In an attempt to stabilise the Venezuelan economy, the president Nicolás Maduro embarked on a world tour of China, Russia and several OPEC nations in order to gain funds and to try and convince other oil producers to curtail production. In Beijing, Maduro announced that China agreed to invest more than \$20bn (£13.2bn) in Venezuela.

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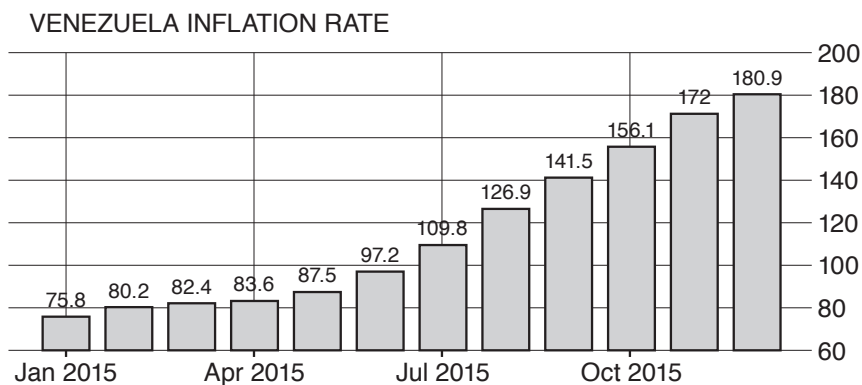


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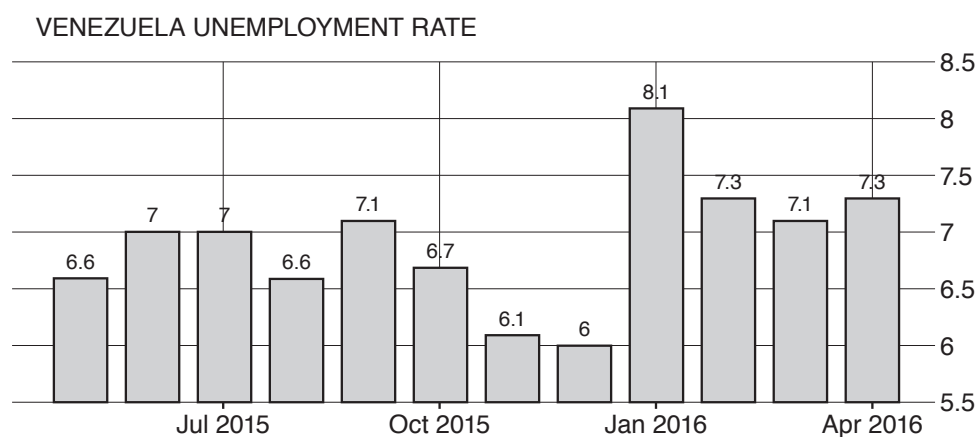


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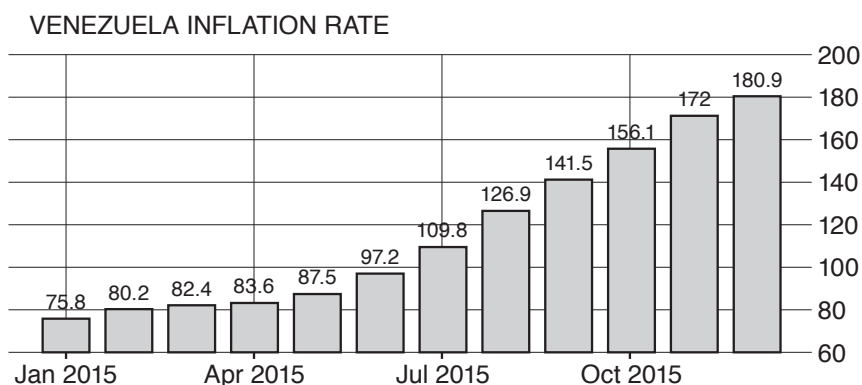


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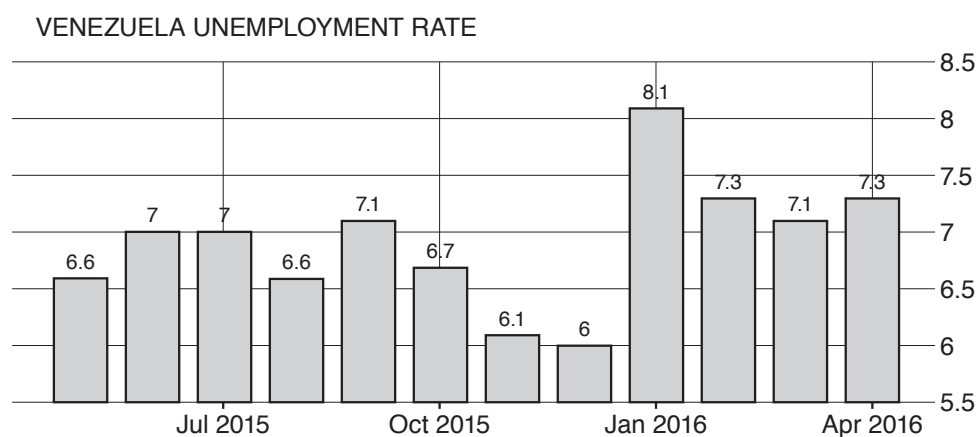


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SECTION B

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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".

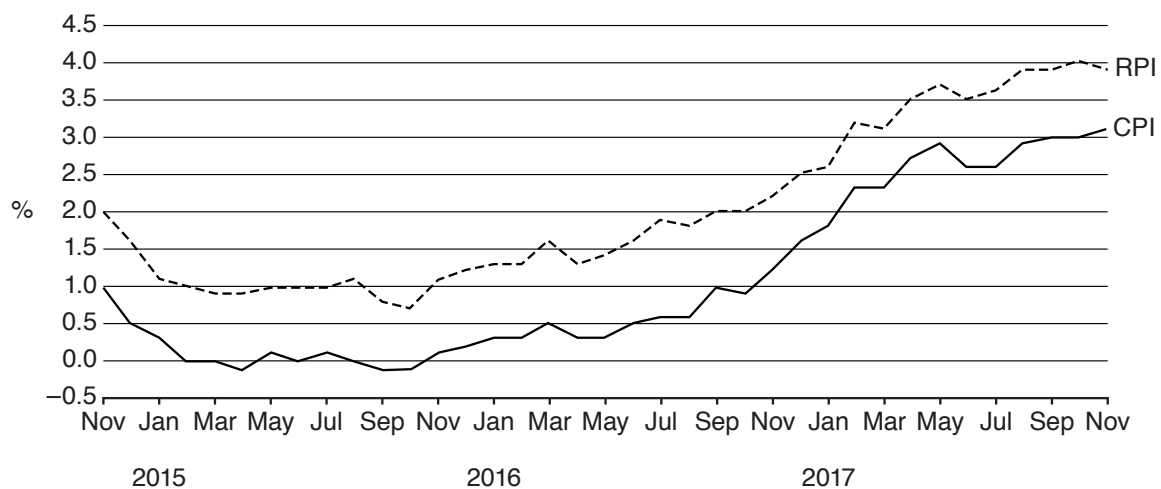
Almost four million households face higher mortgage interest payments after the interest rate rise, but it should give savers a modest lift in their returns. The main losers will be households with a variable rate mortgage. This may increase the withdrawals from the circular flow of income.

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.

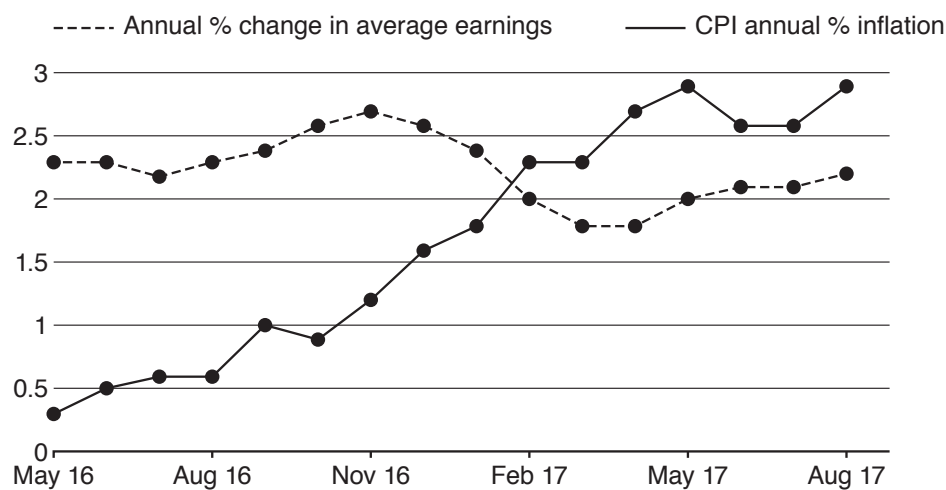
Source: Adapted from BBC News

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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

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- 16 (a) (i) Using Fig. 1, compare the RPI and CPI measures of inflation during 2017.

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- (ii) State **one** reason why the RPI measure of inflation may differ from the CPI measure.

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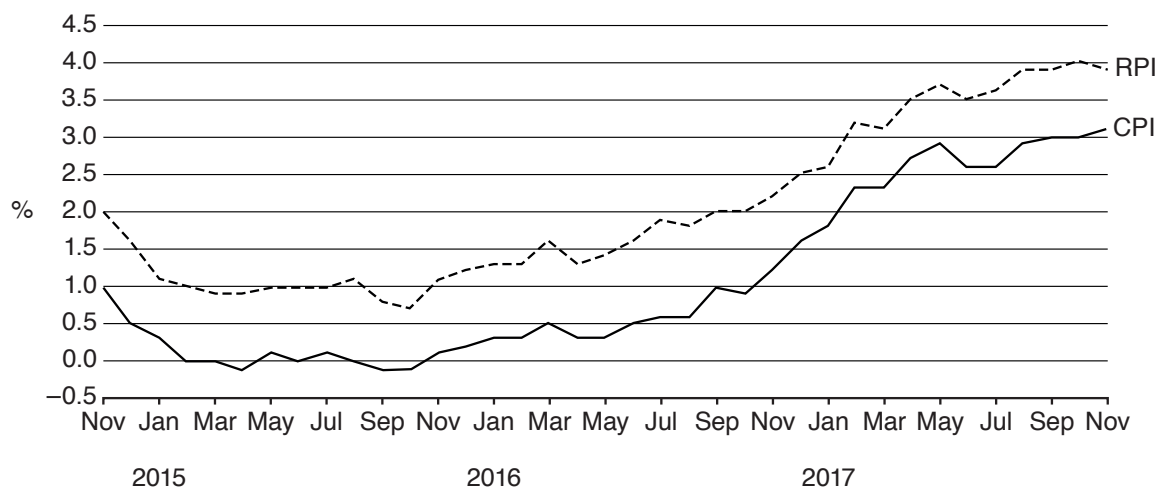
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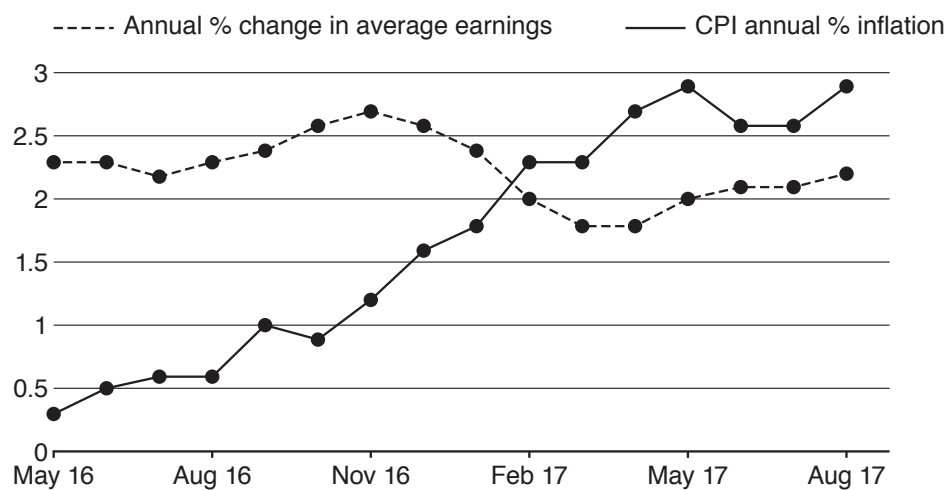
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Fig. 2 Changes in UK average earnings and CPI

	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

9

- 16 (a) (i) Using Fig. 1, compare the RPI and CPI measures of inflation during 2017.

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- (ii) State **one** reason why the RPI measure of inflation may differ from the CPI measure.

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..... [1]

- (b) Using Fig. 2, explain what happened to the UK standard of living between February 2017 and August 2017.

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6

SECTION B

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

Japan's GDP shrinks dramatically at the end of 2019

Link to material: <https://www.economist.com/finance-and-economics/2020/02/17/japans-gdp-shrinks-dramatically-after-a-tax-rise-and-a-typhoon>. Item removed due to third party copyright restrictions.

Source: Adapted from The Economist

7

Fig. 1

Japan's Unemployment Rate 2015–2020

Link to material: <https://tradingeconomics.com/japan/balance-of-trade>. Item removed due to third party copyright restrictions.

**Source:** Trading Economics**Fig. 2**

Japan's Interest Rate 2010–2020

Link to material: <https://tradingeconomics.com/japan/balance-of-trade>. Item removed due to third party copyright restrictions.

**Source:** Trading Economics

8

- 16 (a) (i) Using **Fig. 1**, explain how the unemployment rate changed in Japan between 2015 and 2020.

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- (ii) **Line 29** refers to "...unfilled jobs in IT related occupations."

Explain **one** supply side policy the Japanese government could implement to reduce the number of unfilled jobs.

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- (b) (i) Using **Fig. 2**, state what has happened to Japan's interest rate between 2017 and 2019.

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..... [1]

- (ii) **Other than interest rates**, explain **one** expansionary monetary policy that Japan's central bank could use.

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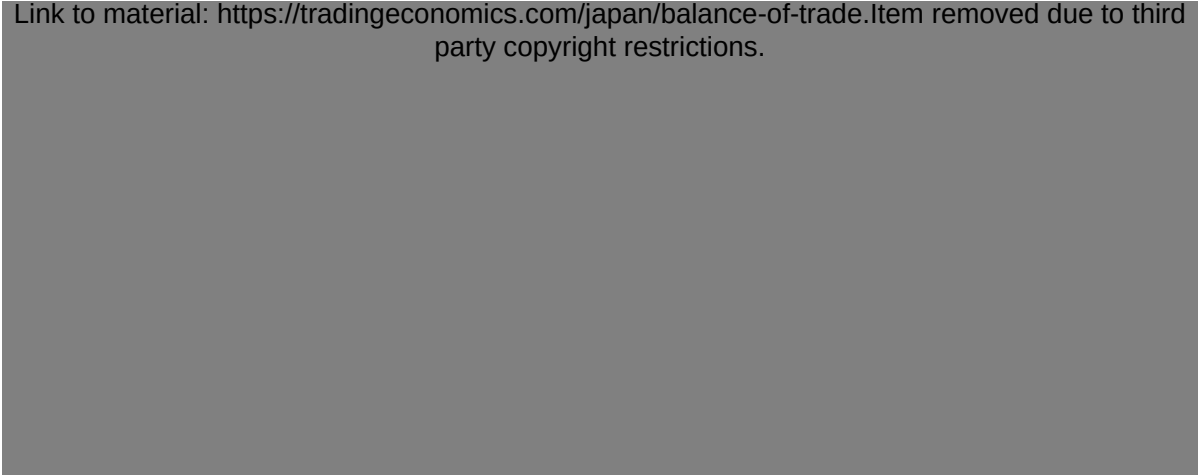
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**Source:** Trading Economics**Fig. 2**

Japan's Interest Rate 2010–2020

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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.

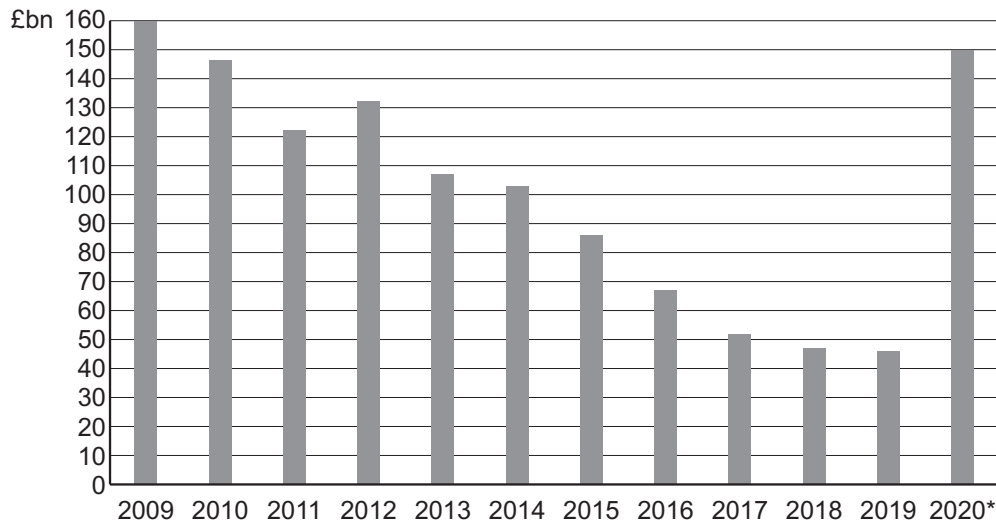
Measures have also been announced to improve energy efficiency and infrastructure. These include £1 bn of grants to public sector organisations to improve energy efficiency and £50 m to improve the energy efficiency of socially rented homes. A £5.6 bn package of infrastructure measures was also announced,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

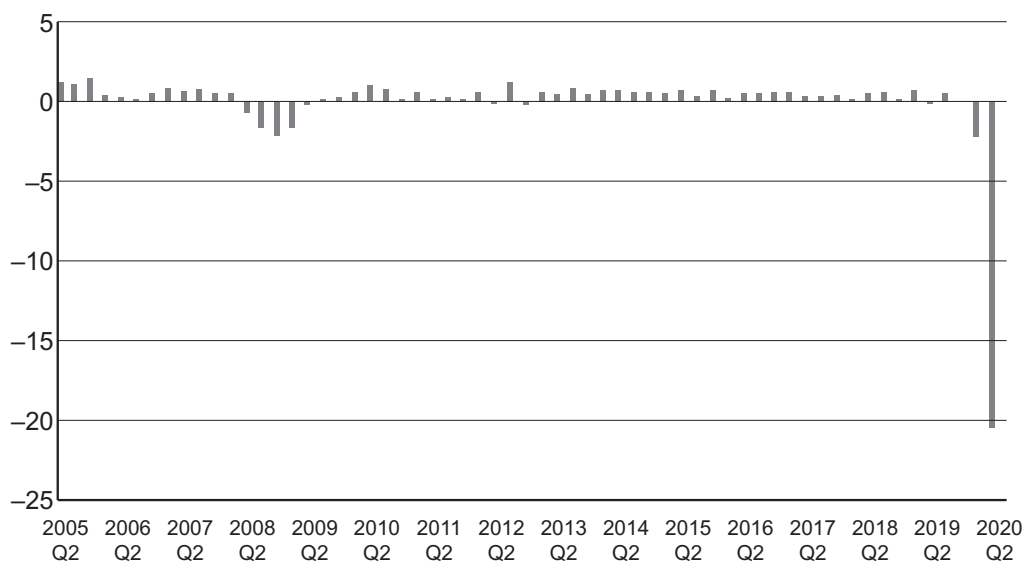


*2020 data is up to July only

Source: ONS

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

Quarter on quarter GDP growth (%)



Source: ONS

12

- 16 (a) Using **Fig. 1**, explain the difference between the government budget deficit and the national debt.

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- (b) (i) Using **Fig. 2**, explain at what stage of the economic cycle the UK economy was in Q2 2020.

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- (ii) **Lines 9–10** refer to increases in welfare payments for the unemployed.

Explain **one** impact this may have on the supply of labour.

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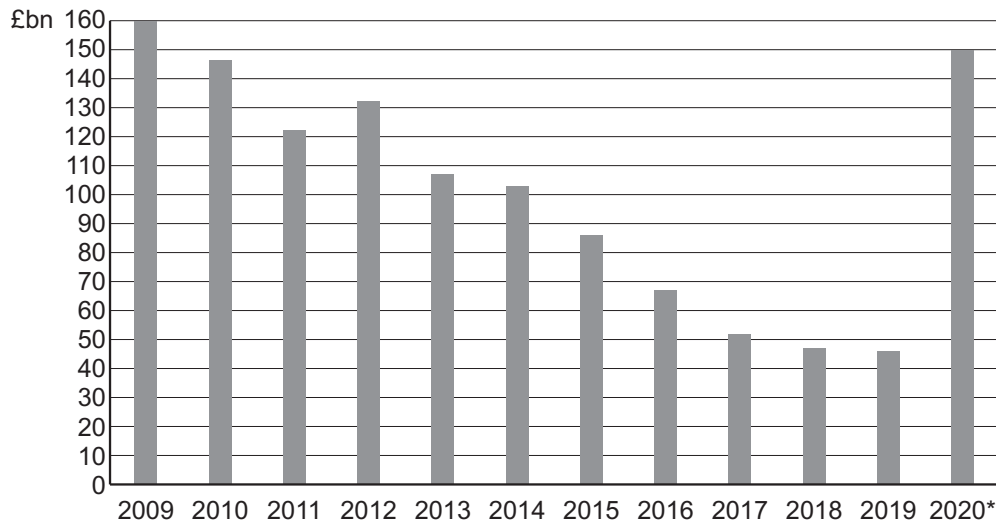
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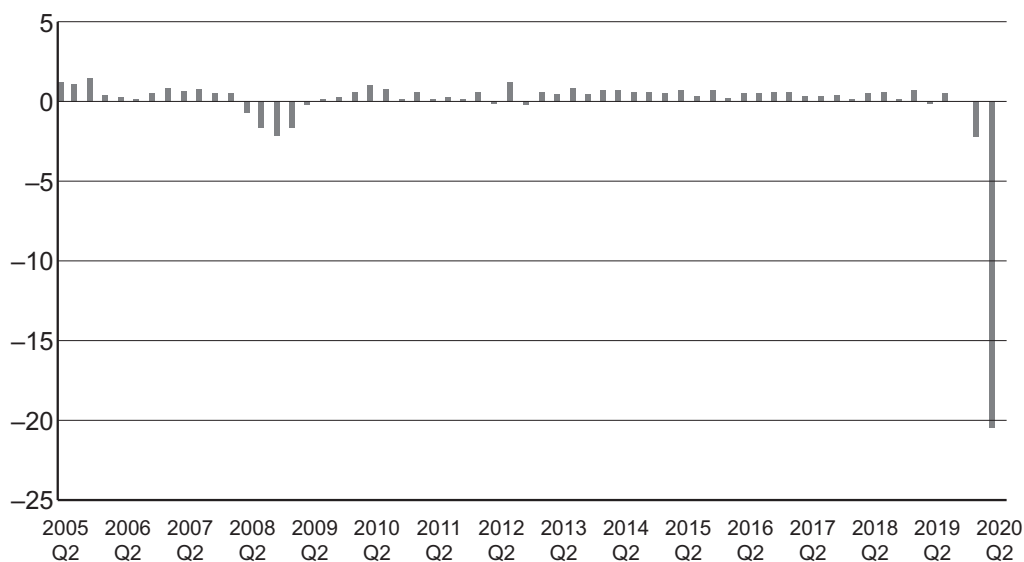


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SECTION B

Answer **all** the questions in this section.**Rising discontent in Iran**

Iran's economy was badly affected for several years by trade restrictions imposed by the international community. In 2016 most sanctions were lifted, the economy recovered quickly and GDP grew 12.3%, according to the Central Bank of Iran. Much of that growth was attributed to the oil and gas industry. The International Monetary Fund (IMF) said growth had begun to spread to the non-oil sector and predicted that GDP would expand by 4.2% in the 2017/18 financial year. However, the recovery has not been as significant as many Iranians had hoped. 5

Inflation has fluctuated greatly in Iran since 1979. In 2013 inflation reached 31%, as the economic sanctions reduced Iran's oil revenue, but has steadily decreased since then. The World Bank expects inflation to remain around 12% over the next three years.

The Iranian government has proposed a budget for the financial year starting in March 2018 that would see its expenditure increase by about 6% to \$104bn. However, that would represent a cut in real terms. 10

The official unemployment rate is 12.4%, but in some parts of the country it is more than 60%. Young people – more than half of the population of 79.9 million is under 30 – are among the worst affected. The International Labour Organisation (ILO) estimates that 26.7% of 15–24 year olds are unemployed. Underemployment is also high at 12.4% among 15–24 year olds. 15

The IMF has warned that, despite the high economic growth rate, not enough jobs are being created to absorb the large number of people entering the labour market. Analysts say that is because most of the recovery can be attributed to the oil industry, which is not labour-intensive. Iran's currency, the Rial, has also fallen in value by more than 450%. 20

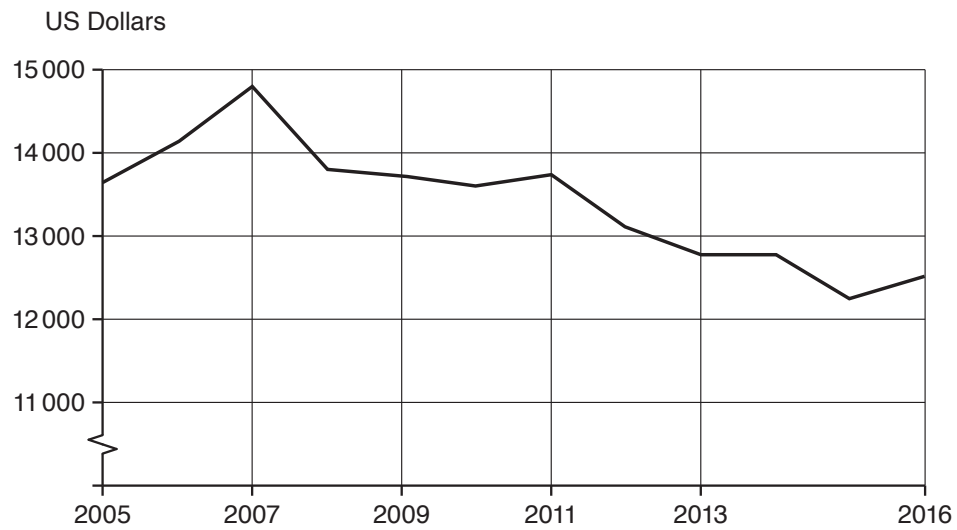
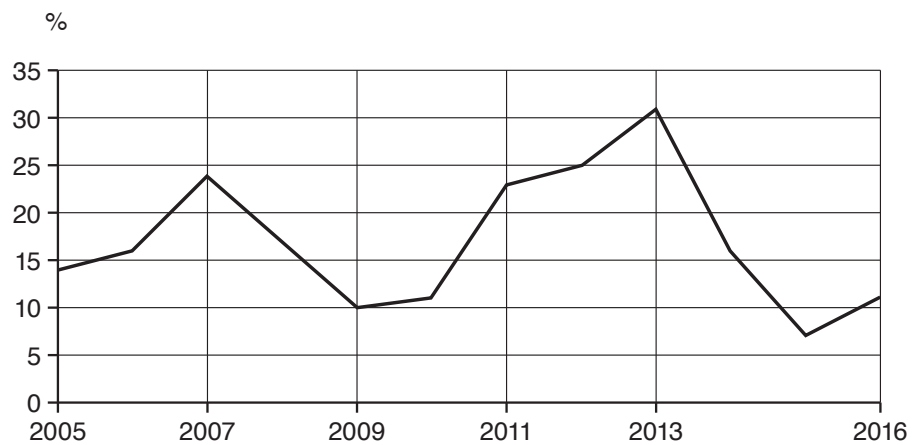
The World Bank says that poverty in Iran fell between 2009 and 2013 to about 8%, although it increased to 10.5% in 2014. It estimates that 8.2 million people were living on less than \$5.50 per day in 2014. About 2%, or 196 000 people, were living on less than \$1.90.

Most families are dependent on a monthly cash payment from the government worth about \$13 received by 77 million Iranians. The proposed budget would cut these payments by \$5.3bn in total, which would reportedly affect 30 million people. Proposals also exist to raise the price of petrol by 50%. 25

The consumption of bread, milk and red meat in Iranian households has decreased by between 30% and 50% over the past 10 years. With Iranians becoming poorer in real terms, and the prices of many basic foodstuffs increasing by about 40% in the past year, many people simply cannot afford to buy as much food. 30

Source: Adapted from BBC News

7

Fig. 1 Real household income in Iran 2005–2016*Source: Central Bank of Iran***Fig. 2 Changes in prices in Iran 2005–2016***Source: Central Bank of Iran*

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- 16 (a) (i) Using Fig. 1, explain the change in real household income in Iran from 2007 to 2016.

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- (ii) Government expenditure is likely to increase from March 2018 by 6% (lines 10–11).
State why this increase represents “a cut in real terms”.

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- (b) Using Fig. 2, explain what happened to inflation in Iran between 2009 and 2013.

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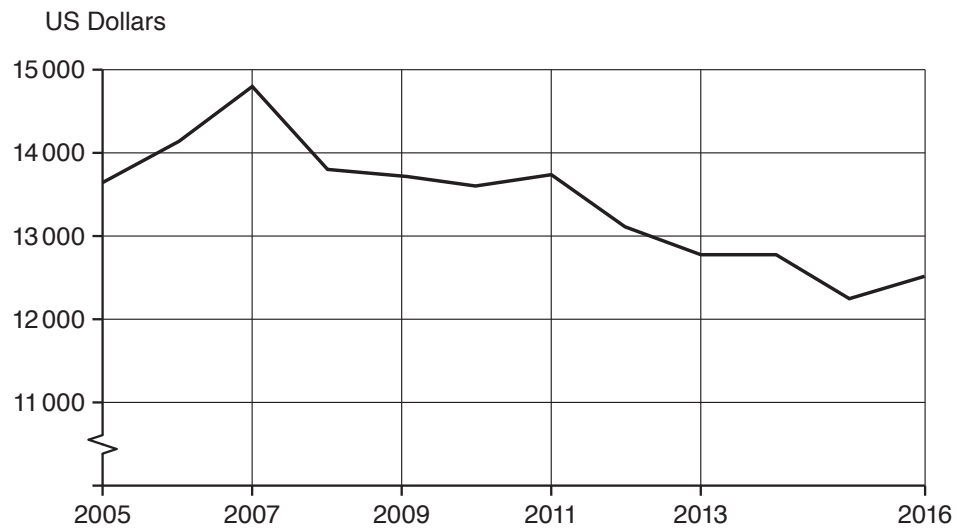
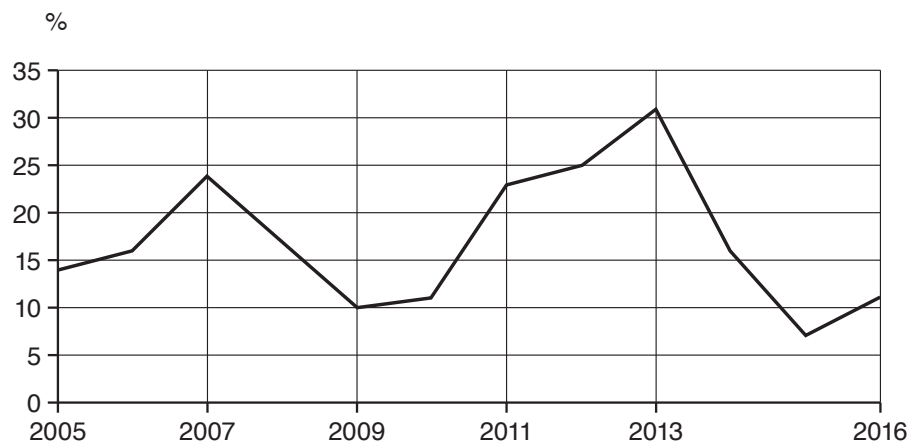
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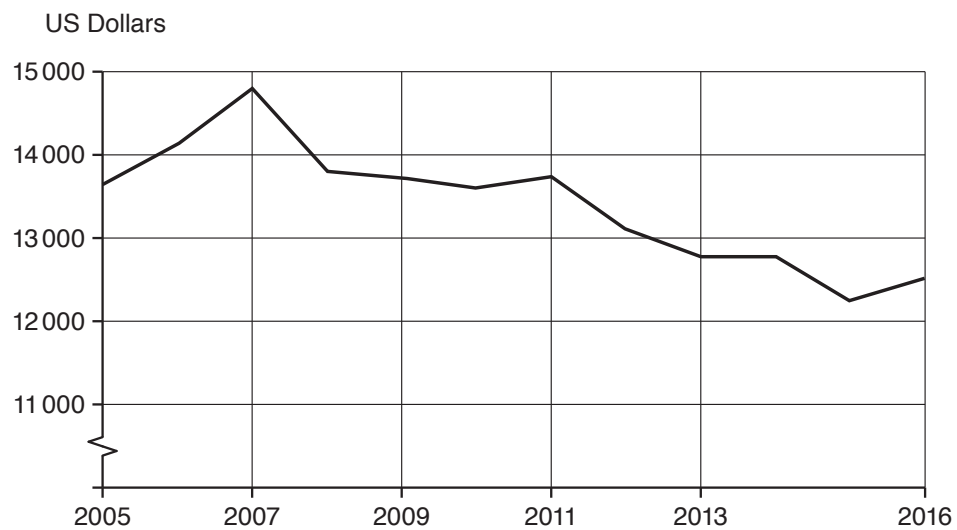
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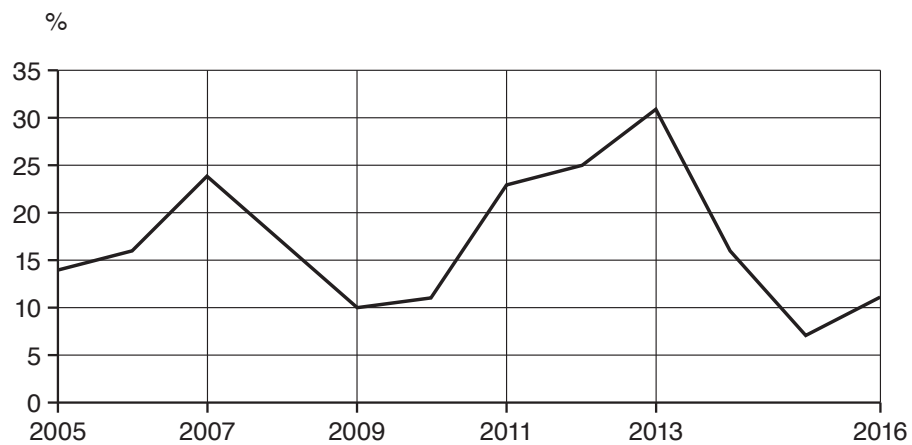
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Fig. 1 Real household income in Iran 2005–2016



Source: Central Bank of Iran

Fig. 2 Changes in prices in Iran 2005–2016



Source: Central Bank of Iran

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- (e) Explain the difference between unemployment and underemployment.

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- (f)*** Evaluate the advantages of international trade to an emerging country, such as Iran, if it were allowed to trade freely. **[10]**

[illegible]

4-MARK QUESTIONS

10 questions in this booklet

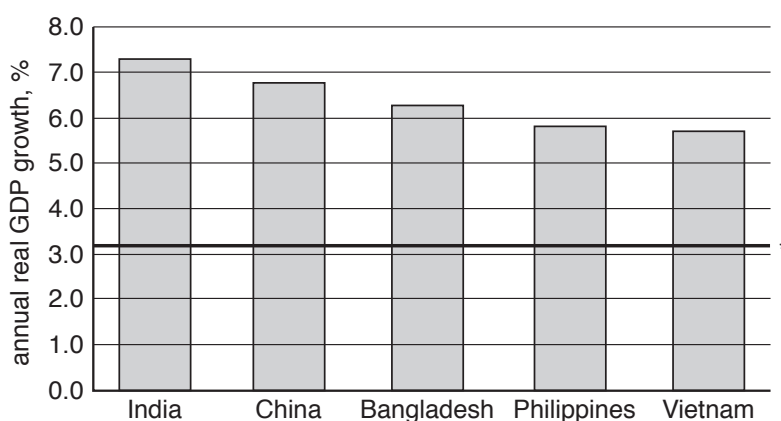
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SECTION B

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

India's rise to the top

Economists are predicting that India will be the third biggest economy by 2030. Economic growth across emerging and developing countries in Asia has been aided by low international oil and commodity prices. However, any changes to global prices could slow down the rate of economic growth in these countries. Furthermore, slower than expected growth in China and Japan and increases in US interest rates may reverse flows of foreign direct investment to Asia affecting the growth of some of the fastest growing Asian economies. The rates of real GDP growth in five major Asian economies are shown in Fig. 1 below:



*The solid line represents annual average GDP growth rate for the global economy in 2015.

Fig. 1 Changes in real GDP in the top five fastest-growing Asian Economies: 2015 (forecast)

India's annual growth rate was predicted to reach 7.3% in 2015, higher than predicted figures for the other countries shown. India's economic growth was credited to increases in public and private investment in infrastructure, simplifying income tax bands and reducing corporation tax rates, which have helped to boost investor confidence. Lower oil import prices were expected to help increase household real disposable income and help to drive down the rate of inflation. The average inflation rate in India in 2015 was 5.9%, compared to an average rate of 6.4% in 2014.

India's inflation rate is influenced by changes in the country's exchange rate. Fig. 2 shows that the number of units of India's currency, the rupee, that had to be sold to purchase one US dollar has changed over the period 2011 to 2015.

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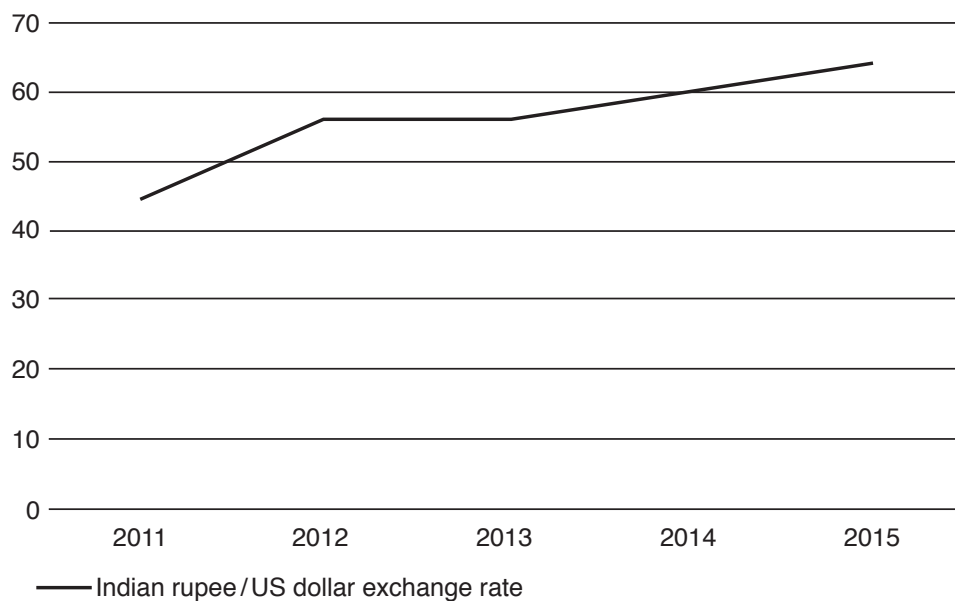


Fig. 2 Indian currency units (rupees) per US\$ 2011 – 2015

Changes in the country's exchange rate influences the current account position on its balance of payments. In turn, changes in the current account position can affect the country's unemployment rate. Fig. 3 shows the balance on India's current account and the country's unemployment rate over the period 2011 and 2015.

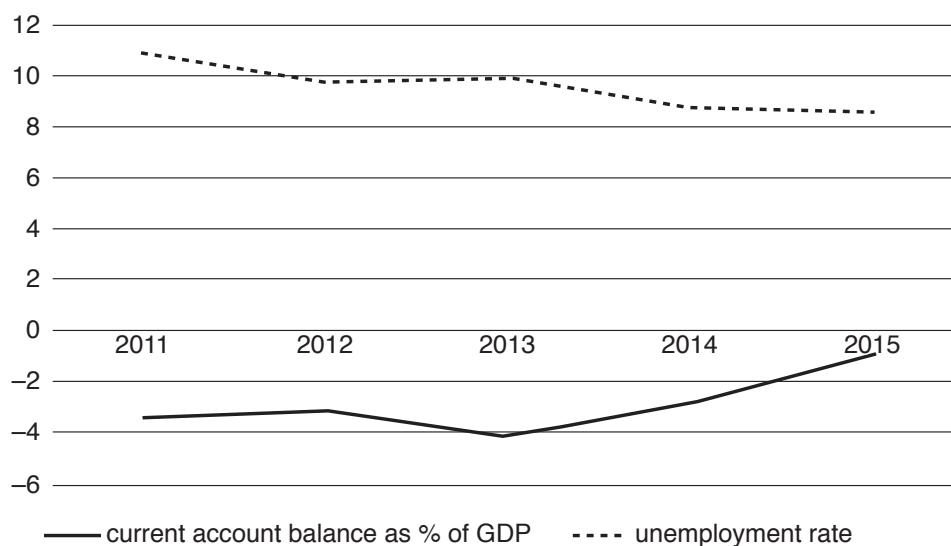


Fig. 3 India's current account balance and unemployment 2011 – 2015

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- (ii) Explain how the change in India's current account balance between 2013 and 2015 may have influenced the country's unemployment rate.

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- (e) Using a diagram, explain how an increase in spending on infrastructure in India could lead to economic growth.

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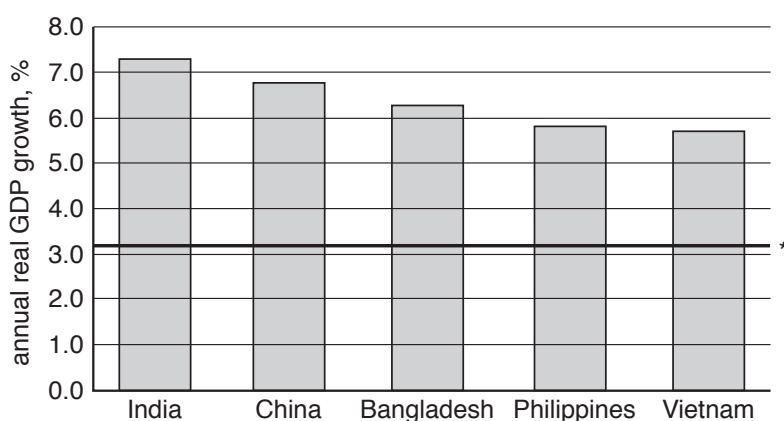
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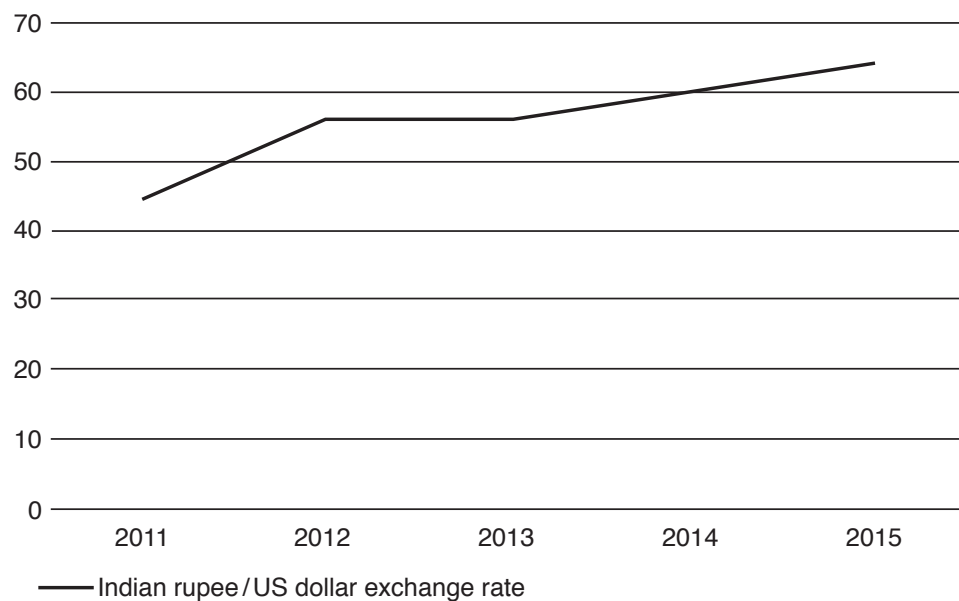


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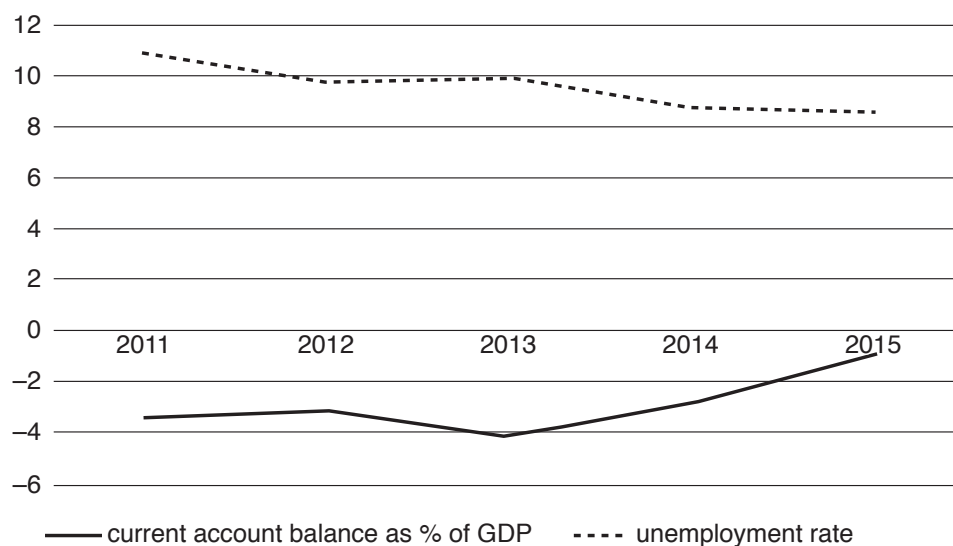


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SECTION B

Answer **all** the questions in this section.**Shortages, inflation and oil slump hit Venezuela**

Global oil production had slowed to approximately 83 million barrels per day in 2016, from about 84 million in mid-2015. As global oil production slowed down over the period, the economic impact on key oil-exporting economies became clear. Fig. 1 shows key macroeconomic data (projected for 2016 and 2017) for four countries dependent on oil exports.

Country	Real GDP growth rate (%)		Consumer Prices (%)		Current Account Balances (% of GDP)		Unemployment (%)	
	2016	2017	2016	2017	2016	2017	2016	2017
Nigeria	2.3	3.5	10.4	12.4	-2.8	-1.8	Data not available	
Norway	1.0	1.5	2.8	2.5	6.5	7.3	4.6	4.4
Saudi Arabia	1.2	1.9	3.8	1.0	-10.2	-6.1	Data not available	
Venezuela	-8.0	-4.5	481.4	1,642.8	-6.0	-2.5	17.4	20.7

Fig. 1 Real GDP growth rate, Consumer Prices, Current Account Balances and Unemployment data

Oil production in Venezuela has been estimated to account for more than 95% of Venezuela's export income, and the country had been suffering from falling oil production for some time. The price of Venezuela's oil exports also continued to fall during the period. This coupled with lengthy queues for Venezuelan citizens outside supermarkets due to food shortages, and rocketing inflation, caused increased tensions. Police enforced a policy limiting patrons to two shopping days a week and banned overnight queues. However, this was the start of difficult times for Venezuelans, as inflation continued to increase at a significant rate.

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Venezuela's inflation rate for 2015 can be seen in Fig. 2 below:

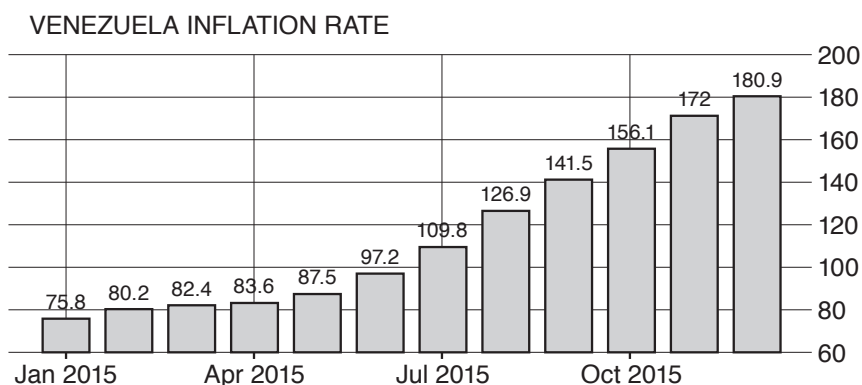


Fig. 2 Venezuela Inflation rate % (2015)

Furthermore, unemployment rates in the country continued to fluctuate over the period, as can be seen in Fig. 3 below:

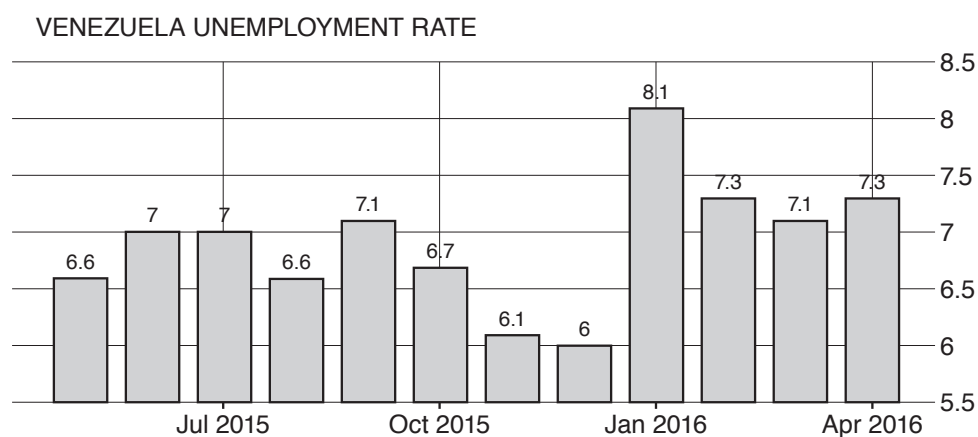


Fig. 3 Venezuela Unemployment rate % (May 2015 – April 2016)

In an attempt to stabilise the Venezuelan economy, the president Nicolás Maduro embarked on a world tour of China, Russia and several OPEC nations in order to gain funds and to try and convince other oil producers to curtail production. In Beijing, Maduro announced that China agreed to invest more than \$20bn (£13.2bn) in Venezuela.

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- (ii) Explain how the change in Venezuela's inflation rate over the period may have affected consumers.

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- (e) Using an appropriate diagram, explain the impact of falling oil prices on economic growth in Venezuela.

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7

SECTION B

Answer **all** the questions in this section.**Shortages, inflation and oil slump hit Venezuela**

Global oil production had slowed to approximately 83 million barrels per day in 2016, from about 84 million in mid-2015. As global oil production slowed down over the period, the economic impact on key oil-exporting economies became clear. Fig. 1 shows key macroeconomic data (projected for 2016 and 2017) for four countries dependent on oil exports.

Country	Real GDP growth rate (%)		Consumer Prices (%)		Current Account Balances (% of GDP)		Unemployment (%)	
	2016	2017	2016	2017	2016	2017	2016	2017
Nigeria	2.3	3.5	10.4	12.4	-2.8	-1.8	Data not available	
Norway	1.0	1.5	2.8	2.5	6.5	7.3	4.6	4.4
Saudi Arabia	1.2	1.9	3.8	1.0	-10.2	-6.1	Data not available	
Venezuela	-8.0	-4.5	481.4	1,642.8	-6.0	-2.5	17.4	20.7

Fig. 1 Real GDP growth rate, Consumer Prices, Current Account Balances and Unemployment data

Oil production in Venezuela has been estimated to account for more than 95% of Venezuela's export income, and the country had been suffering from falling oil production for some time. The price of Venezuela's oil exports also continued to fall during the period. This coupled with lengthy queues for Venezuelan citizens outside supermarkets due to food shortages, and rocketing inflation, caused increased tensions. Police enforced a policy limiting patrons to two shopping days a week and banned overnight queues. However, this was the start of difficult times for Venezuelans, as inflation continued to increase at a significant rate.

8

Venezuela's inflation rate for 2015 can be seen in Fig. 2 below:

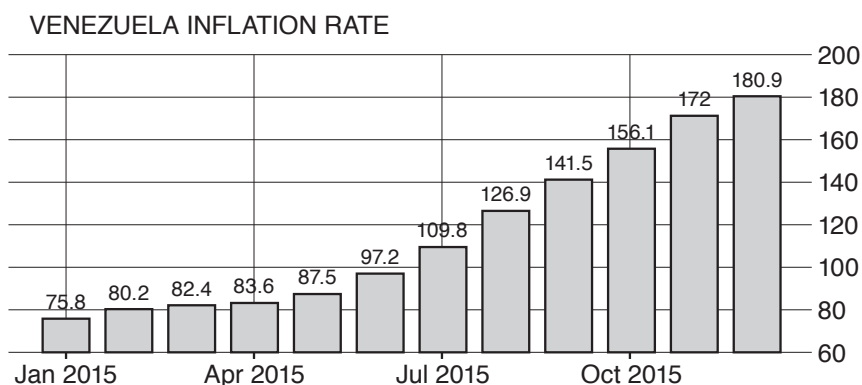


Fig. 2 Venezuela Inflation rate % (2015)

Furthermore, unemployment rates in the country continued to fluctuate over the period, as can be seen in Fig. 3 below:

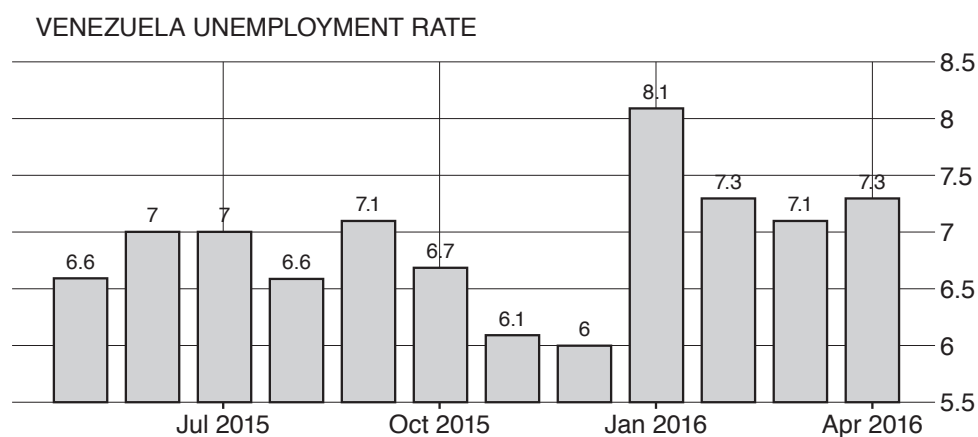


Fig. 3 Venezuela Unemployment rate % (May 2015 – April 2016)

In an attempt to stabilise the Venezuelan economy, the president Nicolás Maduro embarked on a world tour of China, Russia and several OPEC nations in order to gain funds and to try and convince other oil producers to curtail production. In Beijing, Maduro announced that China agreed to invest more than \$20bn (£13.2bn) in Venezuela.

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- (ii) Explain how the change in Venezuela's inflation rate over the period may have affected consumers.

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- (e) Using an appropriate diagram, explain the impact of falling oil prices on economic growth in Venezuela.

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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".

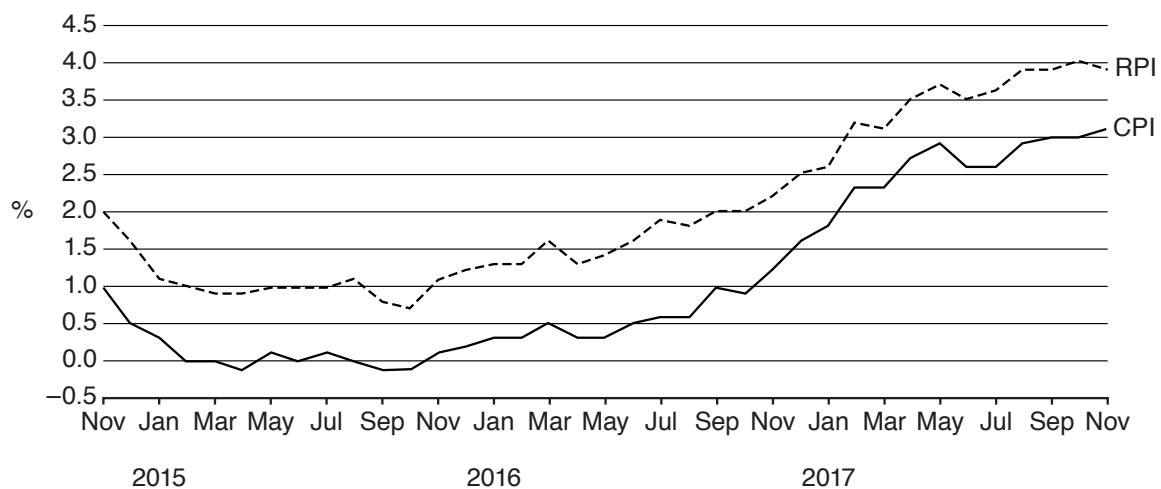
Almost four million households face higher mortgage interest payments after the interest rate rise, but it should give savers a modest lift in their returns. The main losers will be households with a variable rate mortgage. This may increase the withdrawals from the circular flow of income.

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.

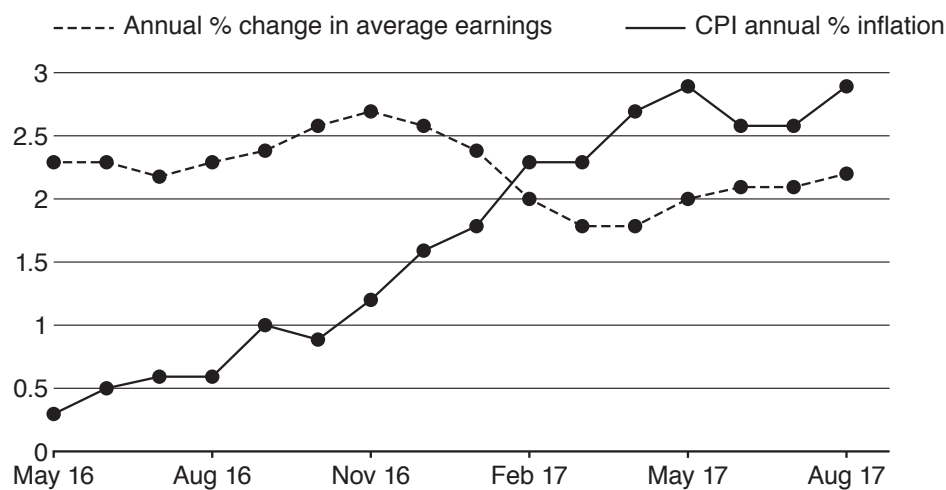
Source: Adapted from BBC News

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

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- (c) A number of interest rate increases are expected over the next three years.

Using a diagram, explain the impact this is likely to have on economic growth in the UK.

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- (d) Using information from the case study, explain why there may be a difference in the number of unemployed when measured by the claimant count and the labour force survey (LFS).

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SECTION B

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

Japan's GDP shrinks dramatically at the end of 2019

Link to material: <https://www.economist.com/finance-and-economics/2020/02/17/japans-gdp-shrinks-dramatically-after-a-tax-rise-and-a-typhoon>. Item removed due to third party copyright restrictions.

Source: Adapted from The Economist

7

Fig. 1

Japan's Unemployment Rate 2015–2020

Link to material: <https://tradingeconomics.com/japan/balance-of-trade>. Item removed due to third party copyright restrictions.



Source: Trading Economics

Fig. 2

Japan's Interest Rate 2010–2020

Link to material: <https://tradingeconomics.com/japan/balance-of-trade>. Item removed due to third party copyright restrictions.



Source: Trading Economics

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- (c) The case study refers to the Tokyo Olympics (lines 19–20).

Using a diagram, explain what impact holding the Olympics is likely to have on economic growth in Japan.

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- (d) Using information from the case study, explain how the change in consumption tax (value added tax) may have affected unemployment in Japan in 2014.

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Source: Adapted from The Economist

7

Fig. 1

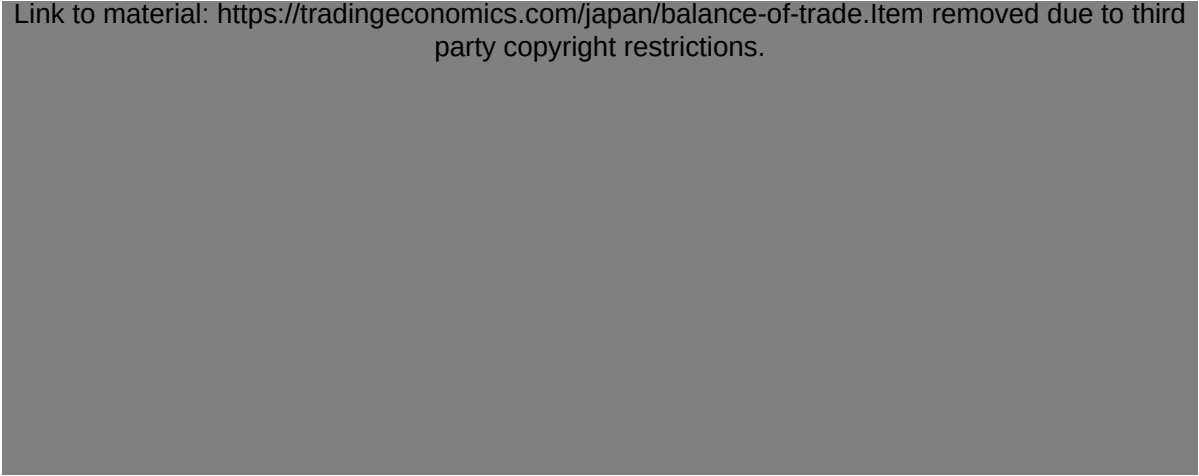
Japan's Unemployment Rate 2015–2020

Link to material: <https://tradingeconomics.com/japan/balance-of-trade>. Item removed due to third party copyright restrictions.

**Source:** Trading Economics**Fig. 2**

Japan's Interest Rate 2010–2020

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**Source:** Trading Economics

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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.

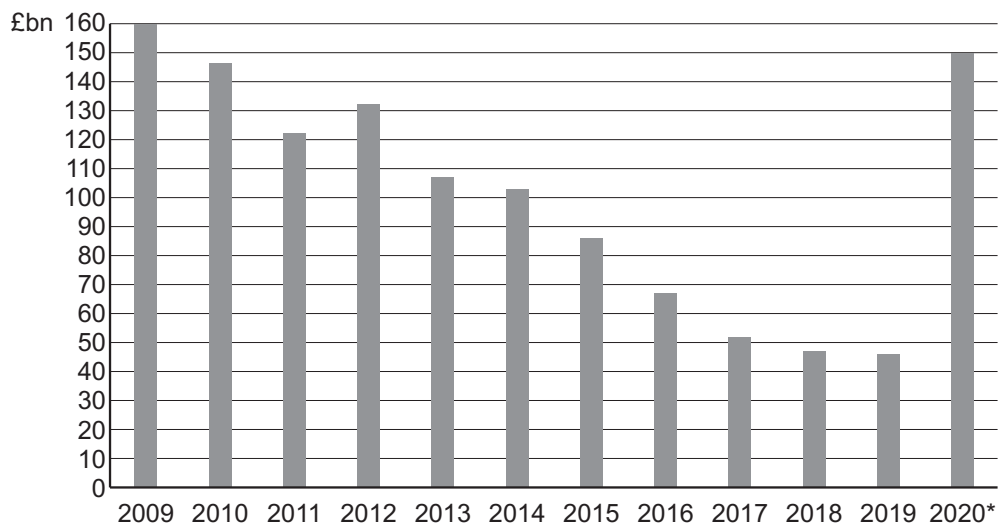
Measures have also been announced to improve energy efficiency and infrastructure. These include £1 bn of grants to public sector organisations to improve energy efficiency and £50 m to improve the energy efficiency of socially rented homes. A £5.6 bn package of infrastructure measures was also announced,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

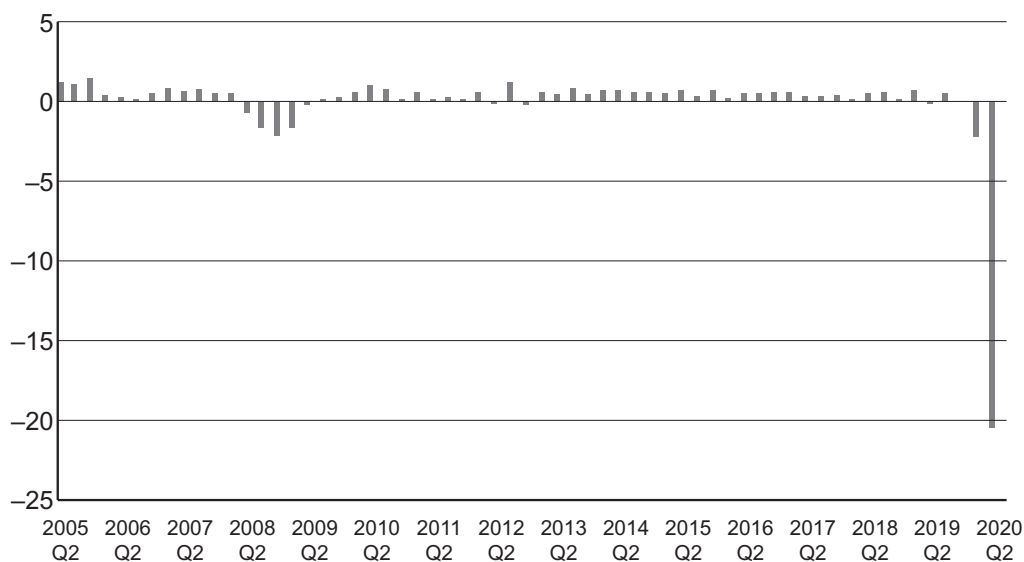


*2020 data is up to July only

Source: ONS

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

Quarter on quarter GDP growth (%)



Source: ONS

13

- (c) Lines 13–19 refer to a number of training initiatives announced by the UK government.

Using a diagram, explain what impact this is likely to have on long run economic growth in the UK.

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- (d) Using information from the case study, explain the difference between government current expenditure and government capital expenditure.

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SECTION B

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

Rising discontent in Iran

Iran's economy was badly affected for several years by trade restrictions imposed by the international community. In 2016 most sanctions were lifted, the economy recovered quickly and GDP grew 12.3%, according to the Central Bank of Iran. Much of that growth was attributed to the oil and gas industry. The International Monetary Fund (IMF) said growth had begun to spread to the non-oil sector and predicted that GDP would expand by 4.2% in the 2017/18 financial year. However, the recovery has not been as significant as many Iranians had hoped. 5

Inflation has fluctuated greatly in Iran since 1979. In 2013 inflation reached 31%, as the economic sanctions reduced Iran's oil revenue, but has steadily decreased since then. The World Bank expects inflation to remain around 12% over the next three years.

The Iranian government has proposed a budget for the financial year starting in March 2018 that would see its expenditure increase by about 6% to \$104bn. However, that would represent a cut in real terms. 10

The official unemployment rate is 12.4%, but in some parts of the country it is more than 60%. Young people – more than half of the population of 79.9 million is under 30 – are among the worst affected. The International Labour Organisation (ILO) estimates that 26.7% of 15–24 year olds are unemployed. Underemployment is also high at 12.4% among 15–24 year olds. 15

The IMF has warned that, despite the high economic growth rate, not enough jobs are being created to absorb the large number of people entering the labour market. Analysts say that is because most of the recovery can be attributed to the oil industry, which is not labour-intensive. Iran's currency, the Rial, has also fallen in value by more than 450%. 20

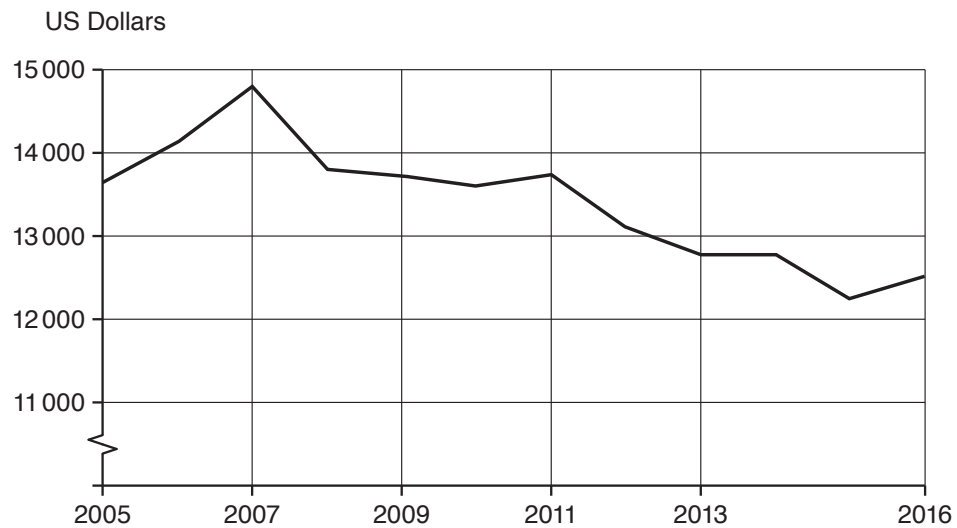
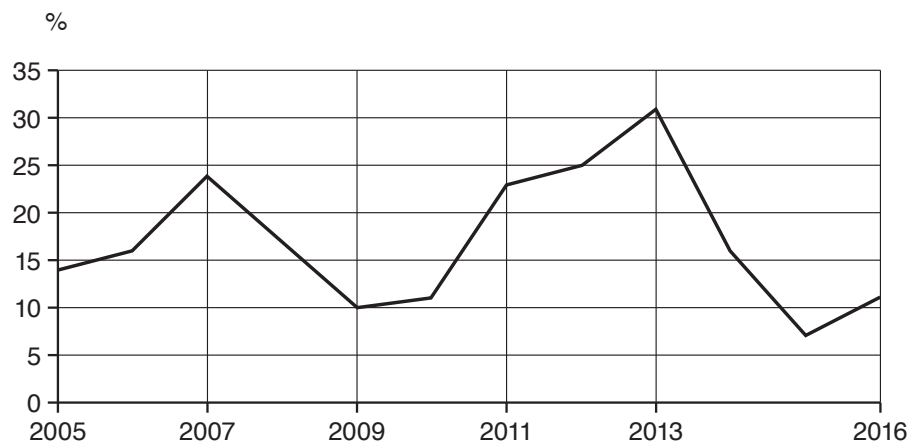
The World Bank says that poverty in Iran fell between 2009 and 2013 to about 8%, although it increased to 10.5% in 2014. It estimates that 8.2 million people were living on less than \$5.50 per day in 2014. About 2%, or 196 000 people, were living on less than \$1.90.

Most families are dependent on a monthly cash payment from the government worth about \$13 received by 77 million Iranians. The proposed budget would cut these payments by \$5.3bn in total, which would reportedly affect 30 million people. Proposals also exist to raise the price of petrol by 50%. 25

The consumption of bread, milk and red meat in Iranian households has decreased by between 30% and 50% over the past 10 years. With Iranians becoming poorer in real terms, and the prices of many basic foodstuffs increasing by about 40% in the past year, many people simply cannot afford to buy as much food. 30

Source: Adapted from BBC News

7

Fig. 1 Real household income in Iran 2005–2016*Source: Central Bank of Iran***Fig. 2 Changes in prices in Iran 2005–2016***Source: Central Bank of Iran*

9

- (c) The case study refers to high levels of unemployment and cash payments being reduced to families.

Using a diagram, explain what impact these factors may have on economic growth in Iran.

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- (d) Using information from the case study, explain possible reasons why the Iranian currency, the Rial, has fallen in value by more than 450%.

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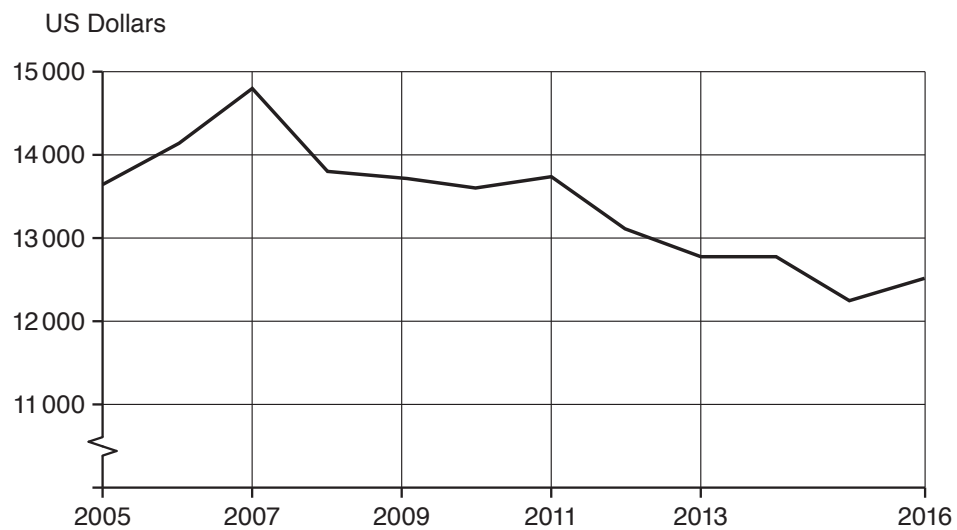
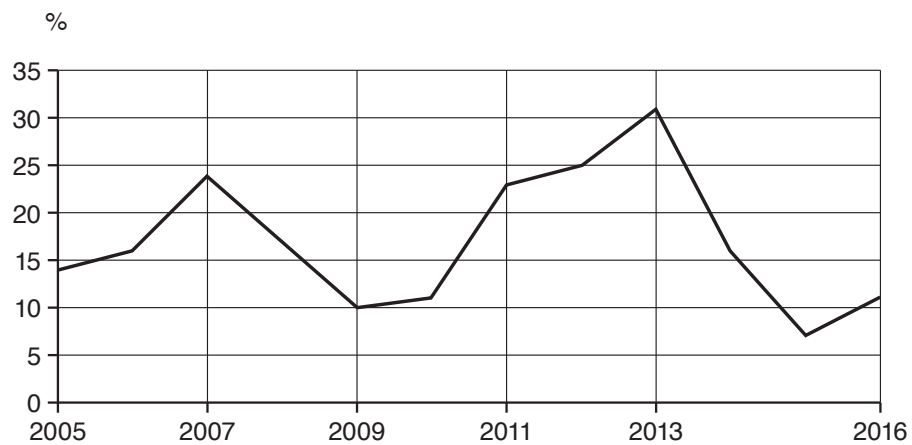
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Source: Adapted from BBC News

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10-MARK QUESTIONS

2 questions in this booklet

6

SECTION B

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Japan's GDP shrinks dramatically at the end of 2019

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Source: Adapted from The Economist

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**Source:** Trading Economics**Fig. 2**

Japan's Interest Rate 2010–2020

Link to material: <https://tradingeconomics.com/japan/balance-of-trade>. Item removed due to third party copyright restrictions.

**Source:** Trading Economics

[10]

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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

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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.

25

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.

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Fig. 1

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

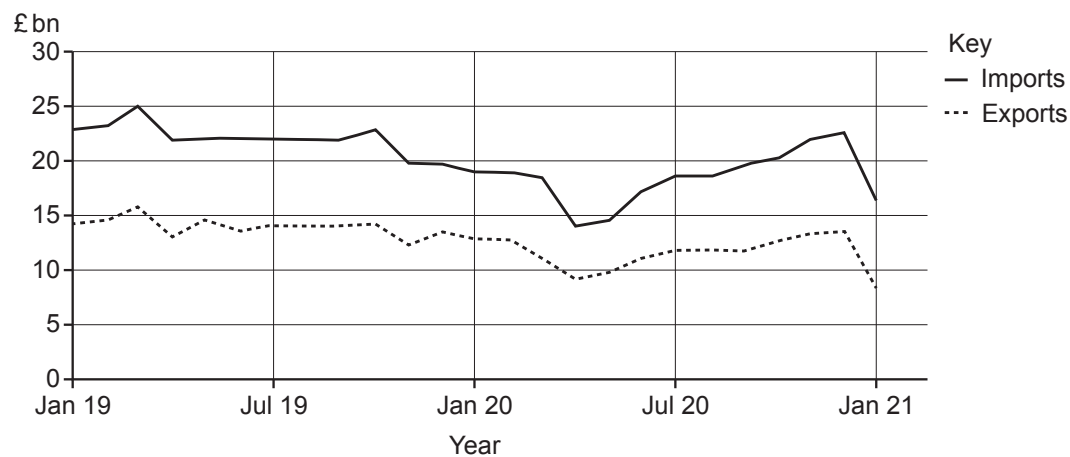
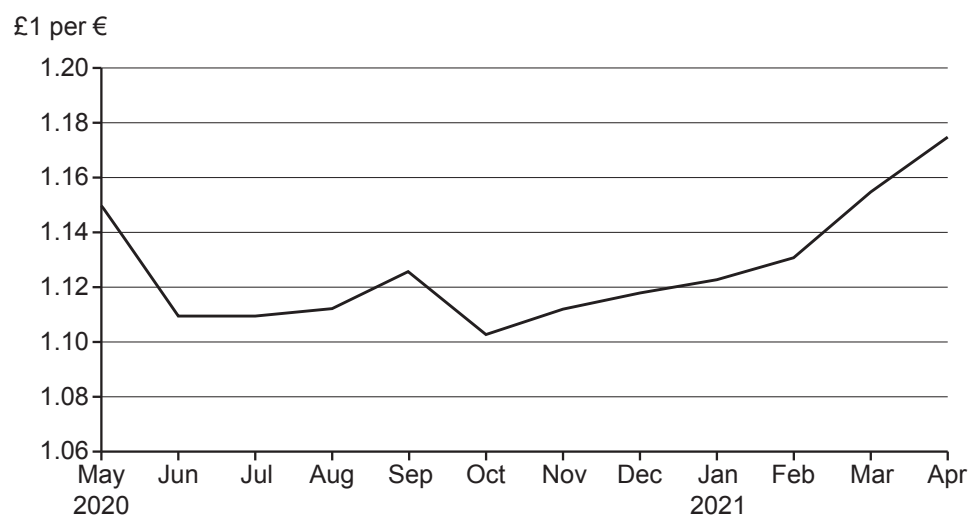


Fig. 2

Sterling to euro exchange rate 2020–2021



12

(e)* Evaluate the effect the increase in unemployment in November 2020 to January 2021 from the same period the year before, is likely to have had on the UK economy. **[10]**

[illegible]

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20-MARK QUESTIONS

7 questions in this booklet

SECTION C

Evaluate, using an appropriate diagram(s), the effectiveness of the use of fiscal policy as a method of achieving the UK's macroeconomic objectives. [20]

Evaluate, using an appropriate diagram(s), the consequences of a fall in the rate of unemployment for the UK economy. **[20]**

[illegible]

12

SECTION C

Answer Question 17 **or** Question 18.

- 17* According to the International Monetary Fund in 2016 Myanmar in South East Asia was the world's fastest-growing economy. The country's GDP was expected to grow by 8.6%.

Evaluate, using an appropriate diagram(s), the costs and benefits of economic growth. **[20]**

OR

- 18*** In June 2016, on the day following the UK's vote to leave the European Union, the UK currency (Pound Sterling) fell by more than 10 per cent to a rate of £1:\$1.326.

Evaluate, using an appropriate diagram(s), the likely consequences of a fall in Pound Sterling on international competitiveness. **[20]**

Question no.

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SECTION C

17* The UK government has made some progress since 2010 in restoring public finances by implementing its fiscal rules. The budget deficit has been reduced from a post-war high of 9.9% of GDP in 2009–10 to 2.0% of GDP in 2017–18, its lowest level since before the financial crisis.

OR

18* Unemployment in the euro area was 7% in May 2018, with wide variations in the number of unemployed in each member country. The unemployment rate in Germany stood at 3.4% while the unemployment rate in Spain was 15.8%.

Evaluate, using an appropriate diagram(s), the effectiveness of supply side policy measures a government could use to reduce unemployment. [20]

Question no.

This image shows a full page of a worksheet designed for handwriting practice. It features 18 horizontal rows. Each row consists of three parallel lines: a solid top line, a dashed middle line, and a solid bottom line. The rows are evenly spaced and extend across the entire width of the page, providing ample space for practicing letter formation and alignment.

Turn over

Handwriting practice area consisting of 30 horizontal dotted lines.

SECTION C

17* The Central Bank of Australia's inflation rate target is between 2% and 3%.
In 2019, Australia's inflation rate increased from 1.3% to 1.8%.
During 2019, the interest rate in Australia was gradually reduced from 1.5% to 0.75%.

[20]

In 2019, the unemployment rate in the UK was 4% whilst it was 18% in Botswana.

[20]

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SECTION C

17* Germany's public sector spending increased annually by 12.1% in 2020, to €1700 billion. Some of this extra spending was used to offer subsidies to firms to help them keep workers employed.

[20]

18* Qatar's GDP in 2020 was \$146.4 billion and its Human Development Index (HDI) was 0.86. Over the same period, Slovenia's GDP was \$52.9 billion and its HDI was 0.90. Both countries had similar populations of approximately two million people.

[20]

[illegible]

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SECTION C

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[20]

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Answer Question 17 **or** 18.

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

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

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MARK SCHEMES

official OCR mark schemes

1	D	Rationale A A factor income. B A factor income. C A factor income. D Correct: Unemployment benefits are a transfer payment.	1	
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13	D	Rationale A This will affect the financial affect rather than the current account. B This will increase earnings from services and so would reduce a current account deficit.. C This will affect the financial affect rather than the current account. D Correct: More foreign aid will increase the value of debit items in the secondary income (current transfers) section of the current account of the balance of payments.	2	
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16	a	Using Fig. 1, compare the average economic growth rate of the five countries with the average global economic growth rate. On average the five countries have faster/higher/above rate than the global economy	1 (AO2 x 1)	A narrative of figures should not be rewarded.
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2	B	Rationale A This may discourage some people from entering the labour force. B Correct: Some of the immigrants are likely to be of working age. C This may act as a disincentive to work. D This will reduce the number of people of working age and so reduce the labour force/	1	
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3	C	Rationale A This is an example of voluntary unemployment. B This is an example of seasonal unemployment. C This is an example of demand-deficient unemployment. D Correct: Automation changes the type of work available and the skills required.	2	
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6	A	Rationale A Correct: The government will have to borrow less if the budget deficit falls. More workers paying higher rates of income tax will likely cause tax revenues to rise in the short run. This will cause the PSNCR to decrease. B If the country enters a recession, tax revenues will fall while spending on unemployment benefits will increase. This will increase a budget deficit and so the need to borrow. C The government embarking on a programme of capital spending increases government spending. In the short run, this will increase a budget deficit and so the need to borrow. D Cutting direct taxation will reduce tax revenue in the short run and so increase a budget deficit.	2	
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11	A	A Correct: Sum of price elasticities of demand for imports and exports = -0.7; Marshall-Lerner condition does not hold and so an appreciation of the currency will improve the current account. B Sum of price elasticities of demand for imports and exports = -1.1; Marshall-Lerner condition holds and so an appreciation of the currency would worsen the current account. C Sum of price elasticities of demand for imports and exports = -1.0; Marshall-Lerner condition holds as there would be no change in the current account position. D Sum of price elasticities of demand for imports and exports = -1.4; Marshall-Lerner condition holds and so an appreciation of the currency would worsen the current account.	AO2	✓
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14	A	A Correct: the downturn in the economic cycle reduced aggregate demand and therefore reduced the demand for labour This is short term unemployment associated with people moving between jobs This occurs when demand for certain types of workers is low at particular times of the year This occurs as a result of changes in the pattern of economic activity within an economy	AO1	
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15	D	The severe as a result of changes in the pattern of economic activity from an economy. A The poll tax was a direct tax as it was not placed on spending B Progressive taxes take a higher proportion of income from those on high income than those on low income; a poll tax did the reverse C Proportional taxes take the same proportion of income from those on high income as those on low income; a poll tax took a higher proportion of income from those on low income D Correct: because the same charge was levied on all income earners this took a higher proportion of income from those on low incomes than those on high incomes	AO1	
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16	(b)	Using Fig.1, what is the projected state of Venezuela's current account balance in 2017. A deficit of 2.5% (of GDP) (1)	1 (AO2x1) 1 mark for identifying the correct units from Fig.1, e.g. 2.5% of GDP and there is a deficit (a negative sign is acceptable). The percentage sign must be included
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2	D	A If supply side improvements caused the economic growth and reduced the price of exports this is likely to improve the balance of payments B This explains the trade-off that might occur between growth and income and wealth inequality C An increase in exports would most likely improve the balance of payments D Correct: imports have a positive income elasticity of demand, so when economic growth occurs the demand for imports will rise, ceteris paribus worsening the balance of payments position	AO2	
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3	B	A The woman is seeking employment, so she would be classified as unemployed on the Labour Force Survey (ILO) measure. B Correct: the woman would not be classified as unemployed on the claimant count measure as she is not claiming any state benefits. The woman is seeking employment, so she would be classified as unemployed on the Labour Force Survey (ILO) measure. C The woman would not be classified as unemployed on the claimant count measure as she is not claiming any state benefits. D The woman would not be classified as unemployed on the claimant count measure as she is not claiming any state benefits.	AO1	
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5	B	A This is a reallocation of resources when an economy is already operating at the productively efficient level of output B Correct: There is an increase in real GDP here as total output increases C This is negative growth in the short run as total output is falling D This would only be possible in the long run when the productive capacity of the economy increases	AO2	✓
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9	A	Which of the following is the correct type of exchange rate system? Correct: $(106.4 - 103.1) / 103.1 \times 100$ B Calculates the inflation rate as $106.4 - 103.1$ C Calculates the inflation rate as $106.4 - 100$ D Calculates the percentage change in the price level from 2014 to 2017: $(106.4 - 99.1) / 99.1 \times 100$	AO2	✓
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12	D	Question: Unemployment that is likely to be long term due to a change in demand Rationale: A Unemployment caused due to the economic cycle B Unemployment that is temporary as workers change jobs C Unemployment that is temporary at certain times of the year D Correct: Unemployment that is likely to be long term due to a change in demand	1	
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14	D	2 The sterling appreciated in the 1990s so the need to reduce the sterling price to compensate Rationale: A Although the figure has fallen this does not mean the deficit has improved B Graph line would be close to zero for most of the period	3	Yes
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16	a	ii	State one reason why the RPI measure of inflation may differ from the CPI measure. 1 mark for any correct reason for the difference in the measures: • RPI includes (CPI excludes) housing costs such as mortgage interest payments, house purchase costs and council tax • RPI excludes (CPI includes) pensioner households • RPI excludes (CPI includes) highest income households • The two methods use a different statistical method • The two methods use different baskets of goods ARA	1 (AO1x1)	Allow any other acceptable differences between RPI and CPI An answer which simply states, without exemplification, that “they measure different things” is too vague
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2	D	Rationale: A GDP per capita B Percentage of labour force that is employed C Number of people in employment D Correct: Total output of an economy is one definition of GDP	1	
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3	C	Which of the following is a common effect of a decrease in the price level? Rationale: A Economic growth increases B Unemployment likely to fall as economic growth occurs C Correct: Economic growth occurs and inflation likely to fall D Economic growth increases	1	
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7	B	2. Increase in both will reduce the multiplier. Rationale: A More capital goods so future growth higher in country Y B Correct: More consumer goods than capital goods being produced in country X	2	Yes
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13	C	Financial account Rationale: A 108-120 B 120-108/120 C Correct 120-108/108 D 120-108	2	Yes
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QUESTION	MARKS	ANSWER
15	C	Rationale: A 2019 nominal GDP 1500/1.03 B 1500 X 1.03 C Correct: Real GDP 1800/1.03 D 1800 X 1.03
	2	Yes

3	D	~~C Correct: Policies to increase competitiveness and market efficiency~~ Rationale: A Price stability B Deflation C Disinflation D Correct: Definition of hyperinflation	1	
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4	A	~~C Correct: Definition of hyperinflation~~ Rationale: A Correct: Exports more expensive and imports cheaper B Reduces demand for dearer imports C Imports relatively more expensive and exports relatively more competitive D Increased demand for more competitive exports	3	
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QUESTION	MARK SCHEME	MARKS	STATUS
8	D Rationale: A Recession/Slowdown B Possibly recovery C Unlikely to occur together D Correct: Boom	2	

13	B	~~Correct: The central bank's supply of money increases~~ Rationale: A $200000 \times 1.05 / 10.8$ B Correct: $(30000 / 1.05) / (10 \times 1.08)$ C $300000 / 10.8$ – Ignores inflation D $300000 / (10 \times 1.05)$ – Ignores population increase	3	Yes
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2	D	Rationale: A Structural B Seasonal C Cyclical D Correct: Frictional	2	
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3	C	Rationale: A Tertiary B Primary C Correct : Secondary D Tertiary	1	
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6	B	Rationale: A Included in both B Correct: Excluded from CPI C Included in both D Included in both	1	
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8	A	Rationale: A Correct: $(75-60)+25+10$ B $15+20+30+25+10$ C $(75-60)+15+20+30+25+10$ D $75+60+25+10$	2	Yes
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9	A	Rationale: A Correct: Expenditure method B Balance of Payments C Output method not input D Measures unemployment	1	
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10	C	Rationale: A Those not looking for work are not covered in the definition of unemployment by the LFS B They need to be available to start work in 2 weeks rather than having been looking for work for 2 weeks C Correct: Stated in definition of measure that they are unemployed and available to begin work in two weeks D As they currently have a job, they cannot be included in the definition of unemployment	1	
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11	D	Suppose the economy is at full employment. If the central bank increases the money supply, the economy will move to a new equilibrium. Which of the following is most likely to occur? Rationale: A Output unchanged as at full employment level B Unemployment unchanged as at full employment level C Output unchanged D Correct: Only prices increase	2	
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15	A	Rationale: A Correct: $((220,000 \times 100/110) - 160,000)/160,000$ B $(220,000 - 160,000)/220,000$ C $(220,000 - 160,000)/160,000$ D $((220,000 \times 110/100) - 160,000)/160,000$	3	Yes
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- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B: TOTAL MARKS

5	A	Question is paid to the government and is the difference between gross and net income Rationale: A Correct: Boom is where actual GDP is above the trend value B GDP is falling and below trend C GDP is increasing but still remains below trend value D The point where GDP stops falling and begins to grow again but is still below trend value	1	
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6	C	At the point where GDP stops rising and begins to grow again, what is the unemployment rate? Rationale: A 324/674*100 B 1350/1674*100 C Correct: 1674/1350*100 D 674/350*100	2	Yes
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14	C	Expansionary policy Rationale: A 100-99.5 B $(99.5-93.4)/99.5$ C Correct: $(99.5-93.4)/93.4$ D 100-93.4	2	Yes
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Question	Answer	Mark	Explanatory Answer
15	B Rationale: A £0m would be net balance B Correct: -92457+77182+18497 C -92457+77182 D 77182+18497	2	Yes

16	(a)	(ii)	Government expenditure is likely to increase from March 2018 by 6% (lines 10-11). State why this increase represents, “a cut in real terms”. 1 mark for inflation is higher than 6%	1 (AO1x1)	Accept inflation is expected to be around 12%
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5	C	Trade deficit Rationale: A Inflation B Deflation C Correct: Prices increase at a slower rate (a fall in the rate of inflation) D Hyperinflation	1	
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7	C	0 0000 10000 Rationale: A $(20-16)/20 = 20\%$ B $(20-16)/16 = 25\%$ C Correct: $(16-20)/20 = -20\%$ D $(16-20)/16 = -25\%$	2	Yes
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Question	Answer	Mark	Explanatory Notes
8	A	3	
	Rationale: A Correct: Reduce economic growth as exports less competitive B Increase economic growth, exports more competitive C Increase economic growth as more government expenditure D Increase economic growth, more firms likely to enter the market, lower costs for firms means more competitive priced goods		

16	b	Using information from the case study, explain one benefit of lower oil prices in India. 1 mark available for identifying impacts from the data: 'increase household real disposable income', "help to drive down the rate of inflation" 1 mark for developing a clear chain of reasoning that goes beyond the information supplied in the case study.	2 (AO1 x2) Examples: Lower oil prices will lead to rising household incomes/drive down rate of inflation. (1) Lower oil prices may lead to a fall in the price of consumer goods therefore driving down inflation. (2) Lower oil prices may lead to lower production costs thus improving productivity/competitiveness/higher oil exports thus improving the balance of payments. (2)
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16	c	Using Fig.2, explain what happened to the value of the Indian rupee between 2011 and 2015. The value fell/depreciated (1). More rupees had to be given to purchase a US\$ over the period (1).	2 (AO1 x 1 AO2 x 1)	
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16	d	i	Using Fig.3. describe the relationship between India's current account balance and its unemployment rate over the period shown. While the current account deficit fell from -3% of GDP to -1% (improved by 2%) unemployment fell from 11% to 9% (or by 2%) (2) There is a direct/positive relationship between falling current account deficit/falling imports and falling unemployment (1) There is an inverse relationship between rising exports and falling unemployment (1) Both unemployment and the deficit fell [no figures] (1)	2 (AO1 x 1 AO2 x 1)	A statement of two figures is insufficient. The candidate needs to specify that the deficit and unemployment both fell. To receive two marks, appropriate figures must be quoted
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16	(a)	Define the term 'current account balance'. The difference between (the value of) total exports (visible and invisible) and total imports (2) It is the income & expenditure total of a country's trade in goods, services (income & transfers) which may be a deficit or surplus (2) X-M (1) Net Exports (1) ARA	2 (AO1x2) 2 marks for clear reference in definition to exports and imports and the sum of/difference/gap/ between them 1 mark if no reference to the difference/gap, e.g. "It measures total exports and total imports" Answers do NOT need to mention 'value' Definitions do NOT have to include any mention of net investment income and net transfers
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16	(c)	Using Fig.1, compare the projected real GDP growth rates for Venezuela and Nigeria over 2016 and 2017. Venezuela is projected to have a rate of real GDP growth of -8% increasing to -4.5%. Nigeria's is projected to have an increase in real GDP growth from 2.3% to 3.5%.	2 (AO2x2) 2 marks for an answer which compares (explicitly or implicitly) what happens in Venezuela to Nigeria. For example, "Both countries have seen an increase in their growth rates (1), although Venezuela is still experiencing negative growth (1)." 1 mark for an answer which only states what has happened in Venezuela and/or Nigeria, backed up with evidence from Fig.1. Do NOT reward answers which suggest the change in the growth rates between 2016 & 2017 is the growth rate.
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16	(d)	(i)	Describe the relationship between Venezuela's inflation rate and its unemployment rate from the period October to December 2015. There is an inverse relationship (1) as inflation increased from 156% to 181% and unemployment fell from 6.7% to 6% (1).	2 (AO1x1 AO2x1) 2 marks for an answer which <u>uses the data</u> to show that inflation increased <u>and</u> unemployment decreased <u>and</u> there is an inverse relationship (one increases as the other decreases is implicit in the answer). A statement of two sets of figures is insufficient. An answer needs to specify what the relationship is. Allow approximated figures to be used
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16	a	i	Using Fig. 1, compare the RPI and CPI measures of inflation during 2017. 1 mark for CPI is below RPI throughout 2017 (or RPI is above CPI). 1 mark for the difference between RPI and CPI has remained largely constant at 1% (accept it has become slightly larger over 2017).	2 (AO2x2) Data/trends quoted must be from 2017. Maximum of one mark for quoting a figure referring to the trend or 'gap' between the two measures. Candidate must clearly state whether they are referring to CPI, RPI or the gap/difference. The question asks for a comparison rather than the trend, individually or collectively, in RPI/CPI. Example responses RPI is 1% higher than CPI throughout 2017 (2 marks) CPI is constantly lower than RPI (2 marks) Both showed a similar trend in 2017 (1 mark)
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16	b	Using Fig. 2, explain what happened to the UK	2	One mark for reference to the evidence that wages did not rise as fast
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Question			Answer	Mark	Guidance
16	(a)	(i)	Using Fig. 1, explain how the unemployment rate changed in Japan between 2015 and 2020. Unemployment has fallen (1) From 3.5% to 2.2% (1) By 1.3% (1)	2 (AO2x2)	Allow a reasonable range The mark for the use of data must be for a sense of the whole time period from 2015 to 2020. Quantitative skills rewarded in this question

16	(a)	(ii)	Explain one supply side policy the Japanese government could implement to reduce the number of unfilled jobs? Subsidies to firms (1) which can be used to train workers with the relevant skills (1) Education (1) so that students acquire the knowledge and skills required (1) Improve labour market flexibility (1) which makes it easier for employers to employ workers with the correct skills (1) Reduce trade union power (1) which will allow firms to employ workers with the correct skills (1) Relax immigration rules (1) skilled labour can enter the country (1) Reduce benefits (1) encouraging an increase in labour supply (1)	2	Award any appropriate supply side policy (AO1x2) Specific policy (1) Correct explanation of policy with some reference to improving the lack of skills (1) Do NOT reward policies which are not clearly supply side ones
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16	(b) (i)	Using Fig. 2, explain at what stage of the economic cycle the UK economy was in Q2 2020. The economy was in recession (1) The GDP growth rate was negative for the first two quarters of 2020 (1) OR GDP growth rate was -2.0% in Q1 2020 and -20.0% in Q2 2020	2 (AO2x2) Quantitative skills rewarded in this question Use of Fig.2 may be an awareness that growth is negative for the first 2 quarters - no specific numbers are required	Allow range from -1.5% to -2.5% for Q1 and -20.0 to -21.0% for Q2
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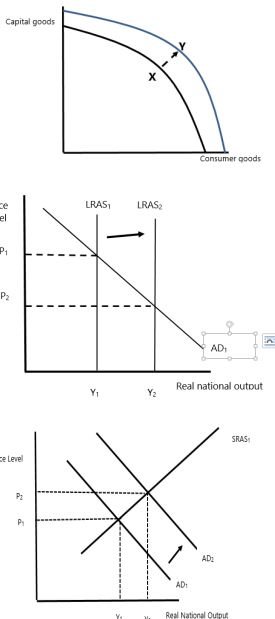
16	(b) (ii)	Line 9-10 refer to increases in welfare payments for the unemployed. Explain one impact this may have on the supply of labour. There will be less incentive for workers to go to work (1) so supply of labour will fall (1)	2 (AO1x2)	One mark for the impact on the supply of labour One mark to explain the reason for the impact
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Question			Answer	mark	Guidance
16	(a)	(i)	Using Fig. 1, explain the change in household income in Iran from 2007 to 2016. 1 mark for household incomes have fallen/Iranians have become poorer 1 mark for the reference to quantitative change in income	2 (AO2x2)	Allow reasonable range for percentage change answers (14% -16%) e.g. $(\\$14700-12500)/14700 = 15.0\%$ Allow a fall of between \$2,000 and \$2,500. The mark for the use of data must be for a sense of the whole time period from 2007 to 2016. Quantitative skills rewarded in this question

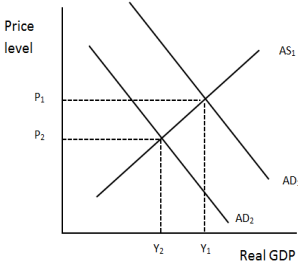
16	(b)	Using Fig. 2, explain what happened to inflation in Iran between 2009 and 2013. Inflation has increased (1) From 10% to 30% (1) By 20%/three-fold (1)	2 (AO1x1 AO2x1)	One mark for reference to rise in inflation One mark for reference to a correct figure Quantitative skills rewarded in this question
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16	(e)	Explain the difference between unemployment and underemployment. Unemployment is not having a job while being able to work (1) whilst underemployment is having a job but working less hours than you would like to (1).	2 AO1x2	One mark for a definition of either term. Two marks for clear definitions showing the distinction between the two terms.
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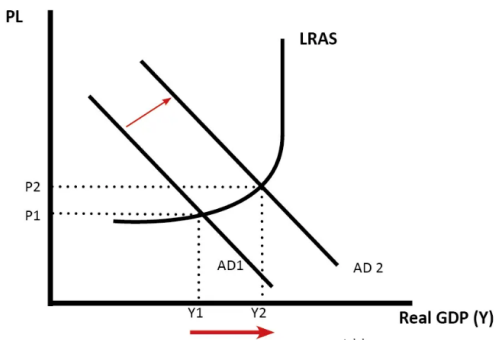
16	d	ii	Using Fig.3, explain how the change in India's current account balance between 2013 and 2015 may have influenced the country's unemployment rate. A decline in the deficit could be caused by a fall in imports/rise in exports (1). A rise in net exports would result in higher aggregate demand (1). A rise in AD is likely to produce a higher level of employment/to produce more goods and service for export (1) so more workers need to be employed/unemployment falls (1) The fall in inflation could have made exports more competitive (1). The depreciating rupee will have made exports more competitive (1)	4 (AO1 x 2 AO2 x 2)	Credit "deficit" if not rewarded in 16(d)(i) (1) Credit any reasonable application or explanation
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16	e	Using a diagram, explain how an increase in spending on infrastructure in India could lead to economic growth. Knowledge of/example of infrastructure (1) Diagram (up to 2 marks) Accurate labelling of axes and curves (1). A rightward shift in AS or AD or both or PPC (1). A transmission mechanism: increased government spending or private investment on infrastructure with increased output/short run economic growth (2) OR accept two reasonable explanations, one for AD and one for AS Lower transport costs/faster internet/more roads increases capacity/long run economic growth (2) A simple statement that AS or AD shifts to the right if already drawn does not gain a mark. Explanation is required.	4 (AO1 x 2 AO2 x 2)  Accept a PPF diagram shifting outwards from X to Y. or an AD/AS diagram for long-run economic growth. Or short run economic growth
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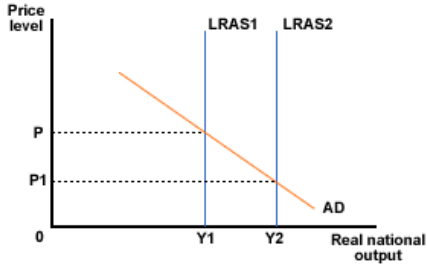
16	(d)	(ii)	Explain how the change in Venezuela's inflation rate over the period may have affected consumers. Consumers may be affected as follows: • Increased uncertainty/Inflationary noise • Fiscal drag • Shoe leather costs • Reduced purchasing power • Unequal distribution of income • Decreased savings • Reduced consumer confidence • Increased consumption (of imported products) Exemplar responses With such high levels of inflation in Venezuela (1), consumers may experience increased uncertainty (1) as they would find it difficult to decide which prices offer value for money (1), as price signals have been distorted (1). Inflation rates of over 100% (1) may mean that consumers suffer from fiscal drag (1) if they have been dragged into higher tax brackets (1) and tax brackets are not adjusted in line with inflation (1). With an inflation rate of 1,643% in 2017 (1) consumers will see their purchasing power fall (1) as their real disposable income will decrease (1) unless wages rise at the same rate (1). ARA	4 (AO1 x 3 AO2 x 1) Up to 3 marks for identifying and explaining way(s) in which consumers may be affected by inflation 1 mark for applying the explanation to Venezuela, either with specific use of the data in Figs. 2/3 or at least implied reference to high levels of inflation (hyperinflation/massively) <u>Do not</u> reward references to increased saving or reduced consumer spending
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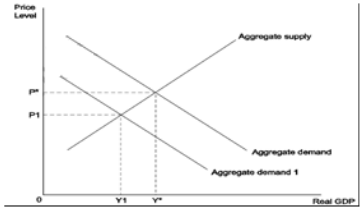
16	(e)	Using an appropriate diagram, explain the impact of falling oil prices on economic growth in Venezuela. Possible answers may include: - would decrease the value of export revenue (1) from oil (X) which is a component of AD (1) - likely to be an AD/AS diagram (2) - may reduce business/consumer confidence (1) so leading to a fall in investment (1) - likely to be an AD/AS diagram (2) - may reduce firm's production costs which leads to an increase in (SR)AS - likely to be an AD/SRAS diagram (2) - falling profits of oil producers may lead to lower investment (1) which will affect the country's long-run productive potential (1) - PPF diagram showing a contracting PPF (2) - decline in economic activity/SR economic growth (1) as a result of weak business confidence (1) - diagram showing movement further inside the current PPF (2) NB: Allow references to consumer-based issues ("lengthy queues", "food shortages", "two shopping days per week") <u>as long as</u> there is a clear link to the falling oil prices being the cause. ARA	4 (AO1 x 2 AO2 x 2) 2 marks for an explanation 2 marks for an appropriate diagram Award a maximum of 2 marks if there is no appropriate/correct diagram Accept an AD/AS diagram, falling AD or increasing (SR)AS, or a PPF diagram for the impact on economic growth. Award 2 marks for a correct diagram with an incorrect explanation.  The diagram needs to come from a rewardable explanation to gain marks (e.g. PPF must come from a reference to investment or long-run productive potential) AD moving to the right can only be rewarded for 2 marks if there is explicit reference to price elasticity, otherwise a maximum of 1 mark. Award 1 mark for a diagram which is incorrectly or incompletely labelled (including axes)
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16	d	Using information from the case study, explain	4	Two marks for statements about the reasons for the difference between
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Question	Answer	Mark	Guidance
16 (c)	The case study refers to the Tokyo Olympics. Using a diagram, explain what impact holding the Olympics is likely to have on economic growth in Japan. Up to 2 marks for a diagram: • Accurate labelling of axes and curves (1) • A rightward shift in AD (1) • Correct equilibriums (1) Up to 2 marks for explanation: • Japanese consumer and business confidence is expected to increase causing spending both by consumers and firms to increase OR Expenditure to host the Olympics OR Spending by visitors and athletes to the Olympics games (1) • leads to a rise in economic growth (1) A simple statement that AD will shift to the right <u>if already drawn</u> does not gain a mark. An explanation is required.	4 (AO1x2 AO2x2)	Accept (real) national output on the X-axis instead of real GDP 

16	(d)	Explanation is required. Using information from the case study, explain how the change in consumption tax (value added tax) have affected unemployment in Japan in 2014. Value added tax has increased (1) OR from 8% to 10% (1) OR by 2% (1). Consumption tax (value added tax) has increased (1) price of most products may have risen (1) aggregate demand may have fallen / output may have declined (1) unemployment would be expected to increase (+1).	4 (AO1x2 AO2x2)	Reference to increase in VAT from the context (1) Explanation of consumption tax impact on price/cost/real income (1) Effect on AD /AS/output (1) Impact on unemployment (+1)
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16	(c)	The case study refers to a number of training initiatives announced by the UK government (lines 13-19). Using a diagram, explain what impact this is likely to have on long run economic growth in the UK. Up to 2 marks for a diagram: • Accurate labelling of axes and curves (1) • A rightward shift in LRAS (1) As workers undertake training and education this will improve their skills and productivity (1). This will mean the economy is able to produce more output (1)	4 (AO1x2 AO2x2) Accept real national output (or similar) on the X-axis instead of real GDP. Accept Keynesian diagram. Must show long run aggregate supply curve  NB: Accept diagrams which also show an increase in AD
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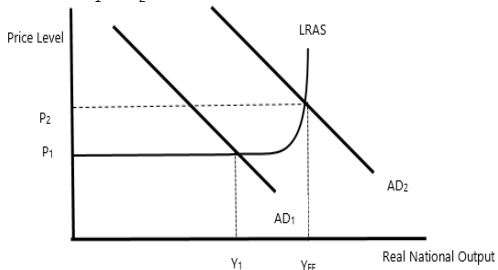
Question	(c)	Answer	Mark	Guidance
16	(c)	Using a diagram, explain what impact these factors may have on economic growth in Iran? Up to 2 marks for a diagram: • Accurate labelling of axes and curves (1) • A leftward shift in AD (1) • Equilibrium Price level & Real GDP lower (1) Up to 2 for explanation: 30 million people will see their cash payments reduced /a significant number of people will be impacted by lower income /High youth unemployment - leading to a fall in consumption(1) Less consumption leads to a fall in AD/ economic growth (1)	4 (AO1x2 AO2x2)	Accept real national output (or similar) on the X-axis instead of real GDP  Accept a PPF shifting inwards as an alternative diagram Quantitative skills rewarded in this question Diagram must have correct Macro axis labels in order to be awarded marks. A simple statement that AD will shift to the left <u>if already drawn</u> does not gain a mark. An explanation is required.

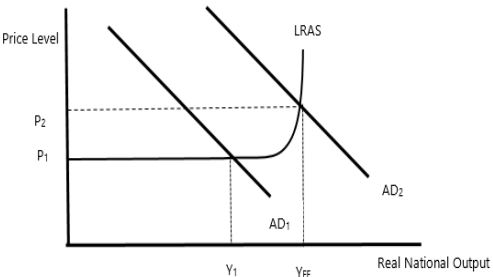
16	(d)	Using information from the case study, explain possible reasons why the Iranian currency, the Rial, has fallen in value by more than 450%? • Demand for the currency has fallen (1) • Increase in supply (1) Evidence from the case study: • Lower demand for oil from other countries (1) • High levels of inflation reducing competitiveness of Iranian exports (1) • Lower demand for Iranian goods due to economic sanctions in the past (1)	4 (AO1x2 AO2x2)	Two marks for statements about the reasons for reduced demand for a currency or increased supply. Two marks for reference to evidence in the case study. Allow up to 2 marks for a correct diagram showing a decrease in demand or increase in supply of the currency.
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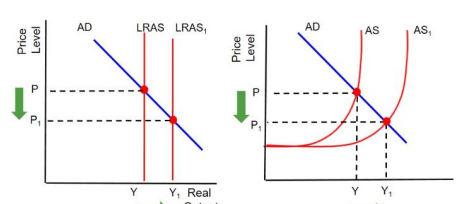
Question		Answer	Mark	Guidance
16	(e)	Evaluate the consequences of negative economic growth for Japan. Level 3 (7-10 marks) Good – strong analysis of the consequences of negative economic growth. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning 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 consequences of negative economic growth. 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 the consequences of negative economic growth. 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 consequences of negative economic growth.	10 (AO2 x1 AO3 x4 AO4 x5)	The consequences of negative economic growth to Japan are that production will fall. This means that there will be an increase in unemployment, as firms require less workers. The unemployed will have a lower income and will therefore reduce their consumption of goods and services. As unemployment starts to rise, those in employment will feel less secure in their jobs and consumer confidence will fall, also reducing consumption of goods and services. This will mean aggregate demand will fall in the economy and lead to more jobs being lost. With less goods and services being purchased, business confidence will also be low and so investment by firms might fall. Government spending is currently very high at 240% of GDP, with rising unemployment this is likely to increase further as the government may provide welfare payments to the unemployed. Inflation is currently at 0.8% and if demand falls further there is a danger that it may lead to deflation. Exports by firms may not be impacted if there is strong economic growth in their trading partners. As investment falls, over the long run this may have a negative impact on exports as goods from other countries may be more innovative. However, with negative interest rates, some consumers may decide to draw on their savings and continue spending. Therefore, the negative impact on aggregate demand may be less than expected. Consumer spending may fall on imported goods and therefore have a positive impact on the trade balance. If negative economic growth only occurs for a short period, it is unlikely to be a big concern. The Tokyo Olympics in 2021 are likely to bolster economic growth. However, if negative economic growth does continue over a longer period, the country will be in a recession and this can have far bigger negative consequences for Japan and would require more government expenditure to try and encourage economic growth. Better answers may consider the short run against the long run consequences of negative economic growth.

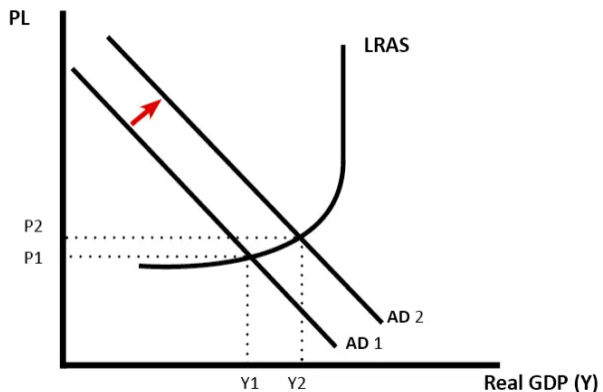
16(e)* Evaluate the effect the increase in unemployment in November 2020 to January 2021 from the same period the year before, is likely to have had on the UK economy.

Level / mark	Descriptor
Level 3 (7-10 marks)	Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 2 (4-6 marks)	Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 1 (1-3 marks)	Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.

18	In the period September – December 2015 the rate of unemployment in the UK fell to its lowest level in more than ten years to 5.1%. The number of people out of work fell by 99,000 to 1.68 million in the same three-month period. Evaluate, with the aid of an appropriate diagram (s), the consequences of a fall in the rate of unemployment for the UK economy. Level 4 (16-20 marks) Good knowledge and understanding of the consequences of a fall in the rate of unemployment for the UK economy. 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 the consequences of a fall in the rate of unemployment for the UK economy, 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)	20 (AO1*3 AO2*4 AO3*6 AO4*7)	A fall in unemployment would be likely to increase the income for individuals and households if employment increases, which can lead to an increase in living standards. Increased spending in local businesses as a result of increased disposable incomes may provide a boost to local regions and create a positive multiplier effect. Increased incomes may increase the amount of consumer spending. As a component of aggregate demand, an increase in consumption will lead to an increase in aggregate demand from AD_1 to AD_2. This also leads to an increase in output from Y_1 to Y_{FE} as shown in the diagram below. It also increases the price level from P_1 to P_2.  With more individuals in work, the government may gain increased tax revenue from income tax, national insurance contributions and value added tax (VAT) from the increased consumer expenditure. This additional revenue can be spent on areas such as education or healthcare. There may be less spending by government on transfer payments such as Job Seekers Allowance (JSA) or Universal Credit which forms and increase in government spending on
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17	According to the International Monetary Fund in 2016 Myanmar in South East Asia was the world's fastest-growing economy. The country's GDP was expected to grow by 8.6% Evaluate, using an appropriate diagram(s), the costs and benefits of economic growth. Level 4 (16-20 marks) Good knowledge and understanding of economic growth and/or how it is measured or shown. 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 effectiveness of costs and benefits of economic growth weighing up both sides 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 economic growth and/or how it is measured or shown. Good analysis of the effect of the effectiveness of the costs and benefits of economic growth	20 (AO1 x3) AO2 x4 AO3 x6 AO4 x7)	Economic growth refers to an increase in the amount of goods and services produced in an economy over a period of time. Economic growth is measured using the indicator gross domestic product (GDP) which specifically looks at the value of output produced within the economy. Short run (or actual) economic growth is caused by the use of previously underutilised resources, it can be represented on a production possibility curve (PPC) as moving from a point of an inefficient allocation of resources to a more efficient point on the PPC and as a result of an increase in aggregate demand from AD₁ to AD₂ in the diagram below. In this example there is an increase in output from Y₁ to Y_{FE}.  In the long run an economy can grow at a rate determined by its productive capacity. An increase in the quantity and quality of factors of production will lead to a shift outwards of the PPC from X to Y in the diagram below.
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18*	Unemployment in the euro area was 7% in May 2018, with wide variations in the number of unemployed in each member country. The unemployment rate in Germany stood at 3.4% whilst the unemployment rate in Spain was 15.8%. Evaluate, using an appropriate diagram(s), the effectiveness of supply side policy measures a government could use to reduce unemployment. Level 4 (16-20 marks) Good knowledge and understanding of how supply side policies may reduce unemployment. Strong analysis of the impact of policies to reduce unemployment 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 to which supply side policies may reduce unemployment, 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 supply side policies may reduce unemployment. Good analysis of the impact of policies to reduce unemployment. There is correct analysis in the form of developed links. These links are developed through a	20 (AO1*3 AO2*4 AO3*6 AO4*7) Supply side policies may increase the quality or quantity of labour, an AS diagram (Classical or Keynesian) may be presented as part of the analysis.  Investing in education and training may help to reduce structural unemployment and increase productivity. However, money must be invested in the correct sectors to be effective. There may also be time lags. Reduce state welfare benefits (and/or marginal tax rates) to encourage claimants to find a job as the differential between welfare benefits and wages increase so voluntary unemployment falls. The impact will depend on by how much they are cut by. However, if there is a lack of jobs for example due to a recession, it will reduce living standards and increase income inequality. Reducing welfare benefits would also have a positive impact on government finances. Implement/increase national minimum wage to incentivise more people to work. However, this may increase unemployment as some firms struggle to pay workers the higher wage, therefore some of those in employment may also lose their job. Reduce the cost to firms of taking on workers for example by reducing trade union power or taxes paid on labour or less regulation. This will encourage firms to increase their workforce. An increase in employment will increase consumption and further increase employment depending on the size of the multiplier.
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18*	Evaluate, using an appropriate diagram(s), the effects of an increase in aggregate demand on macroeconomic indicators. Level 4 (16-20 marks) Good knowledge and understanding of the effects of an increase in AD on macroeconomic indicators. 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 effects of an increase in AD on macroeconomic indicators and reach 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 the effects of an increase in AD on macroeconomic indicators. Good analysis of the effects of an increase in AD on macroeconomic indicators. 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. Good evaluation of the effects of an increase in AD on macroeconomic indicators but without reaching a supported judgement.	20 (AO1*3 AO2*4 AO3*6 AO4*7)	The position of the AD/AS equilibrium determines whether the economy is at full employment. With a neoclassical vertical LRAS curve the economy always returns to full employment. With Keynesian economics, the economy may settle in equilibrium above or below the full employment level. If the economy is below full employment an increase in AD will move the economy towards full employment. If an economy is less than full employment such as Botswana which has a very high level of unemployment, an increase in AD will be beneficial and will help increase employment and move the economy closer to full unemployment and improve utilisation of productive resources and increase output from Y1 to Y2 with only a small increase in price. 
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17* Evaluate, using an appropriate diagram(s), whether government spending to keep unemployment low will conflict with objectives a government may have for inflation.

Question 17* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

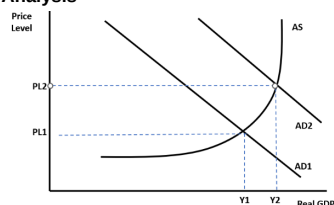
Knowledge and Understanding

- Fiscal policy is the use of government expenditure and taxation to try and achieve one of the government's macro-objectives.
- Expansionary fiscal policy involves a fiscal deficit
- Increased Government spending may conflict with the objective of a stable low inflation rate.

Application

- A huge increase in German government expenditure over the period with a 12.1% increase over the year to €1.700billion.
- Some of the money was given as subsidies to support firms.

Analysis



- Subsidies would have been used by firms to pay wages to worker and perhaps to invest in their business.
- The German government may also have given money to consumers to spend in shops or as unemployment benefits or other welfare payments.
- Increased government spending increases aggregate creating Demand pull inflation. This will shift the AD curve from AD1 to AD2 in the diagram. This will increase the price from P1 to P2 in the economy as shown in the diagram below.
- Increasing government spending negatively affects the budget .

Evaluation

- The level of inflation will depend on how close the economy is to full employment. At full employment wages may rise leading to cost push inflation.
- High unemployment in the economy/ economy is operating far below full capacity or there is deflation, there may not be a conflict with the use of expansionary fiscal policy
- If the marginal rate of withdrawals (Saving and imports) is high, then there may not be a conflict with low stable inflation.
- Low business confidence may encourage firms to use the government subsidies to pay off bank loans or save
- Spending on improved infrastructure, business investment grants or more training may lead to longer term faster economic growth and may lead to lower inflation in future years (LRAS shift outwards).

Judgement(s)

- Whether expansionary fiscal policy conflicts with the government's inflation objectives depends on where Germany is on the economic cycle, what firms spend the money on, the level of taxation, the inflation objective, and the current level of economic indicators.
- Better answers may consider what the government objective is for inflation. A low inflation objective will be more greatly affected than one which

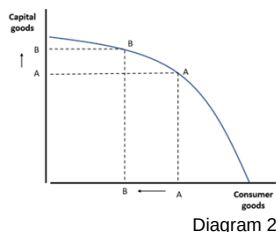
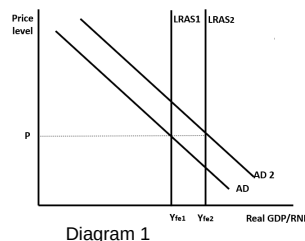
18* Evaluate, using an appropriate diagram(s), the usefulness of GDP as an indicator of development.

Question 18* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and Understanding

- GDP is a measure of total economic output in a country, and this is equal to gross national income in a country.
- GDP/ growth can be shown in Diagram 1 as a movement from Y_1 to Y_2 or in the LR by a movement from A to B in Diagram 2.



- Development is a wider economic concept than growth as it considers quality of life indicators.

Application

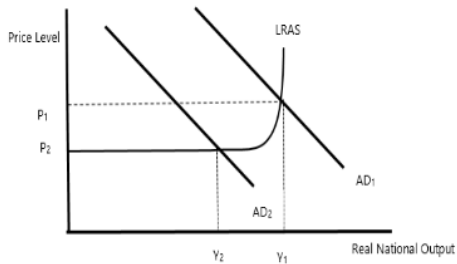
- Slovenia's GDP is only around a third of that of Qatar
- Slovenia has a slightly higher HDI score of 0.9 versus Qatar's 0.86.

Analysis

- Economic growth leads to an increase in output and an increase in money flowing around the income and more resources available to everyone in the economy and higher incomes/standard of living
- Higher income generates increasing tax revenue allows additional resources to be invested in schools and health care which increases the educational and skills level of people, increases the opportunities available to citizens and increases life expectancy.
- Economic growth may lead to more employment which may facilitate the purchase of education and healthcare by individuals.
- HDI contains three components one of which is growth (GNI per capita not GDP) therefore improved growth will contribute to a rising HDI

Evaluation

- An increase in GDP with high inflation may not improve the living standards.
- Population increasing by more than the increase in GDP means GDP per capita will fall.

18*	Evaluate, using an appropriate diagram(s), whether a large current account imbalance should be a concern for any government. Level 4 (16-20 marks) Good knowledge and understanding of whether a large current account imbalance is a concern. 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 to whether a large current account imbalance is a concern 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 whether a large current account imbalance is a concern Good analysis of whether a large current account imbalance is a concern. 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. Good evaluation will weigh up whether a large current account imbalance is a concern but without reaching a supported judgement.	20 (AO1*3 AO2*4 AO3*6 AO4*7) A large deficit would be a concern as it means imports exceed exports. Imports are a withdrawal from the circular flow of income, so lead to a fall in aggregate demand (AD₁-AD₂) as more foreign goods (and less domestic goods) are demanded by citizens. In addition, less exports may be being sold abroad. (Y₁-Y₂ falling growth/output)).  This may lead to domestic firms reducing staff and/or closing which increases domestic unemployment. This may lead to an increase in government expenditure on welfare payments whilst receiving less tax revenue from firms and individuals negatively impacting government finances and potentially adding to the national debt. A trade deficit may mean that citizens are enjoying consuming high level of products (at cheap prices) and therefore a higher standard of living. However, it may suggest the economy is unbalanced with the focus on short term consumption. The deficit will be less of a concern if it is caused by imports of capital goods which will create value in the economy through increased output of goods which can be sold domestically or overseas. Productivity may also improve increasing the competitiveness of such goods. A current account deficit may mean the currency depreciates as there is lower demand which would mean imports become more expensive
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