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 16 May 2019 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	
Section	Mark
A	
B	
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 When an economy goes into a recession, there is most likely to be a

A growing balance of payments deficit. ⬭

B positive output gap. ⬭

C reduction in real GDP. ⬭

D rise in inflation. ⬭

[1 mark]

0 2 Economic growth in the US increases from 2% to 5% a year. This is most likely to represent for the UK a

A negative demand-side shock. ⬭

B negative supply-side shock. ⬭

C positive demand-side shock. ⬭

D positive supply-side shock. ⬭

[1 mark]

Do not write outside the box

0 3 Which one of the following is a true statement about the Labour Force Survey (LFS) measure of unemployment? The LFS measure of unemployment includes

A part-time workers who would like to work full-time. ⬭

B people who are claiming unemployment benefits. ⬭

C people who would like a job but who are not currently looking for one. ⬭

D students at university searching for a job starting after they have graduated. ⬭

[1 mark]

0 4 The table shows income and expenditure on goods and services for four workers for the tax year ending April 2018.

Worker	**Income £**	**Expenditure £**
Alice	56 000	27 000
Jennie	17 000	19 000
Meshaal	45 000	35 000
Thavid	100 000	21 000

The government has set a proportional income tax rate of 25% and a tax on all expenditure of 15%. Which one of the following statements is true?

During the tax year ending April 2018 the

A burden of total tax, measured as a percentage of income, was highest for Jennie. ⬭

B gap in income between Meshaal and Thavid remained the same before and after paying income tax. ⬭

C tax on expenditure was not regressive as all four workers faced the same rate of tax. ⬭

D worker who made the greatest contribution to government tax revenue was Alice. ⬭

[1 mark]

Turn over for the next question

Do not write outside the box

0 5 The government of an economy implements an expansionary fiscal policy, increasing government spending and cutting taxes. In the short run, such a policy is likely to result in a conflict between which of the following macroeconomic objectives?

A Increasing economic growth and reducing unemployment. ⬭

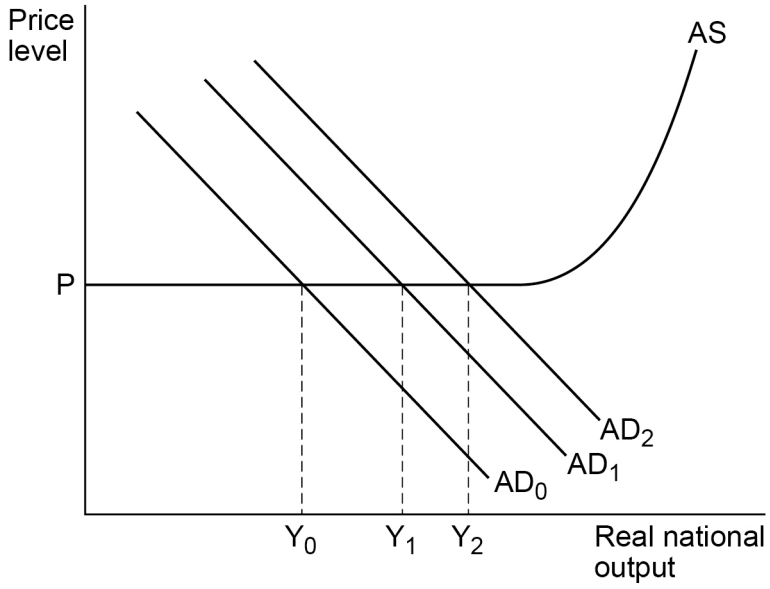
B Preventing deflation and reducing the surplus on the current account of the balance of payments. ⬭

C Preventing deflation and reducing unemployment. ⬭

D Reducing the deficit on the current account of the balance of payments and increasing economic growth. ⬭

[1 mark]

0 6 The diagram below shows the multiplier effect of an increase in investment that at first causes aggregate demand (AD) to shift from AD_0 to AD_1 and subsequently to AD_2.



Which one of the following shows the size of the multiplier effect that has occurred?

A Y_0Y_1 divided by Y_0Y_2 ⬭

B Y_0Y_2 divided by Y_0Y_1 ⬭

C Y_0Y_2 divided by Y_1Y_2 ⬭

D Y_1Y_2 divided by Y_0Y_1 ⬭

[1 mark]

Do not write outside the box

0 7 Many firms use profits to finance their capital investment instead of borrowing from banks. For these firms, higher interest rates are most likely to

A cause them to change the type of investment made with more investment in buildings. ⬭

B cause them to reduce their investment as they can now earn more interest from saving their profits. ⬭

C have no impact on the amount of investment undertaken as they pay no interest. ⬭

D result in more investment as they can earn more interest on money deposited in banks. ⬭

[1 mark]

0 8 There is a large depreciation in an economy's exchange rate but the value of its exports does not increase. The most likely reason for the absence of an increase in the value of exports is that

A consumer confidence in the economy has fallen. ⬭

B other countries are in recession. ⬭

C the government has implemented contractionary fiscal policy. ⬭

D there is an increase in unemployment in the economy. ⬭

[1 mark]

Turn over for the next question

Do not write outside the box

0 9 The table below shows a selection of items from a country's balance of payments on current account.

	£ billion
Balance of trade in goods	–124
Primary income balance	+40
Secondary income balance	–13

If the country has a current account deficit of £84 billion, its balance of trade in services has a

A deficit of £13 billion. ⬭

B deficit of £40 billion. ⬭

C surplus of £13 billion. ⬭

D surplus of £40 billion. ⬭

[1 mark]

1 0 Which one of the following statements about supply-side policies and supply-side improvements is true?

A Supply-side improvements do not affect the balance of payments on current account ⬭

B Supply-side improvements often originate in the private sector ⬭

C Supply-side policies have no impact on the budget balance ⬭

D Supply-side policies work by leaving incentives unchanged ⬭

[1 mark]

Do not write outside the box

1 1 The following table shows real GDP for a small economy over two years.

	Real GDP £ billion
2015	31
2016	35

If 2016 is the base year, the index number for real GDP in 2015, to the nearest whole number, would be

A 89 ⬭

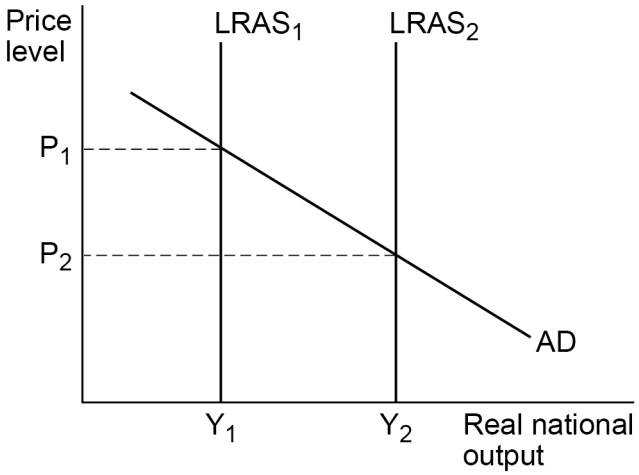
B 96 ⬭

C 104 ⬭

D 113 ⬭

[1 mark]

1 2 In the diagram below, as a result of the government implementing a new industrial policy, the long-run aggregate supply curve shifts from $LRAS_1$ to $LRAS_2$



The shift in LRAS suggests that the industrial policy is most likely to have

A caused firms to be more innovative. ⬭

B created a positive output gap. ⬭

C reduced employment and inflation. ⬭

D reduced imports and exports. ⬭

[1 mark]

Turn over ►

Do not write outside the box

1 3 An economy is in macroeconomic equilibrium with total expenditure and total income each equal to £407 billion. This means that the current value of total output will be

A £407 billion plus the annual rate of economic growth. ⬭

B £814 billion after adjusting for the multiplier effect. ⬭

C the same as total expenditure and total income. ⬭

D the same as total income after adjusting for inflation. ⬭

[1 mark]

1 4 A government wanting to reduce unemployment in the short run, through the use of fiscal policy, is most likely to

A attempt to increase the size of its budget surplus. ⬭

B reduce indirect taxes on consumption. ⬭

C reduce interest rates to stimulate investment. ⬭

D take measures to reduce the size of its budget deficit. ⬭

[1 mark]

1 5 World oil prices rise by 30%. On an AD/AS diagram the main effects are shown by a shift left in

A both the aggregate demand curve and the short-run aggregate supply curve. ⬭

B the aggregate demand curve as consumers face higher prices for petrol. ⬭

C the long-run aggregate supply curve as firms reduce their investment in renewable energy. ⬭

D the short-run aggregate supply curve as firms face higher costs. ⬭

[1 mark]

Do not write outside the box

1 6 The Monetary Policy Committee of the Bank of England has to assess inflationary pressures when deciding on the level of Bank Rate. Which one of the following pieces of information is most likely to persuade the Committee to raise Bank Rate?

A A fall in the number of job vacancies advertised

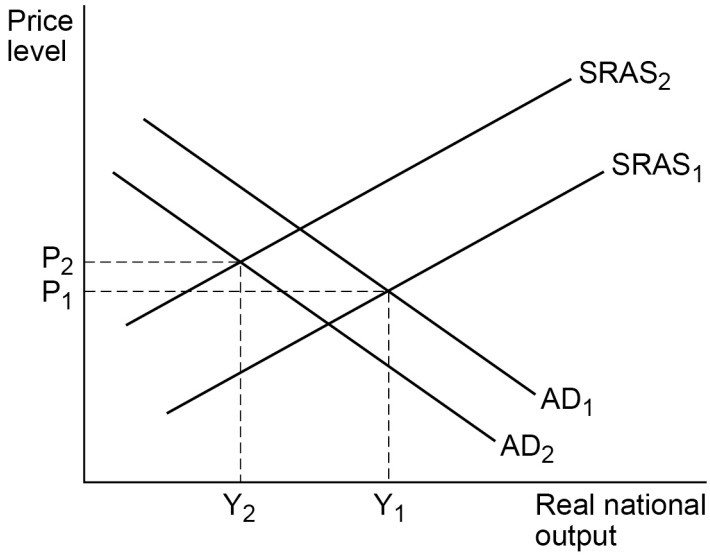
B GDP growth at below the trend rate in the previous two quarters

C Statistics showing an increase in bank lending to households

D Surveys showing that many firms have spare capacity

[1 mark]

1 7 The diagram below shows the aggregate demand curves (AD) and short-run aggregate supply curves (SRAS) for an economy.



Which one of the following combinations of events is most likely to have caused the shift from AD_1 to AD_2 and the shift from $SRAS_1$ to $SRAS_2$?

A A fall in commodity prices and a fall in savings

B A fall in money wages and an increase in imports

C An increase in the budget deficit and a fall in productivity

D An increase in VAT and an increase in income tax

[1 mark]

Turn over for the next question

Do not write outside the box

1 8 An economy has a deficit on the current account of the balance of payments. Which one of the following sets of circumstances is most likely to lead to a reduction in the economy's current account deficit?

	Output gap	Inflation in other countries	Domestic productivity	
A	Negative	Falling	Falling	⬭
B	Negative	Rising	Rising	⬭
C	Positive	Falling	Rising	⬭
D	Positive	Rising	Falling	⬭

[1 mark]

1 9 Which one of the following sets of circumstances is most likely, other things remaining the same, to lead to demand-pull and cost-push inflation in an economy?

A A depreciation in the exchange rate, and a reduction in the government's budget surplus ⬭

B Labour productivity growth in the economy accelerates, and interest rates fall ⬭

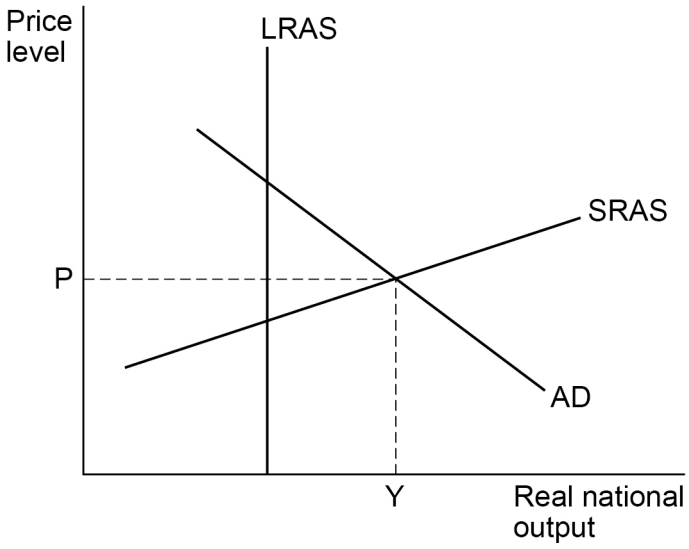
C The minimum wage is increased, and business confidence in the economy falls ⬭

D World demand for commodities increases, and the economy's trade surplus becomes smaller ⬭

[1 mark]

Do not write outside the box

2 0 The diagram below shows the aggregate demand curve (AD), short-run aggregate supply curve (SRAS), and long-run aggregate supply curve (LRAS) for an economy.



The current level of real GDP is Y. Which one of the following policies is most likely, in the short run, to bring the economy closer to its normal capacity level of output?

A An increase in the target rate of inflation ⬭

B Higher government spending on vocational education ⬭

C Lower rates of tax on manufacturing businesses ⬭

D New schemes to encourage more household saving ⬭

[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**

ARTIFICIAL INTELLIGENCE

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 'investment' **Extract C** (line 15).

[3 marks]

Do not write outside the box

2 2 Use **Extract A** to calculate the total number of jobs that could be lost in the health and social work **and** education industries as a result of automation.

[4 marks]

Turn over for the next question

Do not write outside the box

2 3 Use **Extract A** to identify **two** significant points of comparison between employment and the potential for automation in selected UK industries.

[4 marks]

Comparison 1 _____

_____

_____

_____

_____

Extra space _____

_____

Comparison 2 _____

_____

_____

_____

_____

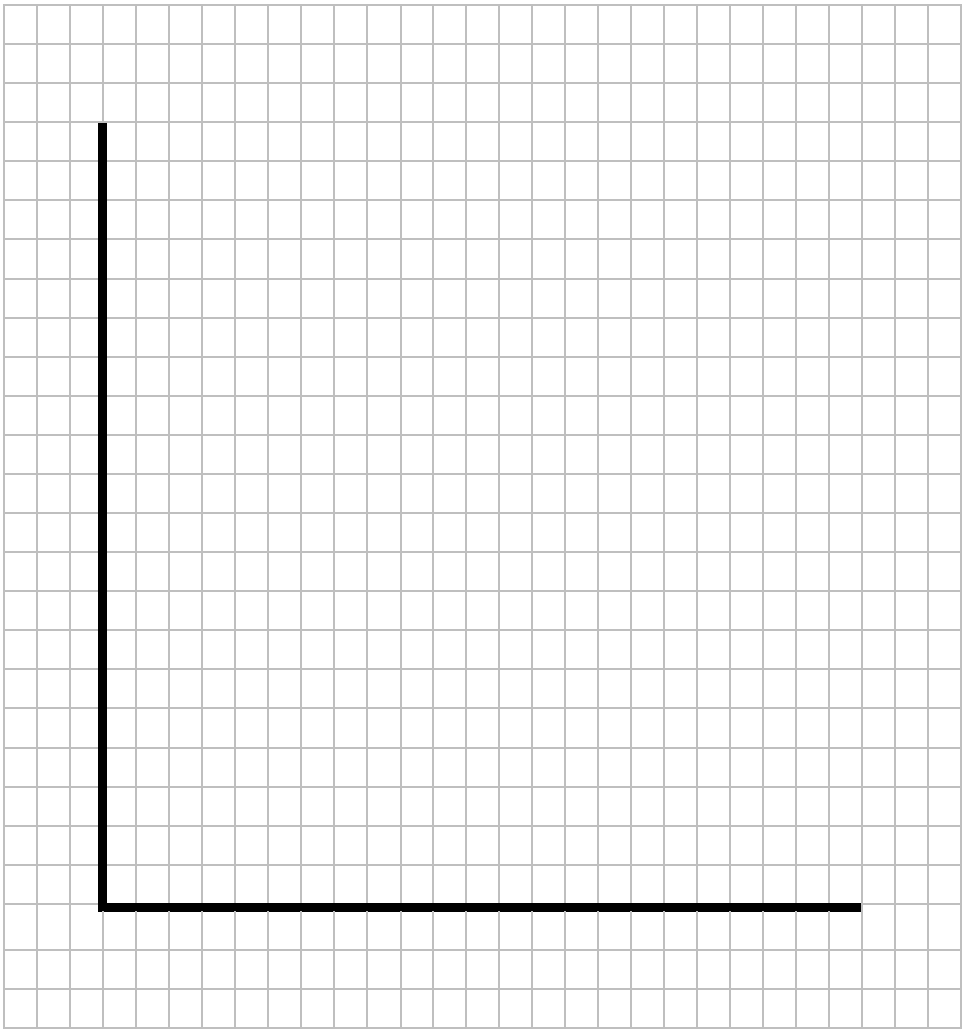
Extra space _____

_____

Do not write outside the box

2 4 Use **Extract A** to construct a bar chart to show employment in the **four** industries with the highest percentage of jobs under threat from automation in 2017.

[4 marks]



Turn over for the next question

Do not write outside the box

2 5 **Extract C** (lines 10–11) states: 'It has announced increased government spending on technological education and training.'

Explain how an increase in government spending could affect the national debt.

[10 marks]

Extra space

Do not write outside the box

Turn over ►

Do not write outside the box

2 6 **Extract B** (lines 9–11) states: 'Inevitably, some types of employment, industries and regions are likely to be affected more than others, and consequently we might expect to see a sharp rise in structural unemployment.'

Use the extracts and your knowledge of economics to evaluate different policies that a government could use to try to prevent a rise in structural unemployment.

[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

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 EXPORTS

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 'disinflation' **Extract F** (line 12).

[3 marks]

2 8 Use **Extract D** to calculate the UK's **mean** trade balance with the selected non-EU countries in 2016.

[4 marks]

Do not write outside the box

2 9 Use **Extract D** to identify **two** significant points of comparison between the geographical breakdown of UK exports and imports.

[4 marks]

Comparison 1 _____

_____

_____

_____

_____

Extra space _____

_____

Comparison 2 _____

_____

_____

_____

_____

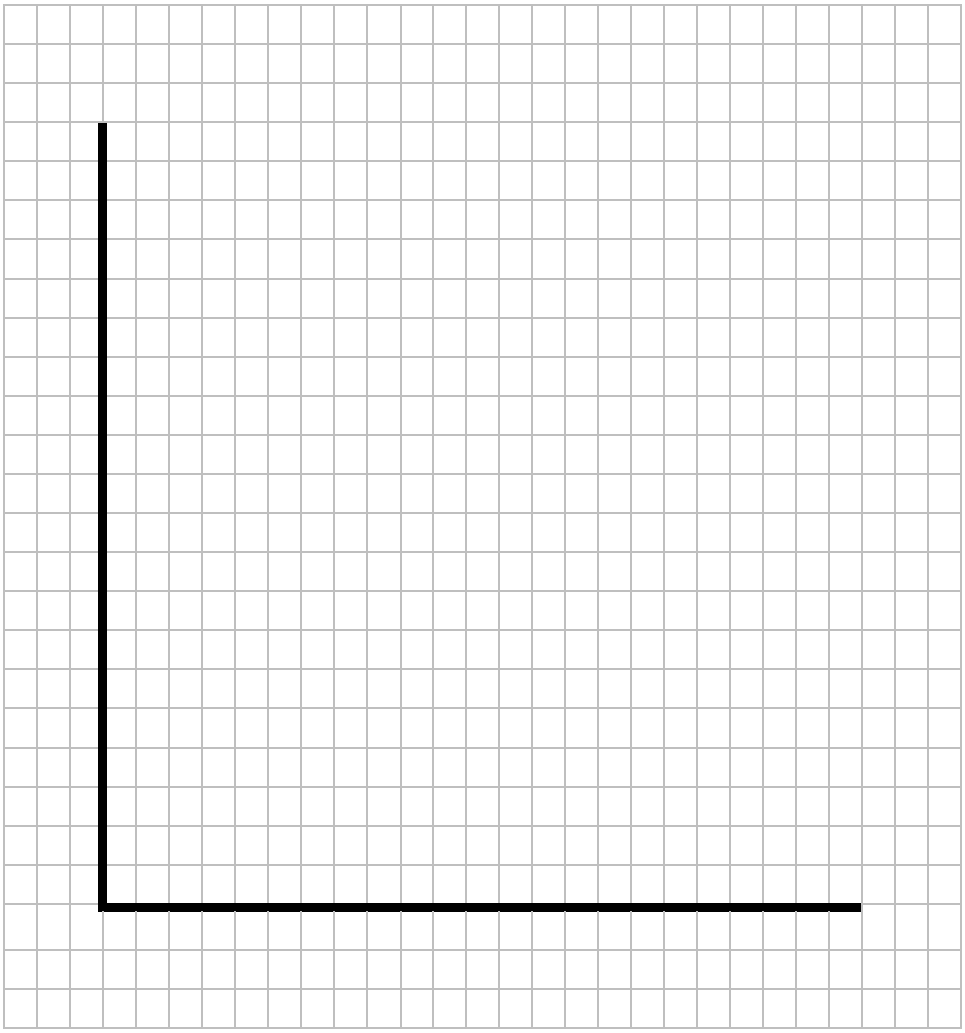
Extra space _____

_____

Do not write outside the box

3 0 Use **Extract D** to construct a bar chart to show the UK's **four** largest single export markets to non-EU countries.

[4 marks]



Turn over for the next question

Do not write outside the box

3 1 **Extract F** (lines 8–10) states: 'Hopefully, firms will feel encouraged by the increases in demand and output, and, according to the accelerator process, this should have positive effects on investment.'

Explain how the accelerator process is likely to affect economic growth.

[10 marks]

Extra space

Do not write outside the box

Turn over ►

Do not write outside the box

3 2 **Extract E** (lines 17–19) states: '…it is important that the increase in exports seen towards the end of 2017 is sustained. It is needed to reduce the trade deficit and have other positive impacts on the economy.'

Use the extracts and your knowledge of economics to discuss the significance of an increase in exports for the performance of the UK economy.

[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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