AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



EXAM QUESTION PACK

3.2.2.2 AGGREGATE DEMAND AND AGGREGATE SUPPLY ANALYSIS

SCORE	PERCENTAGE
/174	%

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1. In an economy, the marginal propensity to consume is 0.6. All other things being equal, which one of the following statements is correct?

A A £5 billion reduction in the economy's national income will result in a £3 billion fall in consumption ⬭

B If injections into the circular flow of income equal £20 billion, national income will equal £32 billion ⬭

C If injections into the circular flow of income rise by £10 billion, national income will rise by £6 billion ⬭

D When the economy's national income equals £100 billion, consumption will equal £60 billion ⬭

[1 mark]

2. **Extract F** (lines 19–20) states 'What is not clear is what should be done if low inflation turns to bad deflation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that monetary policy is the most effective way of tackling deflation in developed economies such as the UK and Japan.

[25 marks]

3. 'Oil, as a form of energy, reigns supreme but it has brought significant problems to economies in terms of inflation in particular, and the potential for economic instability in general.'

Explain the main causes of inflation.

[15 marks]

4. An African Development Bank report showed that Angola received more direct foreign investment than any other African country in 2015. Angola is a less economically developed country (LEDC) that has had fluctuating economic growth in the past. Despite having suffered from a long civil war which ended in 2002, many multinational corporations (MNCs) are now investing heavily in Angola's growing economy.

Evaluate the view that MNCs play a positive role in the development of LEDCs.

[25 marks]

5. In 2014, the UK's contributions to the European Union (EU) budget rose by £2.7bn, making it the second largest net contributor. However, it is argued that the UK benefits much more from the trade and the job creation that EU membership brings.

Explain how membership of a customs union, such as the EU, affects the pattern and volume of trade between countries.

[15 marks]

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6. ‘George Osborne talks about boosting exports and rebalancing the economy, but the Chancellor is not nearly as worried about the trade deficit as he is about the budget deficit.’

Explain the factors which are likely to cause a large budget deficit.

[15 marks]

7. **Extract B** (line 9) states: ‘The government spending cuts also severely damaged private-sector jobs.’

With the help of a diagram, explain how a reduction in government spending could increase unemployment in the private sector.

[9 marks]

8. **Extract C** (lines 17–18) states: ‘Some argue that the UK should increase taxes rather than add to the national debt.’

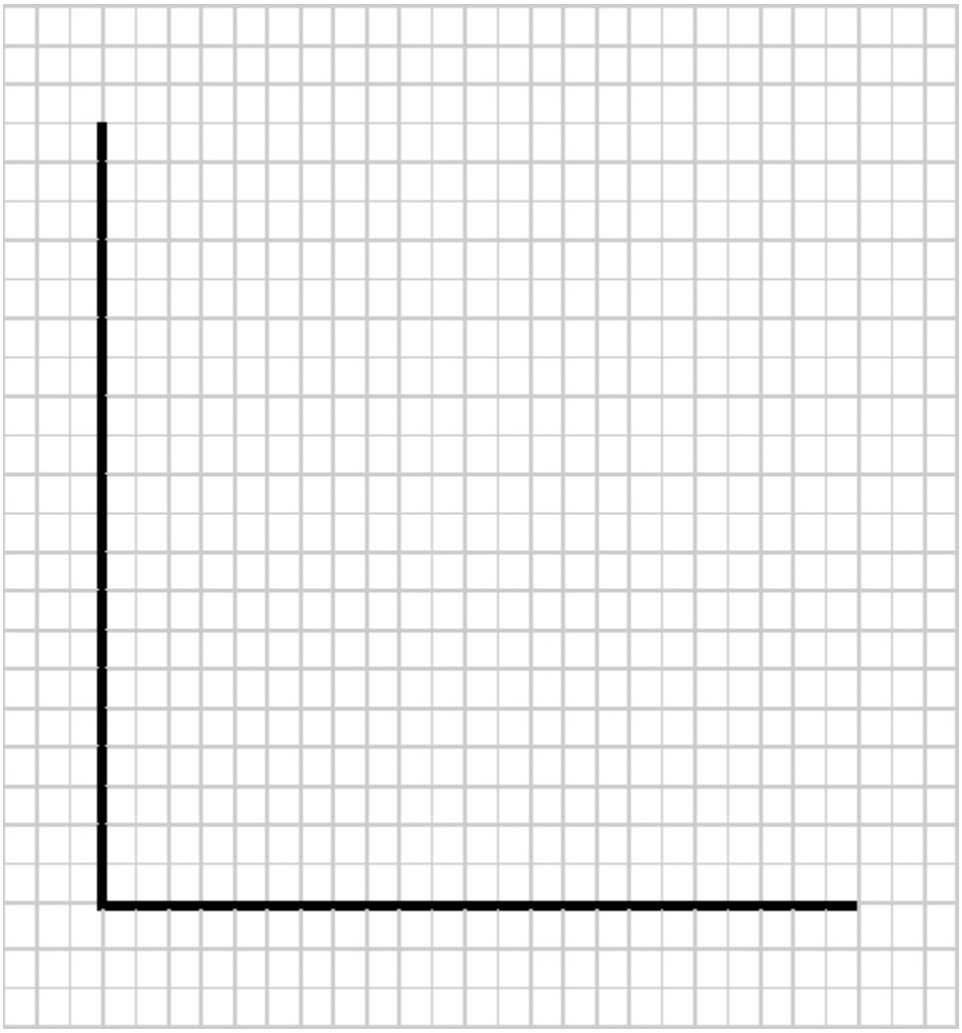
Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country’s national debt is damaging for its economy.

[25 marks]

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9. **Extract C** (lines 16–17) states: ‘An increase in the funds available for education and training should help to improve factor mobility’.

Draw an AD/AS diagram to show the long-run impact of improved factor mobility on the price level and national income.



[4 marks]

10. During 2018, the UK experienced an annual growth rate of 1.4%, an unemployment rate of around 4.1%, inflation close to target at 2.5% and a reduced current account deficit on the balance of payments. However, in November 2018, the Bank of England warned that economic shocks could damage the UK’s prosperity.

Explain how demand-side **and** supply-side shocks might increase unemployment in an economy.

[15 marks]

11. **Extract C** (lines 13–14) states: ‘Some argue that African governments should be doing more to improve the living standards of their citizens, rather than relying on foreign firms.’

Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, African nations should pursue policies to attract foreign direct investment (FDI).

[25 marks]

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