AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



EXAM QUESTION PACK

3.2.2.5 DETERMINANTS OF SHORT-RUN AGGREGATE SUPPLY

SCORE	PERCENTAGE
/160	%

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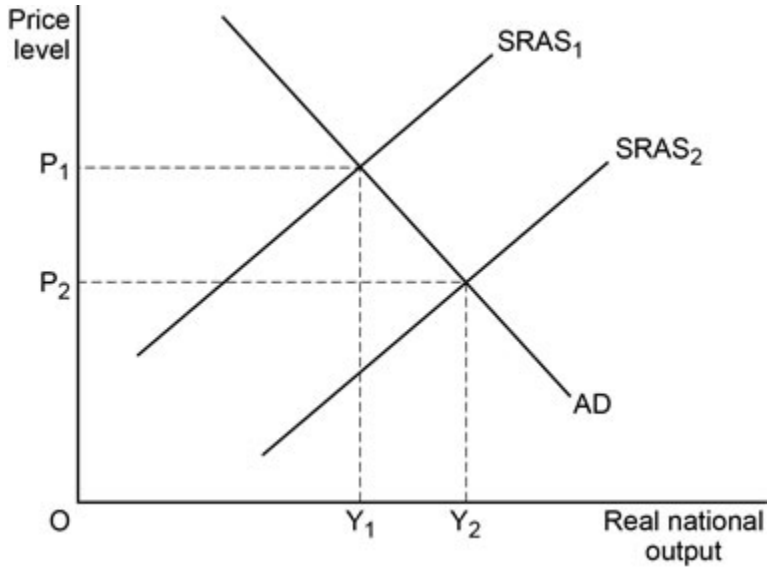
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1. The diagram below shows the aggregate demand (AD) and two short-run aggregate supply (SRAS) curves for an economy.



All other things being equal, which one of the following is most likely to cause the short-run aggregate supply curve to shift from $SRAS_1$ to $SRAS_2$?

A A fall in the size of the labour force ⬭

B B An increase in imports ⬭

C An increase in the value of the multiplier ⬭

D Lower world commodity prices ⬭

[1 mark]

2. In the past few years, CPI inflation has often differed by more than 1% from its 2% target. In the winter of 2015 the UK experienced a brief period of deflation but, more recently, inflation has been over 3%.

Explain the main causes of a rise in inflation.

[15 marks]

3. After a period of inflation below the target rate, the Consumer Price Index (CPI) inflation rate was recorded as −0.1% in early 2015. The Governor of the Bank of England wrote: 'A temporary period of falling prices, driven by large adjustments in a few specific components of the CPI, is a fundamentally distinct phenomenon from 'deflation'...The UK is not experiencing 'deflation'.'

Explain the possible causes of deflation in an economy.

[15 marks]

4. '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.'

Discuss how rising oil prices might affect the macroeconomic performance of an economy.

[25 marks]

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5. **Extract F** (line 21) asks: 'Why are productivity rates in other economies important for the UK?'

Using the data and your knowledge of economics, evaluate the significance of productivity improvements in the UK **and** in other EU economies for the performance of the UK economy.

[25 marks]

6. Explain the term 'foreign direct investment' (**Extract E**, line 7) **and**, with the help of a diagram, analyse how foreign direct investment **and** improvements to infrastructure may boost productivity.

[9 marks]

7. **Extract C** (lines 21 – 22) states: 'Any kind of deal between the EU and ASEAN economies is still a long way off, and the UK must wait to see how new trade deals affect its macroeconomic performance.'

Using the data and your knowledge of economics, evaluate the extent to which international agreements to increase free trade are likely to be beneficial to the UK's macroeconomic performance.

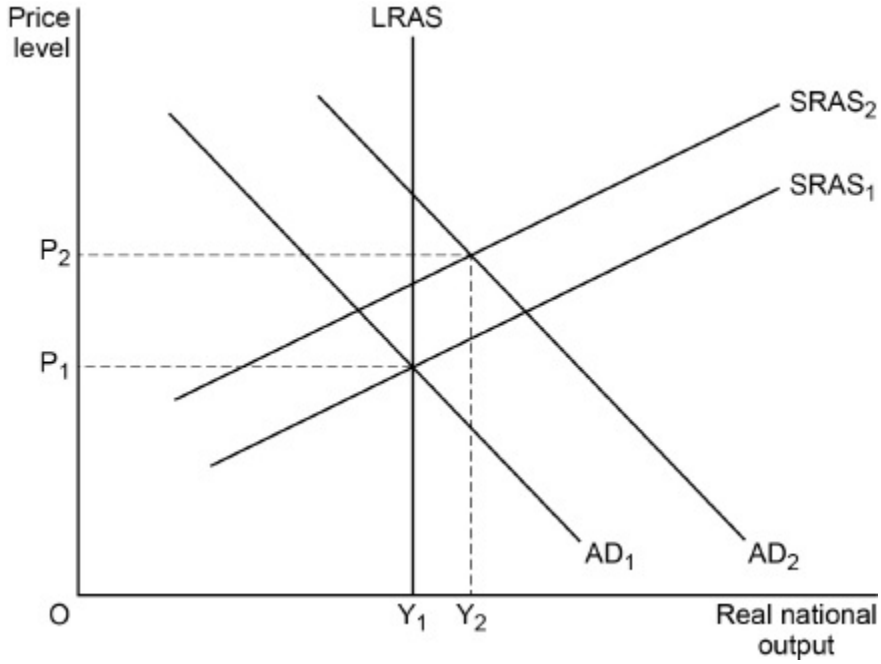
[25 marks]

8. Explain the term 'comparative advantage' (**Extract B**, line 17) **and**, with the help of a diagram, analyse **two** causes of increased globalisation in the world.

[9 marks]

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9. The diagram below shows two aggregate demand (AD) curves, two short-run aggregate supply (SRAS) curves, and the long-run aggregate supply (LRAS) curve for an economy.



The increase in the price level from P_1 to P_2 raises the rate of inflation above the target rate set by the government. In an attempt to bring inflation back to its target rate, the central bank announces a change in interest rates. Other things being equal, this is most likely to

A create upward pressure on the exchange rate. ⬭

B increase bond prices. ⬭

C make business loans more affordable. ⬭

D reduce the cost of servicing the national debt. ⬭

[1 mark]

10. The Government has ruled out the possibility of a rise in VAT before 2020 but other indirect taxes may increase. It has also stated that the personal income tax allowance will be increased from £10 800 in 2015/16 to £12 500 by 2020, and plans to cut the main rate of corporation tax from 20% to 17%.

Evaluate the economic consequences for the UK economy of a significant shift in the burden of taxation from direct taxes to indirect taxes.

[25 marks]

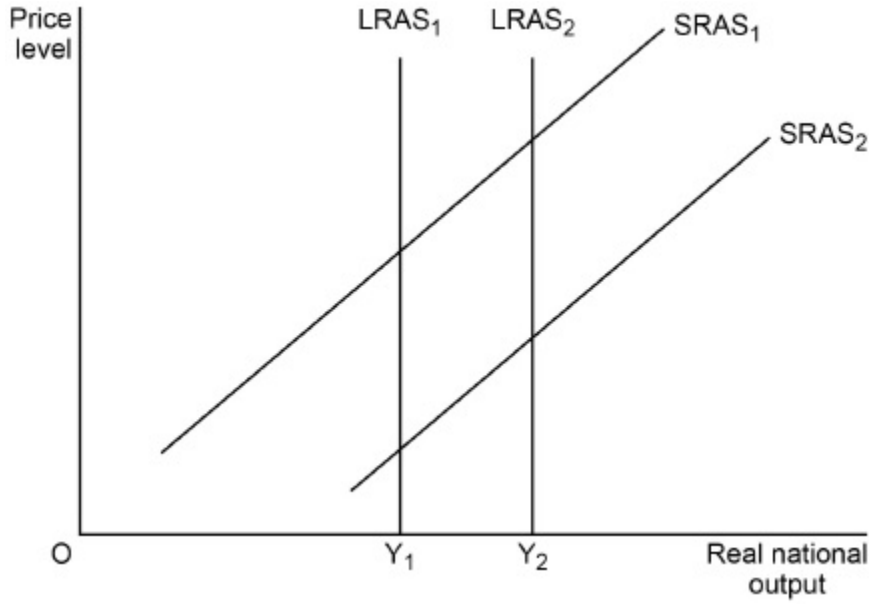
11. **Extract E** (lines 9–10) states 'Improvements in productivity on the supply side of the economy could actually lead to more deflation.'

With the help of a diagram, explain how improvements in productivity could cause deflation.

[9 marks]

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12. The diagram below shows two long-run aggregate supply (LRAS) and two short-run aggregate supply (SRAS) curves for an economy.



All other things being equal, which one of the following is most likely to explain the movement to the right of both the short-run and long-run aggregate supply curves?

A A large increase in the availability of renewable energy within the economy ⬭

B An increase in employment and a depreciation of the exchange rate ⬭

C An increase in the natural rate of unemployment and the level of money wage rates ⬭

D A supply-side shock to the economy which increases the rate of inflation ⬭

[1 mark]

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