Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname _____

Forename(s) _____

Candidate signature _____

AS
ECONOMICS

Paper 2 The National Economy in a Global Context

Monday 22 May 2017 Morning Time allowed: 1 hour 30 minutes

Materials

For this paper you must have:
- the insert
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Section A**.
- Answer **either** Context 1 **or** Context 2 in **Section B.**
- You will need to refer to the insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- There are 70 marks available on this paper.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Question	Mark
TOTAL	

Do not write outside the box

Section A

Answer **all** questions in this section.

Only **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

CORRECT METHOD ● WRONG METHODS ⊗ ⊙ ≈ ✓

If you want to change your answer you must cross out your original answer as shown. ⊗

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. ⊗

0 1 In the circular flow of income model, which one of the following is an injection?

A Consumer spending ○

B Government spending ○

C Imports ○

D Wages ○

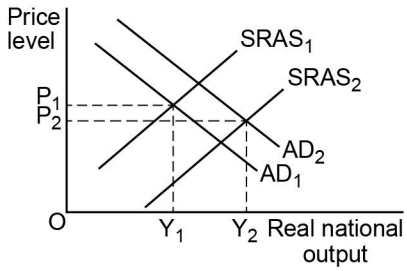
[1 mark]

Do not write outside the box

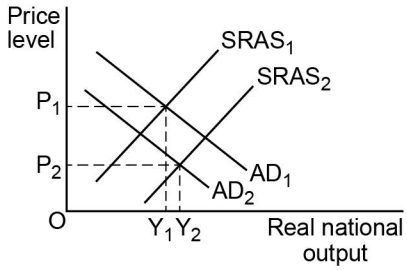
0 2 The diagrams below show the aggregate demand (AD) and short run aggregate supply (SRAS) curves for an economy. AD_1 and $SRAS_1$ show the initial positions of the curves and AD_2 and $SRAS_2$ the new positions.

Which one of the following diagrams, **A**, **B**, **C** or **D**, illustrates a fall in world commodity prices as well as a fall in government spending?

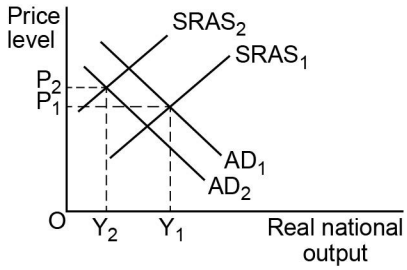
A



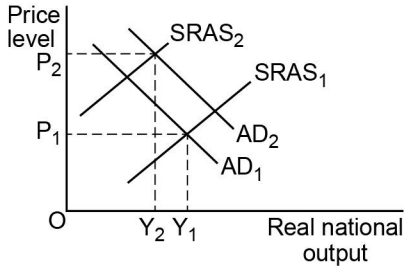
B



C



D



[1 mark]

Do not write outside the box

0 3 Which one of the following is not part of the role of the Monetary Policy Committee of the Bank of England?

A Achieving the target rate of inflation ⬭

B Changing Bank Rate ⬭

C Reviewing various pieces of macroeconomic data ⬭

D Setting the target rate for inflation ⬭

[1 mark]

0 4 The table below shows the components of gross domestic product (GDP) for an economy in 2016.

	£bn
Consumption	850
Imports	210
Government expenditure	300
Investment	180
Exports	230

Aggregate demand in the economy is

A £1310bn ⬭

B £1350bn ⬭

C £1560bn ⬭

D £1770bn ⬭

[1 mark]

Do not write outside the box

0 5 Which one of the following would be most likely to generate growth in an economy without producing an increase in inflation?

A A decrease in the exchange rate ⬭

B An increase in labour productivity ⬭

C An increase in the budget surplus ⬭

D An increase in the rate of interest ⬭

[1 mark]

0 6 Which one of the following is an objective of UK government macroeconomic policy?

A A fall in the supply of money ⬭

B A stable labour force ⬭

C An increase in real GDP per head ⬭

D Low interest rates ⬭

[1 mark]

Turn over for the next question

Do not write outside the box

0 7 The table below shows annual income before tax for three different households and the total annual amount of income tax that each household pays.

Household income before tax	Income tax
£18 000	£7 000
£40 000	£12 000
£80 000	£22 400

This income tax is

A flat rate. ⬭

B progressive. ⬭

C proportional. ⬭

D regressive. ⬭

[1 mark]

0 8 The annual rate of change in the consumer prices index for an economy falls from 6% to 3%. All other things being equal, this economy is best described as

A entering a positive output gap. ⬭

B entering a recovery period. ⬭

C experiencing deflation. ⬭

D experiencing disinflation. ⬭

[1 mark]

Do not write outside the box

0 9 Which one of the following represents investment expenditure?

A A firm spends £7m on new computer software

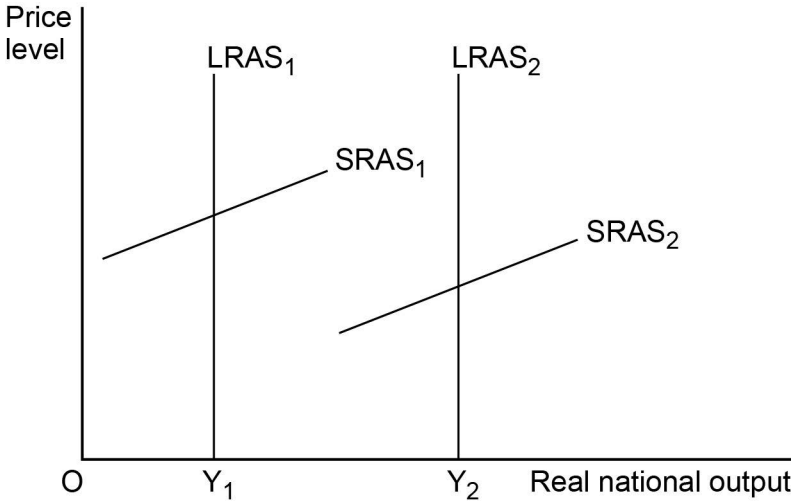
B A government spends £10m more on nurses wages

C A household puts £10 000 into an interest paying account

D An individual spends £28 000 buying company shares

[1 mark]

1 0 The diagram below shows the initial short run aggregate supply curve ($SRAS_1$) and long run aggregate supply curve ($LRAS_1$) for an economy. $SRAS_2$ and $LRAS_2$ are the new positions of the two aggregate supply curves.



The most likely combination of causes of the shifts in the short run and long run aggregate supply curves is

A a fall in indirect tax and a fall in skill levels.

B a fall in money wages and a rise in immigration.

C a fall in productivity and a rise in emigration.

D an increase in oil prices and more investment in renewable energy.

[1 mark]

Do not write outside the box

1 1 All other things being equal, under which of the following circumstances is an economy most likely to experience deflation?

	Exchange rate	Labour productivity	Employment
A	Falling	Falling	Rising
B	Falling	Rising	Falling
C	Rising	Falling	Rising
D	Rising	Rising	Falling

[1 mark]

1 2 In an economy, the government reduced its spending by £4bn at the same time as exports rose by £20bn. As a result of these changes, national income rose by £20bn. The size of the multiplier is

A 0.75

B 1

C 1.2

D 1.25

[1 mark]

1 3 An economy has a surplus on the current account of its balance of payments. Under which of the following circumstances is the economy most likely to experience a reduction in its current account surplus?

	Growth in the world economy	Domestic inflation	Domestic productivity
A	Falling	Rising	Falling
B	Falling	Falling	Falling
C	Rising	Falling	Falling
D	Rising	Rising	Rising

[1 mark]

Do not write outside the box

1 4 Which one of the following policy changes represents a contractionary fiscal policy?

A A decrease in income tax

B A decrease in the budget deficit

C An increase in government spending

D An increase in the rate of interest

[1 mark]

1 5 Changes are regularly made to the weights used in the UK's Consumer Prices Index. This means that the index takes account of changes in

A month on month increases in the general price level.

B spending patterns throughout the economy.

C the growth of real output in the economy.

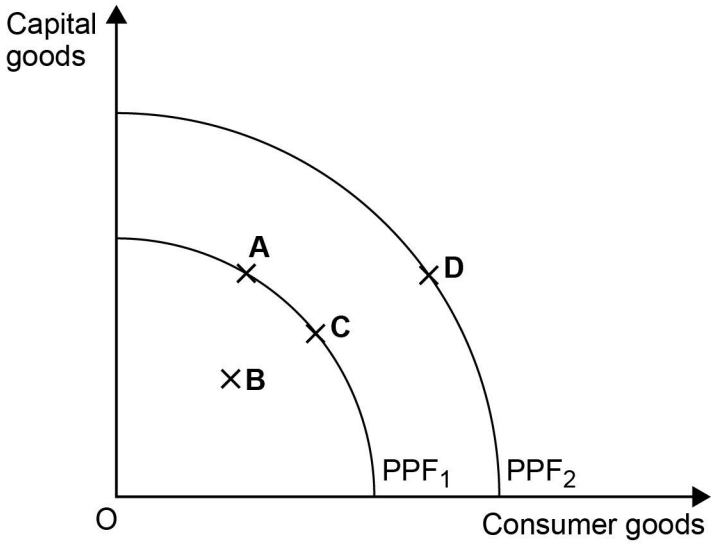
D total spending on all domestic goods and services.

[1 mark]

Turn over for the next question

Do not write outside the box

1 6 The diagram below shows two production possibility frontiers (PPF) for an economy.



Which one of the following movements represents an economy that has experienced short-run but not long-run economic growth?

A A to B ⬭

B A to C ⬭

C B to C ⬭

D C to D ⬭

[1 mark]

1 7 The table below shows four possible combinations of circumstances facing the UK economy. All other things being equal, which one of the following combinations is most likely to lead the Monetary Policy Committee of the Bank of England to lower Bank Rate?

	Output gap	Exchange rate	Inflation rate	
A	Negative	Falling	Above target	⬭
B	Negative	Rising	Below target	⬭
C	Positive	Falling	Below target	⬭
D	Positive	Rising	Above target	⬭

[1 mark]

Do not write outside the box

1 8 Which one of the following is most likely to reduce cyclical unemployment in the UK?

A A cut in the UK budget deficit

B An increase in the pound sterling exchange rate

C An increase in the UK retirement age

D Higher economic growth in the Eurozone

[1 mark]

1 9 All other things remaining the same, which one of the following events would directly increase the size of the UK's national debt? An increase in

A mortgage borrowing from UK banks.

B overseas lending to UK firms.

C the UK's current account deficit.

D the UK government's budget deficit.

[1 mark]

2 0 Which one of the following is most likely to improve the supply-side performance of an economy? An increase in

A government spending on welfare benefits.

B growth in the rest of the world.

C labour productivity.

D the basic rate of income tax.

[1 mark]

QUESTION 20 IS THE LAST QUESTION IN SECTION A.

Do not write outside the box

Section B

Look at the insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

OR

Questions 27 to 32 on pages 22 to 32 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context **0 1** ⬭ Context **0 2** ⬭

WRONG METHODS ⊗ ⊙ ≋ ✓ CORRECT METHOD ●

EITHER

Context 1 **Total for this Context: 50 marks**

MANAGING THE UK ECONOMY

Use the insert provided to study **questions 21** to **26** and **Extracts A**, **B** and **C**, and then answer the questions in the spaces which follow.

2 1 Define the term 'real interest rate' **Extract B** (line 5).

[3 marks]

Extra space

Do not write outside the box

2 2 The price of a television is £500 without VAT. Use **Extract C** to calculate the decrease in the amount of VAT that would have to be paid on this television as a result of the tax cut introduced by Alistair Darling.

[4 marks]

2 3 Use **Extract A** to identify **two** significant points of comparison between the growth of mortgage lending and the growth of consumer credit over the period shown.

[4 marks]

Comparison 1

Extra space

Comparison 2

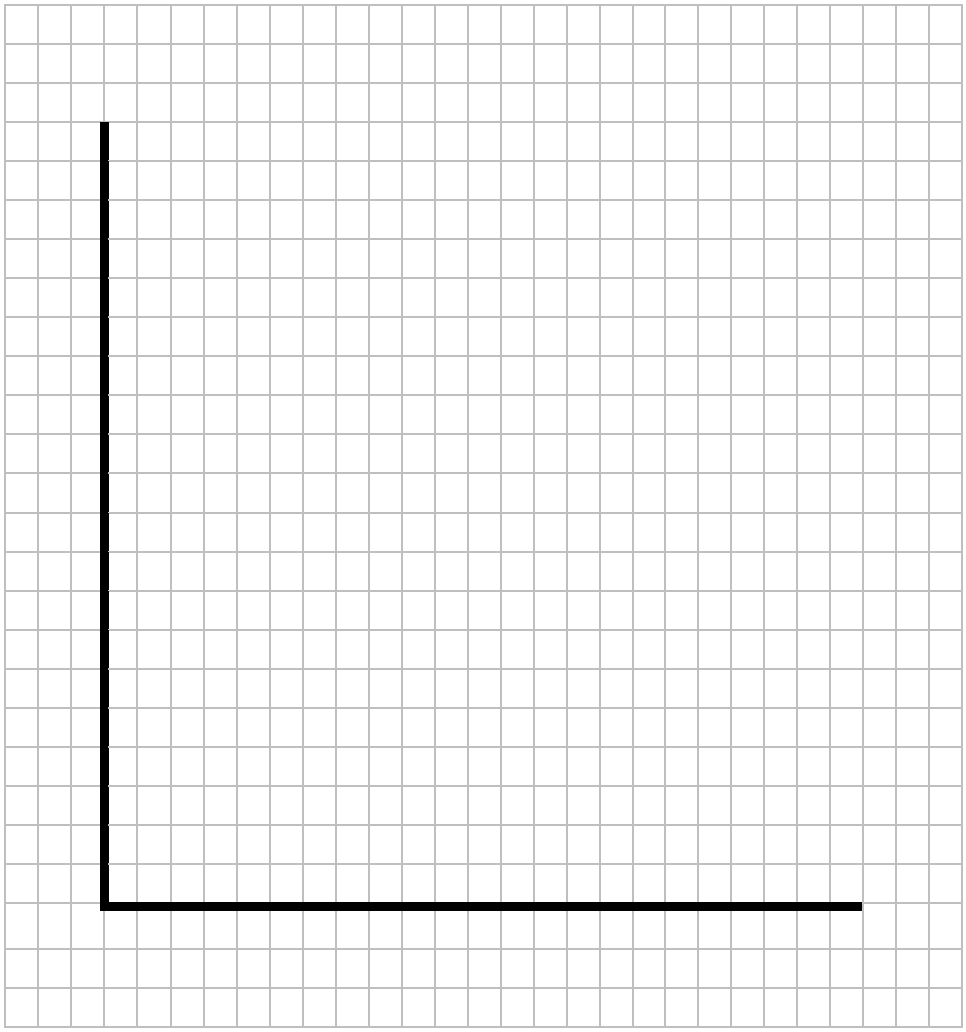
Extra space

Do not write outside the box

2 4 **Extract B** (lines 8–10) states 'House prices have been rising over the past few years and this has increased homeowners' wealth.'

Draw an AD/AS diagram to show the impact of an increase in household wealth on both real national income and the price level.

[4 marks]



Turn over for the next question.

Do not write outside the box

2 5 **Extract B** (line 12) states 'The average debt per household, including mortgages, was £53 904 in December 2015.'

Explain **two** factors that influence the willingness of UK households to borrow.

[10 marks]

Extra space

Do not write outside the box

Do not write outside the box

2 6 **Extract C** (lines 13–15) states ‘A tighter fiscal policy was adopted to reduce the budget deficit. Meanwhile, loose monetary policy was used to bring about a recovery of the UK economy.’

Use the extracts and your knowledge of economics to assess the contribution that fiscal policy **and** monetary policy can make in sustaining the recovery of an economy, such as the UK.

[25 marks]

Do not write outside the box

Do not write outside the box

Extra space

Do not write outside the box

Do not write outside the box

Do not write outside the box

Do **NOT** answer Context 2 if you have answered Context 1.

OR

Context 2 **Total for this Context: 50 marks**

UK WAGES AND COMPETITIVENESS

Use the insert provided to study **questions 27** to **32** and **Extracts D, E** and **F,** and then answer the questions in the spaces which follow.

2 7 Define the term 'deficit on the balance of trade in goods and services' **Extract E** (line 14).

[3 marks]

Extra space

2 8 Use **Extract E** to calculate, to **two** decimal places, the percentage change in the median real wage between 2004 and 2015.

[4 marks]

Do not write outside the box

2 9 Use **Extract D** to identify **two** significant points of comparison between the balance of trade in goods and the balance of trade in services over the period shown.

[4 marks]

Comparison 1

Extra space

Comparison 2

Extra space

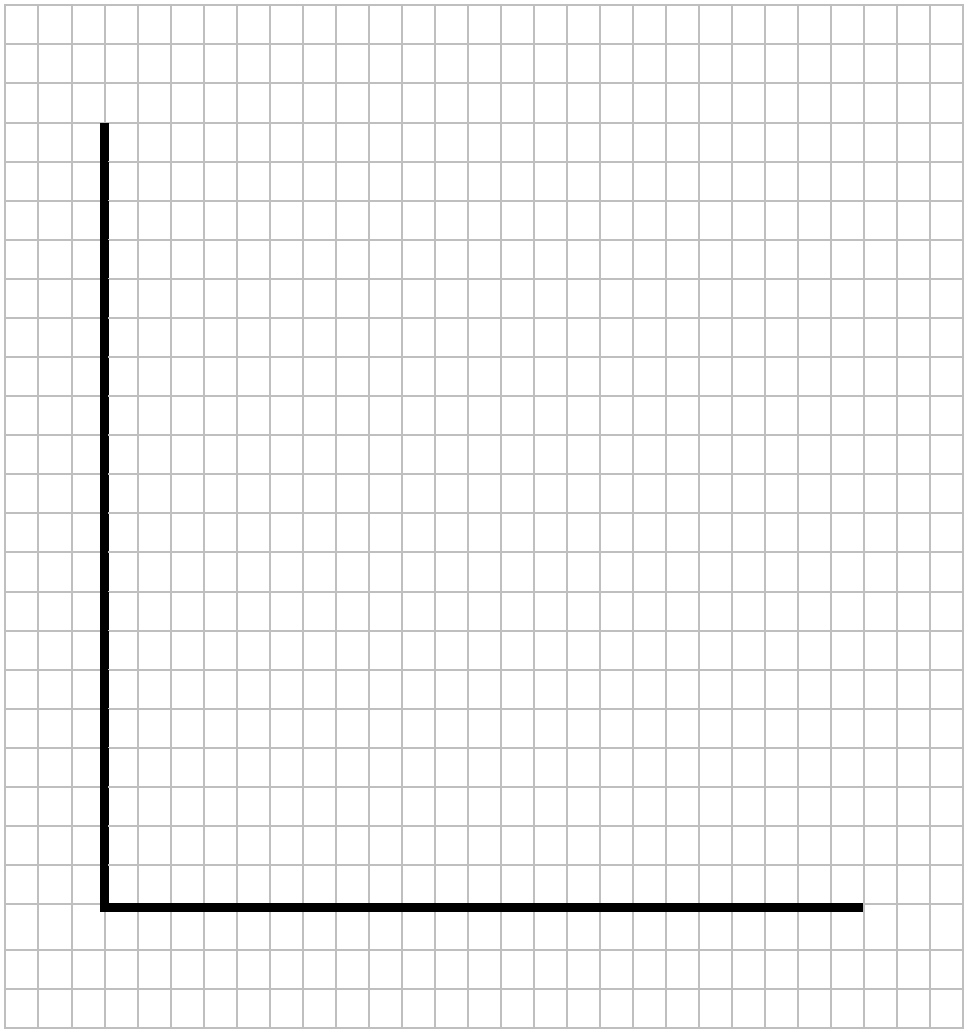
Turn over for the next question

Do not write outside the box

3 0 **Extract E** (lines 1-2) states '…the causes include a stronger pound, higher energy prices'.

Draw an AD/AS diagram to show the impact of higher energy prices on the price level and real output.

[4 marks]



Do not write outside the box

3 1 **Extract F** (lines 7–8) states ‘productivity remains a key issue in improving competitiveness and aiding the recovery of the economy.’

Explain **two** factors that may have contributed to low productivity in the UK.

[10 marks]

Extra space

Do not write outside the box

Do not write outside the box

3 2 **Extract F** (lines 16-17) states 'there is much to be done if the UK is to pay its way with the rest of the world.'

Use the extracts and your knowledge of economics to assess the policies that could be used to reduce the UK's balance of trade deficit.

[25 marks]

Do not write outside the box

Do not write outside the box

Extra space

Do not write outside the box

Do not write outside the box

END OF QUESTIONS

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