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OCR AS ECONOMICS: QUESTIONS BY TOPIC

The Financial Sector

OCR AS Economics H060 — Topic MACRO 5

7 questions · 29 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.

7 questions · 29 marks · lowest tariff first

	QUESTION	SOURCE	MARKS	PAGE
1.	Section A (MCQ), Q4	H060/02 Macroeconomics · June 2018	1 mark	5
2.	Section A (MCQ), Q11	H060/02 Macroeconomics · June 2019	1 mark	6
3.	Section B, Q16(b)(i)	H060/02 Macroeconomics · June 2022	1 mark	7
4.	Section A (MCQ), Q14	H060/02 Macroeconomics · June 2023	1 mark	10
5.	Section A (MCQ), Q4	H060/02 Macroeconomics · June 2024	1 mark	11
6.	Section B, Q16(c)	H060/02 Macroeconomics · June 2019	4 marks	13
7.	Section C (Essay), Q17*	H060/02 Macroeconomics · June 2023	20 marks	17

QUESTIONS

7 questions · 29 marks · lowest tariff first

1-MARK QUESTION

5 questions in this booklet

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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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

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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..... [2]

- (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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..... [2]

- (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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..... [2]

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]

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]

4-MARK QUESTIONS

1 question in this booklet

7

SECTION B

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

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

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

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

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

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

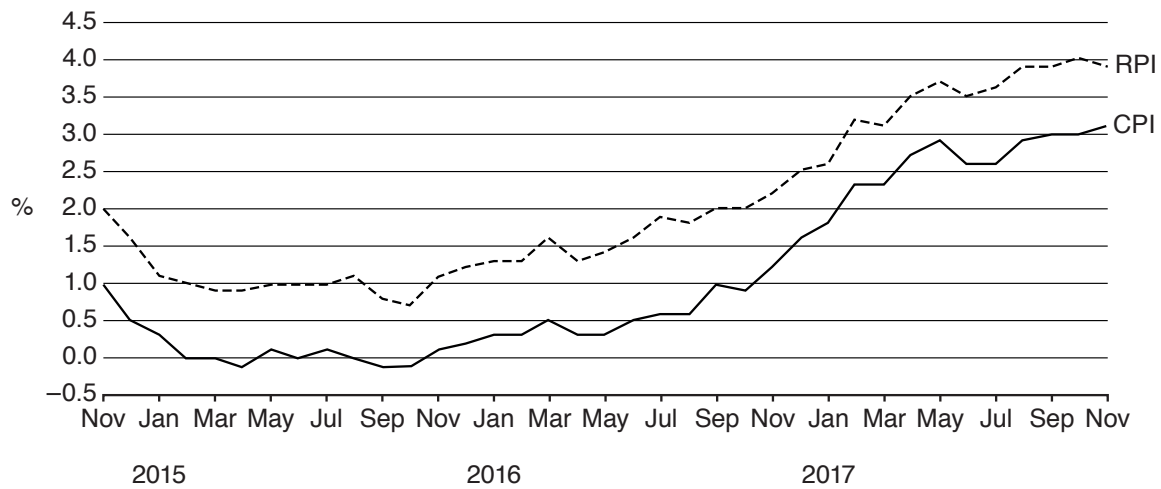
Almost four million households face higher mortgage interest payments after the interest rate rise, but it should give savers a modest lift in their returns. The main losers will be households with a variable rate mortgage. This may increase the withdrawals from the circular flow of income.

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

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

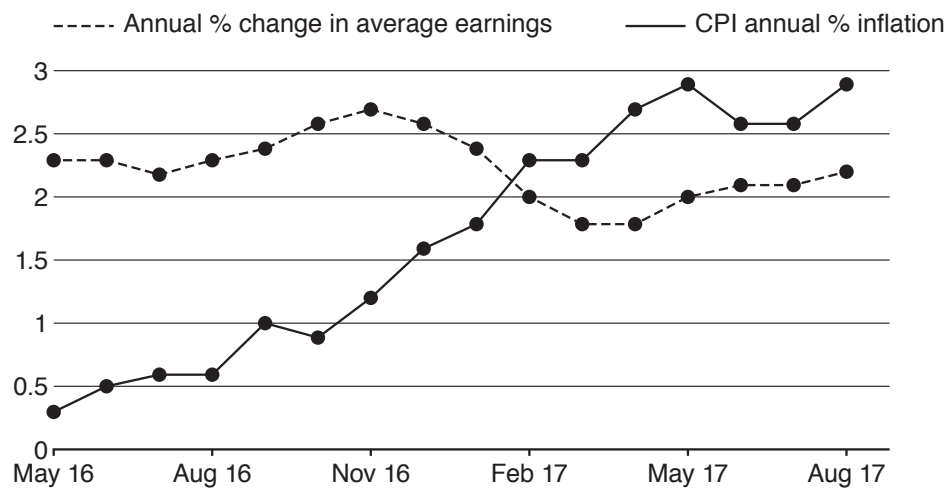
Source: Adapted from BBC News

8



Source: ONS

Fig. 1 UK Inflation 2015–2017



Source: BBC

Fig. 2 Changes in UK average earnings and CPI

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

Source: Adapted from ONS

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

10

- (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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..... [4]

- (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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..... [4]

20-MARK QUESTIONS

1 question in this booklet

Answer Question 17 **or** Question 18.

Evaluate, using an appropriate diagram(s), the effects of a change in interest rates on the Australian government's ability to achieve macroeconomic objectives. **[20]**

Evaluate, using an appropriate diagram(s), the effects of an increase in aggregate demand on macroeconomic indicators. **[20]**

[illegible]

Handwriting practice area consisting of 30 horizontal dotted lines.

Handwriting practice area consisting of 20 horizontal dotted lines.

MARK SCHEMES

official OCR mark schemes

4	C	A B C D	~~Starting any state scenario:~~ A fall in the price level makes money more valuable A fall in the rate of inflation increases the function of money as a medium of exchange Correct: When the rate of inflation spirals out of control money becomes worthless, meaning individuals revert to a barter economy A normal rate of inflation will reduce the value of money but will not prevent it acting as a medium of exchange	AO1	
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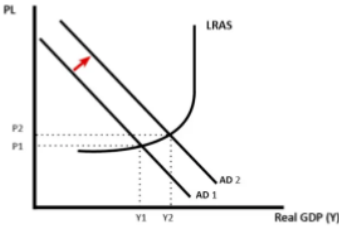
11	B	Does net energy impact exports and imports Rationale: A Incorrect calculation – divided nominal rate by real rate B Correct: Interest rate paid minus real rate of interest, gives inflation level C Incorrect calculation – added nominal and real rates D Incorrect calculation – multiplied nominal and real rates	2	Yes
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Question			Answer	mark	Guidance
16	(b)	(i)	Using Fig. 2, state what has happened to Japan's interest rate between 2017 and 2019? Remained unchanged (1) Stays at -0.1% (1)	1 (AO2x1)	Negative sign required if data is quoted for 1 mark Quantitative skills rewarded in this question

14	B	 Rationale: A Increases imports B Correct: Reduces imports C Increases imports D Increases imports	2	
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4	B	Exchange rates are due to changes in currency values between two countries Rationale: A Exchange rates are due to changes in currency values between two countries B Correct: The impact of inflation is removed when looking at real economic variables C Interest rates are either a cost of a loan or can be the return on savings held with a bank D Taxation is paid to the government and is the difference between gross and net income	1	
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16	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. Up to 2 marks for a diagram: • Accurate labelling of diagram (macro labels) (1) • A leftward shift in AD (1) Increased costs of borrowing (1) may mean less investment by firms or less loans taken by consumers and therefore less consumption (1) Increased return from savings (1) will encourage consumers to save rather than consume (1) A simple statement that AD will shift to the left if <u>already drawn</u> does not gain a mark. An explanation of why it has shifted to the left is required.	4 (AO1x2 AO2x2) Accept real national output (or similar) on the X-axis instead of real GDP
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17*	Evaluate, using an appropriate diagram(s), the effects of a change in interest rates on the Australian government's ability to achieve macroeconomic objectives. Level 4 (16-20 marks) Good knowledge and understanding of how a fall in interest rates may affect ability to achieve macroeconomic objectives. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the extent of how a change in interest rates may affect other macroeconomic objectives, weighing up both sides/comparing alternatives and reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 3 (11-15 marks) Good knowledge and understanding of how a fall in interest rates may affect ability to achieve macroeconomic objectives. Good analysis of how a change in interest rates affects macroeconomic objectives. There is correct analysis in the form of developed links. These links are developed	20 (AO1*3 AO2*4 AO3*6 AO4*7) Consumers are less likely to save as interest rates fall, reducing withdrawals from the circular flow of income. Consumers are also able to borrow more cheaply. As consumers save less and borrow more and purchase more goods this will increase aggregate demand, shifting AD1 to AD2, leading to economic growth in Australia.  However, if consumers spend most of their savings or personal loans on imports, this is a withdrawal from the circular flow of income and economic growth will increase by a smaller amount than if the consumers purchased only Australian goods and services. This will also make it more difficult to meet the macroeconomic objective of a balance of payments equilibrium as more imports are consumed which will lead to a balance of payments deficit or make a balance of payments deficit larger. As interest rates fall and consumers spend more money and increase aggregate demand, this is also likely to increase inflation in Australia. The current inflation rate at 1.8% is just below the bottom range of the target. As aggregate demand increases inflation should increase to the Central Bank's target of between 2 and 3%. Depending on how much spare capacity there is, and by how much AD increases over the
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