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

Thursday 17 May 2018 Morning Time allowed: 1 hour 30 minutes

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

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.

Do not write outside the box

Section A

Answer **all** questions in this section.

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

For each question 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 Which one of the following indicates a contractionary monetary policy?

A A fall in the budget deficit ⬭

B A rise in the money supply ⬭

C An increase in the national debt ⬭

D Appreciation of the exchange rate ⬭

[1 mark]

Do not write outside the box

0 2 The following table shows the planned changes to injections into and withdrawals from the circular flow of income for one year.

	£bn
Exports	19
Government expenditure	29
Imports	20
Investment	35
Savings	26
Taxation	32

Other things remaining the same, these changes would cause

A consumer expenditure to decrease. ⬭

B national income to increase. ⬭

C the balance of trade deficit to decrease. ⬭

D the budget deficit to rise. ⬭

[1 mark]

0 3 A government wants to increase the economy's rate of long-run economic growth by implementing a supply-side policy. Which one of the following is a government policy aimed at stimulating the supply side of the economy?

A A new scheme to help young people buy their own homes ⬭

B Greater provision of care homes for the elderly ⬭

C Measures to promote competition between businesses ⬭

D More generous welfare benefits for unemployed workers ⬭

[1 mark]

Turn over for the next question

Do not write outside the box

0 4 A government reduces its budget deficit. Other things remaining the same, the most likely short-run impact of this policy is

A a reduction in the current account deficit. ⬭

B a reduction in unemployment. ⬭

C an increase in the rate of economic growth. ⬭

D an increase in the rate of inflation. ⬭

[1 mark]

0 5 Europe and North America enter a period of recovery from a recession. Other things remaining the same, the impact on the UK economy is most likely to be

A an increase in structural unemployment. ⬭

B an increase in the current account deficit. ⬭

C a reduction in cyclical unemployment. ⬭

D a reduction in UK economic growth. ⬭

[1 mark]

0 6 Which one of the following best describes the action of the accelerator theory of investment?

A Firms decide to invest more following a cut in bank rate ⬭

B Firms invest in capital equipment due to higher economic growth ⬭

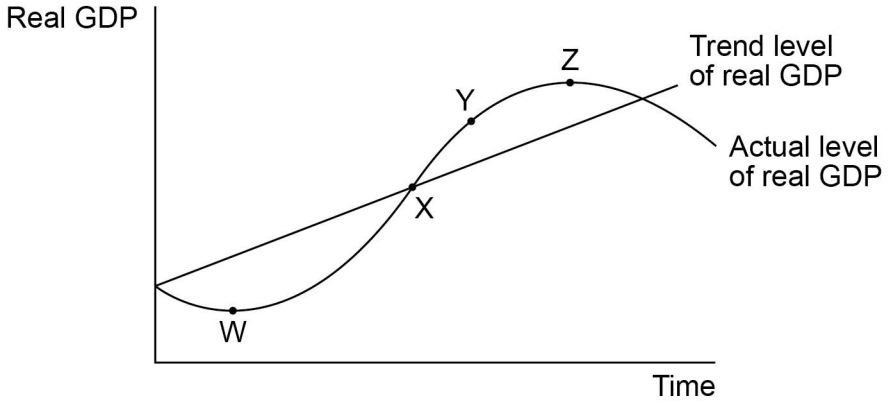
C Improved business confidence causes firms to increase their investment ⬭

D Large profits encourage firms to invest in new capital equipment ⬭

[1 mark]

Do not write outside the box

0 7 The diagram below shows an economic cycle and the trend level of real GDP. Which point represents the economy producing at its normal capacity level of output?



A Point W

B Point X

C Point Y

D Point Z

[1 mark]

0 8 Which one of the following is the best definition of a household's total saving?

A An injection into the circular flow of income

B Contributions to a pension fund for retirement

C Money placed in bank and building society accounts

D That part of disposable income not spent on consumption

[1 mark]

Turn over for the next question

Do not write outside the box

0 9 Inflationary pressures are normally low when an economy has a negative output gap. The most likely explanation for this is that

A consumers' spending on imports and the exchange rate rise. ⬭

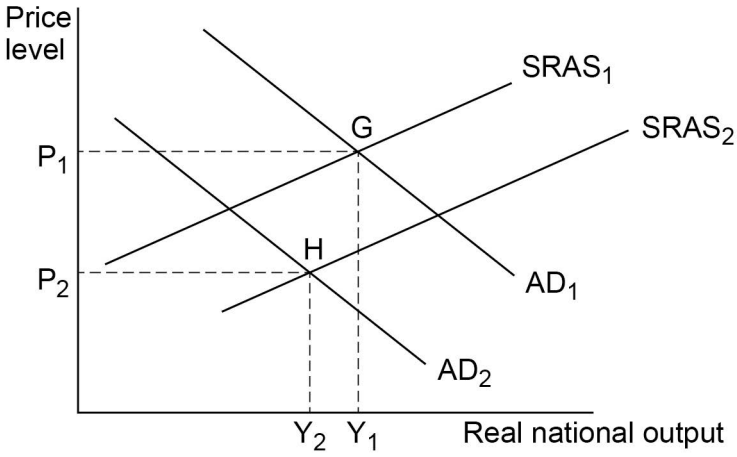
B the Bank of England may cut bank rate and increase the money supply. ⬭

C the government's tax revenue falls and spending on benefits increases. ⬭

D unemployment is high and firms have excess capacity. ⬭

[1 mark]

1 0 In the diagram below, an economy is initially in equilibrium at point G. Aggregate demand then shifts from AD_1 to AD_2 and the short-run aggregate supply curve shifts from $SRAS_1$ to $SRAS_2$.



Which one of the following combinations of events will cause these shifts in AD and SRAS and move the economy to a new equilibrium at point H?

A A cut in income tax and an increase in VAT ⬭

B A fall in money wages and a fall in house prices ⬭

C An increase in productivity and a rise in consumer confidence ⬭

D Higher energy prices and lower government expenditure ⬭

[1 mark]

Do not write outside the box

1 1 A country has a deficit on the current account of its balance of payments. This means that

A the country must have a deficit on the balance of trade in goods and services. ⬭

B the net value of trade in goods and services plus the net value of primary and secondary income must be negative. ⬭

C the value of all outflows from the country must be less than the value of all inflows. ⬭

D the value of exports of goods must be less than the value of imports of goods. ⬭

[1 mark]

1 2 The table below shows the index of real GDP for the UK before and after the 2008–09 financial crisis.

	2007	**2008**	**2009**	**2010**	**2011**
UK index of real GDP 2009 = 100	105.2	104.1	100.0	101.8	102.7

From the data it can be inferred that in the UK

A real GDP fell by 2.5% between 2007 and 2011. ⬭

B the annual rate of inflation was minus 1.1% in 2008. ⬭

C the rate of economic growth was lower in 2011 than in 2010. ⬭

D total output of the economy fell by 5.2% between 2007 and 2009. ⬭

[1 mark]

Turn over for the next question

Do not write outside the box

1 3 A government is planning to reduce its budget deficit by increasing taxes on tobacco and reducing spending on defence.

These policies are most likely to

A change the pattern of economic activity in the long run. ⬭

B increase inflation in the long run. ⬭

C increase the level of economic activity in the short run. ⬭

D reduce exports in the short run. ⬭

[1 mark]

1 4 The table below shows four possible sets of circumstances for the UK economy. Which set of circumstances is most likely to cause the Monetary Policy Committee of the Bank of England to raise bank rate?

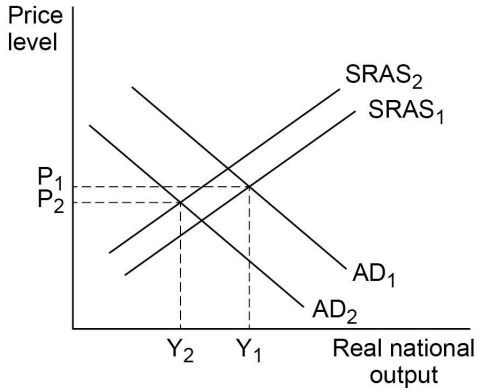
	Output gap	Exchange rate	
A	negative	falling	⬭
B	negative	rising	⬭
C	positive	falling	⬭
D	positive	rising	⬭

[1 mark]

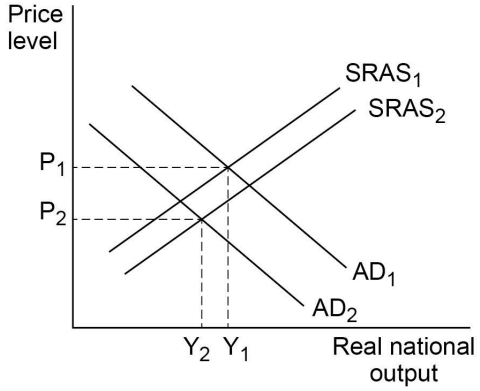
Do not write outside the box

1 5 An economy that imports most of its energy experiences a large appreciation in its exchange rate. Which one of the following AD/AS diagrams best illustrates the resulting changes to the economy's price level and real national output?

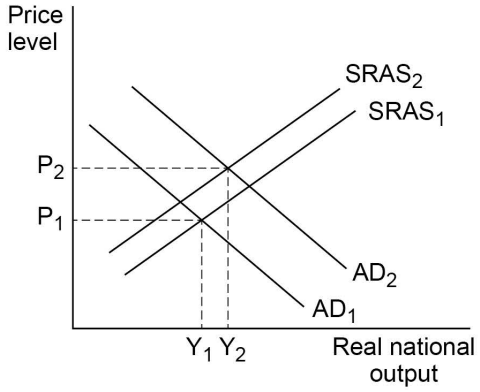
A



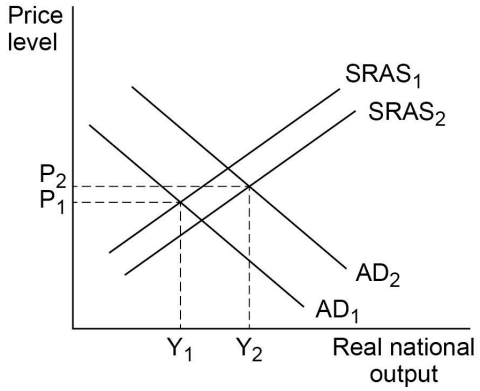
B



C



D



[1 mark]

Turn over ►

Do not write outside the box

1 6 A government raises income tax rates for very high wage earners and spends all of the extra revenue raised on higher welfare benefits. The result is a reduction in income inequality and a fall in the rate of economic growth. This is also most likely to

A lead to a reduction in government borrowing and national debt. ⬭

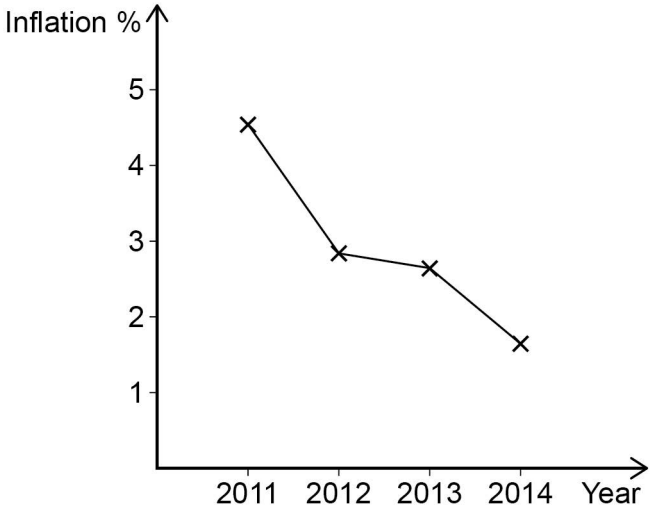
B result in an improvement in incentives to work. ⬭

C show a potential conflict between macroeconomic policy objectives. ⬭

D show the use of a contractionary fiscal policy. ⬭

[1 mark]

1 7 The diagram below shows the annual rate of inflation in the UK between 2011 and 2014.



From the graph it can be concluded that between 2011 and 2014

A real wages increased. ⬭

B the price level was rising. ⬭

C the real value of money increased. ⬭

D the UK experienced deflation. ⬭

[1 mark]

Do not write outside the box

1 8 An expansionary monetary policy has been implemented. Which one of the following combinations of macroeconomic changes is most likely to happen?

A A fall in the price of imports and more demand for bank loans ⬭

B A rise in consumption and an increase in house prices ⬭

C An increase in employment and a rise in government borrowing ⬭

D An increase in retail sales and a rise in the savings ratio ⬭

[1 mark]

1 9 The world market price of oil falls by 40 per cent. Other things remaining the same, the impact on the UK economy is most likely to be

A an increase in aggregate demand and inflation. ⬭

B deflation and lower output. ⬭

C disinflation and higher output. ⬭

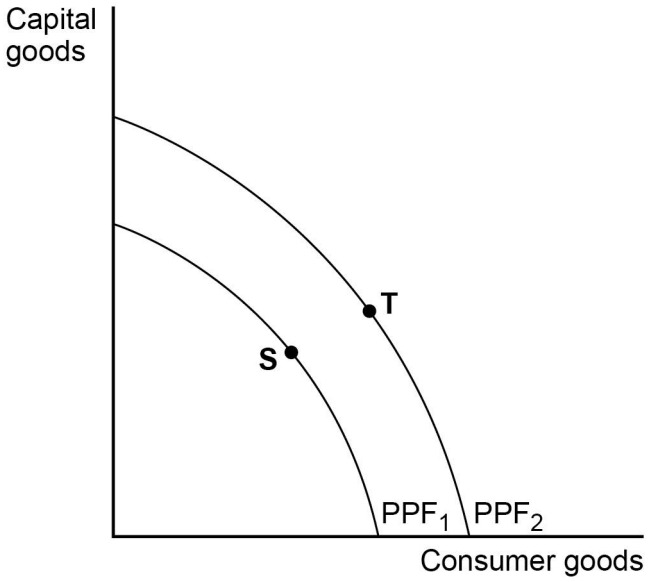
D higher unemployment and inflation. ⬭

[1 mark]

Turn over for the next question

Do not write outside the box

2 0 The diagram below shows two production possibility frontiers (PPF) for an economy.



The economy improves its macroeconomic performance by moving from point S to point T. This is most likely to represent

A greater income equality. ⬭

B higher real national income. ⬭

C lower inflation. ⬭

D lower unemployment. ⬭

[1 mark]

20

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 23 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**

ECONOMIC SHOCKS AND 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 'budget surplus' **Extract B** (line 12).

[3 marks]

Extra space

Do not write outside the box

2 2 Assume that the increase in national income as a result of the proposed Heathrow airport expansion is £29 billion.

Use **Extract C** to calculate, to one decimal place, the value of the multiplier.

[4 marks]

2 3 Use **Extract A** to identify **two** significant features of the changes in the sterling exchange rate over the period shown.

[4 marks]

Feature 1

Feature 2

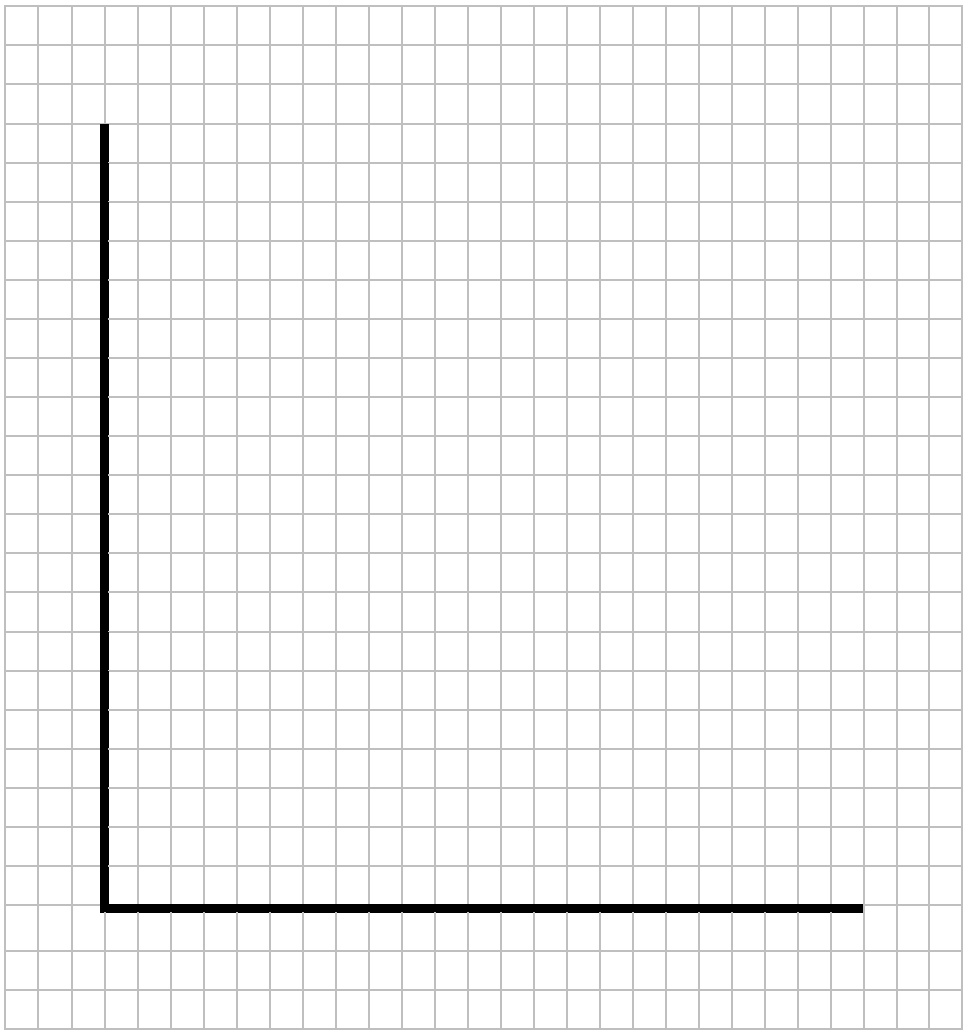
Extra space

Do not write outside the box

2 4 **Extract C** (lines 7–9) states 'During late 2016 the Government gave the go-ahead to the construction of the third runway at Heathrow airport in London.'

Draw an AD/AS diagram to show **both** the short-run **and** long-run effects 'on macroeconomic equilibrium' of investment in a large infrastructure project such as this.

[4 marks]



Turn over for the next question

Do not write outside the box

2 5 **Extract B** (lines 9–11) states 'The Bank of England's Monetary Policy Committee loosened its monetary policy in an attempt to prevent a downturn in the economic cycle.'

Explain how monetary policy might help to prevent a downturn in the economic cycle.

[10 marks]

Extra space

Do not write outside the box

Turn over ►

Do not write outside the box

2 6 **Extract C** (lines 5–6) states 'Some economists believe that a reduction in the level of economic activity and an increase in unemployment are inevitable.'

Use the extracts and your knowledge of economics to assess the view that when an economy experiences a negative economic shock there will always be a sustained increase in unemployment.

[25 marks]

Do not write outside the box

Extra space

Do not write outside the box

Do not write outside the box

Turn over ►

Do not write outside the box

50

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**

A NEW APPROACH TO GOVERNMENT POLICY

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 'progressive taxation' **Extract E** (line 17).

[3 marks]

Extra space

Turn over for the next question

Do not write outside the box

2 8 Use **Extract D** to calculate the median amount of funding allocated to the local enterprise partnerships in the Northern Powerhouse.

[4 marks]

2 9 Use **Extract D** to identify **two** significant features of the funding allocated to the Northern Powerhouse.

[4 marks]

Feature 1

Feature 2

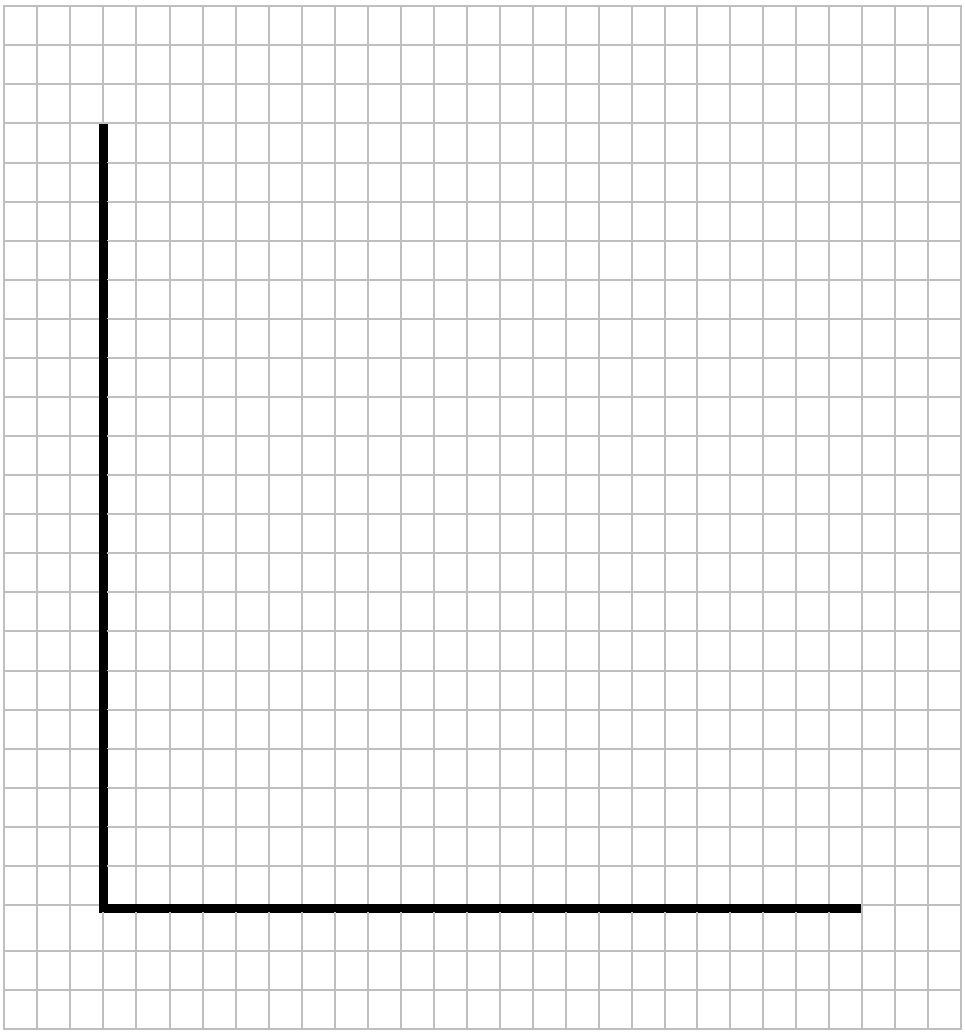
Extra space

Do not write outside the box

3 0 **Extract F** (lines 8–9) states 'This makes it even more difficult to achieve increases in productivity.'

Draw an AD/AS diagram to show the effects of **both** short-run **and** long-run productivity gains on macroeconomic equilibrium.

[4 marks]



Turn over for the next question

Do not write outside the box

3 1 **Extract E** (lines 18–19) states 'the 2017 Budget Report stated the intention to reduce the rate of corporation tax further to 17% by 2020.'

Explain how a reduction in corporation tax on firms' profits might lead to supply-side improvements in the economy.

[10 marks]

Extra space

Do not write outside the box

Turn over ►

Do not write outside the box

3 2 **Extract E** (lines 3–4) states that there is ‘a new approach to government…a new, active role that backs business and ensures more people in all corners of the country share in the benefits of its success’.

Use the extracts and your knowledge of economics to assess the view that a more active government industrial policy will make a significant improvement in macroeconomic performance.

[25 marks]

Do not write outside the box

Turn over ►

Do not write outside the box

Extra space

Do not write outside the box

Turn over ►

Do not write outside the box

50

END OF QUESTIONS

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