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Pearson Edexcel
Level 3 GCE

Centre Number | Candidate Number

Economics A

Advanced
Paper 2: The National and Global Economy

Tuesday 13 June 2017 – Afternoon
Time: 2 hours

Paper Reference
9EC0/02

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

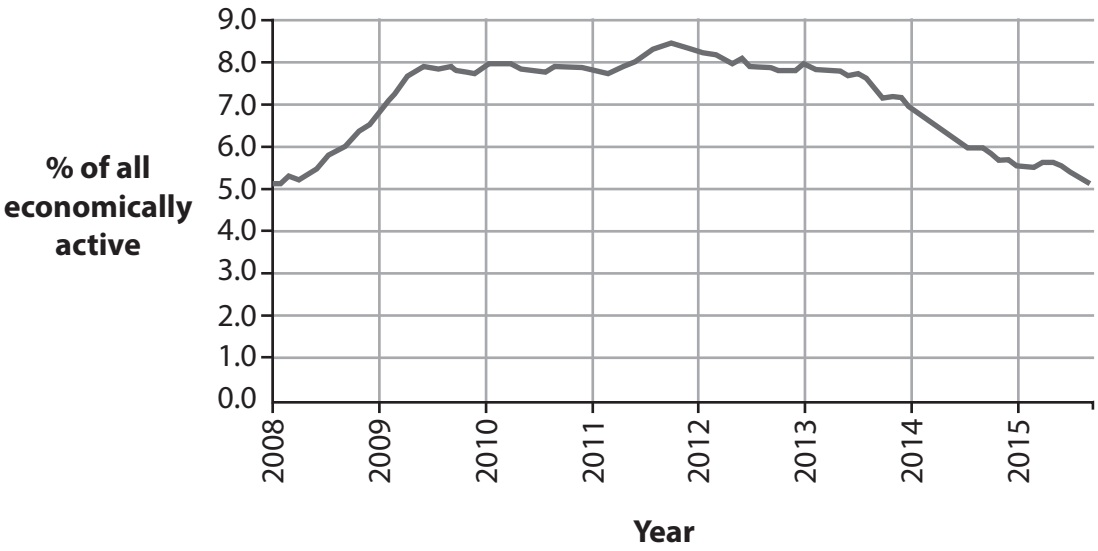
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The chart below shows the UK unemployment rate, seasonally adjusted, from 2008 to 2015



(Source: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2015/statistical-bulletin.html#tab-8--Unemployment)

(a) Which **one** of the following types of unemployment best explains the change in the data between 2008 and 2010?

(1)

☒ **A** Cyclical

☒ **B** Frictional

☒ **C** Seasonal

☒ **D** Voluntary

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(b) Explain the likely effects on the circular flow of income of the change in unemployment between 2013 and 2015.

(4)

Unemployment fell from about 7.9% in 2013 to about 5.2% by late 2015, a fall of nearly 3 percentage points.

More people in work receive wages from firms in return for their labour, so the flow of income from firms to households rises. Households spend more on consumption (C), which flows back to firms as revenue, so firms raise output and investment (I), an injection. Through the multiplier there are further rounds of increases in income and spending, so the circular flow gets larger.

However, part of the extra income leaks out as withdrawals: more income tax (T), saving (S) and spending on imports (M), while spending on benefits (part of G) falls, so the overall increase depends on the size of these withdrawals.

(Total for Question 1 = 5 marks)

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2 The table below shows marginal propensity to save data for an economy.

Year	Marginal propensity to save (mps)
2010	0.11
2011	0.09
2012	0.07
2013	0.05
2014	0.05
2015	0.04

(a) Explain **one** possible reason for the changes in the marginal propensity to save as shown in the table.

(2)

The mps fell from 0.11 in 2010 to 0.04 in 2015. A likely reason is very low interest rates, which reduce the reward (rate of return) on saving, so households spend more of each extra pound and the mpc rises.

(b) Explain the likely effect of a fall in the marginal propensity to save on the value of the multiplier if other things remain equal.

(2)

The multiplier is likely to increase, because a lower mps means fewer withdrawals from each round of spending, so more of an injection is re-spent: k = 1 / mpw, e.g. 1/0.11 = 9.1 rises to 1/0.04 = 25.

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An economy has marginal propensity to save of 0.1, marginal propensity to tax of 0.2 and marginal propensity to import of 0.1.

(c) Which **one** of the following is the correct size of the multiplier?

(1)

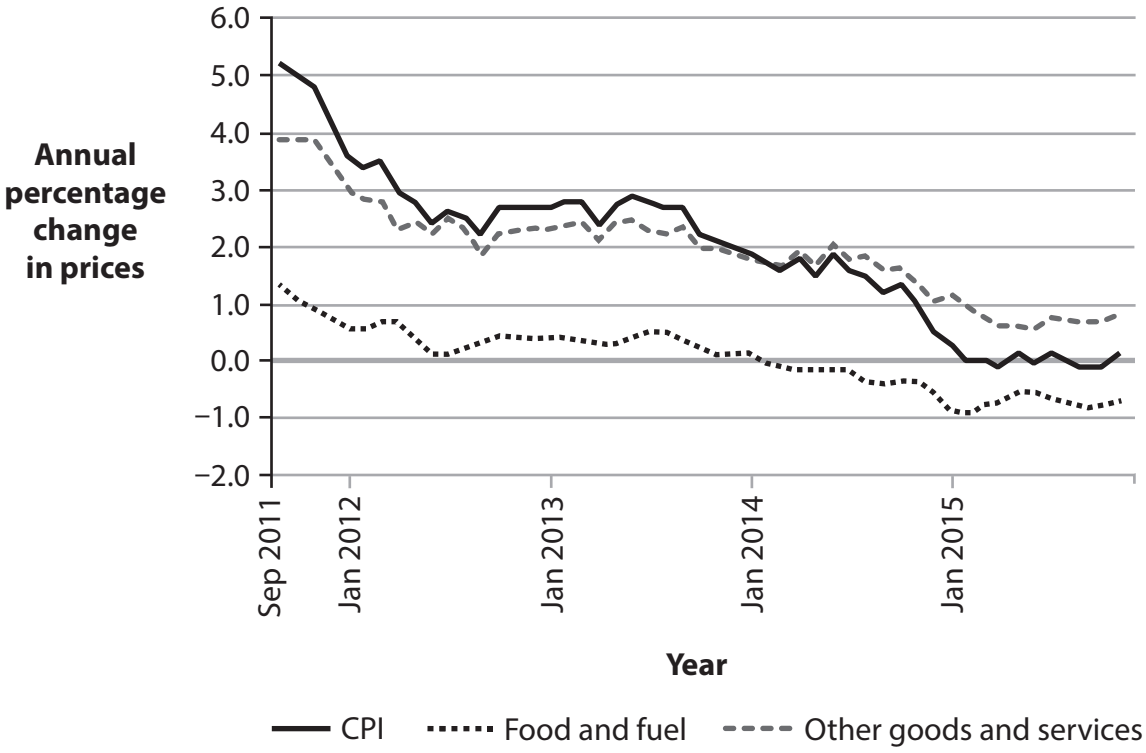
- ☐ **A** 0.4
- ☐ **B** 0.6
- ☐ **C** 1.7
- ☒ **D** 2.5

$k = 1 / (0.1 + 0.2 + 0.1) = 1 / 0.4 = 2.5$

(Total for Question 2 = 5 marks)

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3 The chart below shows UK inflation as measured by the Consumer Prices Index (CPI), 2011 to 2015.



(Source: http://www.ons.gov.uk/ons/dcp171780_427182.pdf)

(a) Which **one** of the following statements is correct about the UK's inflation record between September 2011 and January 2013?

Based on the data shown, the UK experienced:

(1)

- ☒ **A** deflation
- ☒ **B** disinflation
- ☒ **C** falling average prices
- ☒ **D** falling money supply

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(b) With reference to the data provided, explain the process of calculating the rate of inflation in the UK using the Consumer Prices Index. Refer to the concept of weights in your answer.

(4)

The CPI measures the change in the average price level of a representative basket of around 700 goods and services bought by a typical household; the inflation rate is the percentage change in the index over 12 months.

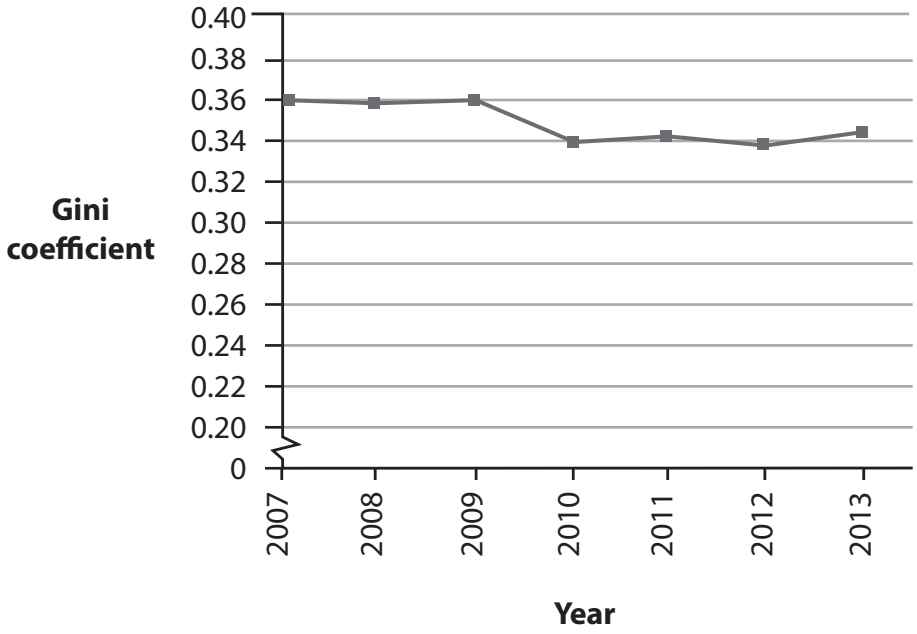
A household expenditure survey (Living Costs and Food Survey) decides what goes into the basket, and each month a survey records the prices of these items in many outlets across the UK. Each price is compared with the base year (index = 100). Each item is given a weight according to the proportion of household spending on it, so a change in the price of food or fuel, which takes a large share of spending, affects the index more than a minor item. The weighted price indices are added and divided by the total weights to give the CPI.

The chart shows the contribution of food and fuel falling below zero, dragging CPI inflation down from about 5.2% in September 2011 to about 0% in January 2015.

(Total for Question 3 = 5 marks)

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4 The chart below shows the UK Gini coefficient of incomes, 2007 to 2013.



(Source: adapted from https://www.equalitytrust.org.uk/how-has-inequality-changed)

(a) Explain **one** likely reason for the change in UK income inequality since 2007.

(4)

Income inequality fell: the Gini coefficient fell from 0.36 in 2007 to 0.34 in 2010 and then stayed at about 0.34 to 2013.

One likely reason is the global financial crisis that began in 2008. The recession reduced incomes at the top of the distribution (top quintiles) most, as bonuses, profits and investment income in sectors such as finance fell sharply. At the same time incomes at the very bottom were protected because benefits rose with inflation and automatic stabilisers paid out more. Changes in taxation also mattered, e.g. the new 50% top rate of income tax in 2010. The gap between rich and poor narrowed, so the Gini fell, and wage and benefit freezes then kept it roughly constant.

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(b) Which **one** of the following values for the Gini coefficient is correct if there is perfect income equality?

(1)

- ☒ **A** 0
- ☐ **B** 0.5
- ☐ **C** 1
- ☐ **D** 50:50

(Total for Question 4 = 5 marks)

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5 The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	Human Development Index (HDI) value
Vietnam	5 092	0.666
India	5 497	0.609

(Source: www.hdr.undp.org/en/composite/HDI)

(a) Which **one** of the following statements can be deduced from the data in the table?

(1)

☒ **A** Average incomes are higher in India than in Vietnam.

☒ **B** Levels of absolute poverty are higher in Vietnam.

☒ **C** Life expectancy is higher in India than in Vietnam.

☒ **D** Provision of healthcare and education is less effective in Vietnam than in India.

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(b) With reference to the data provided, explain **two** limitations of using the HDI to compare levels of development between countries and over time.

(4)

First, the HDI ignores income distribution. India has a higher GNI per capita ($5 497) than Vietnam ($5 092), but this is an average: if income in India is very unequally shared, many people may be poorer than in Vietnam, so a single average figure can be misleading when comparing countries.

Second, the HDI ignores qualitative factors such as democracy, human rights, the quality of education and gender equity, and environmental factors. Vietnam's HDI of 0.666 is higher than India's 0.609, but this says nothing about political freedom, so it gives an incomplete picture of development. Also, PPP values change quickly and can be inaccurate, so comparisons over time are unreliable.

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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SECTION B

Read Figures 1 and 2 and extract (A) before answering Question 6.

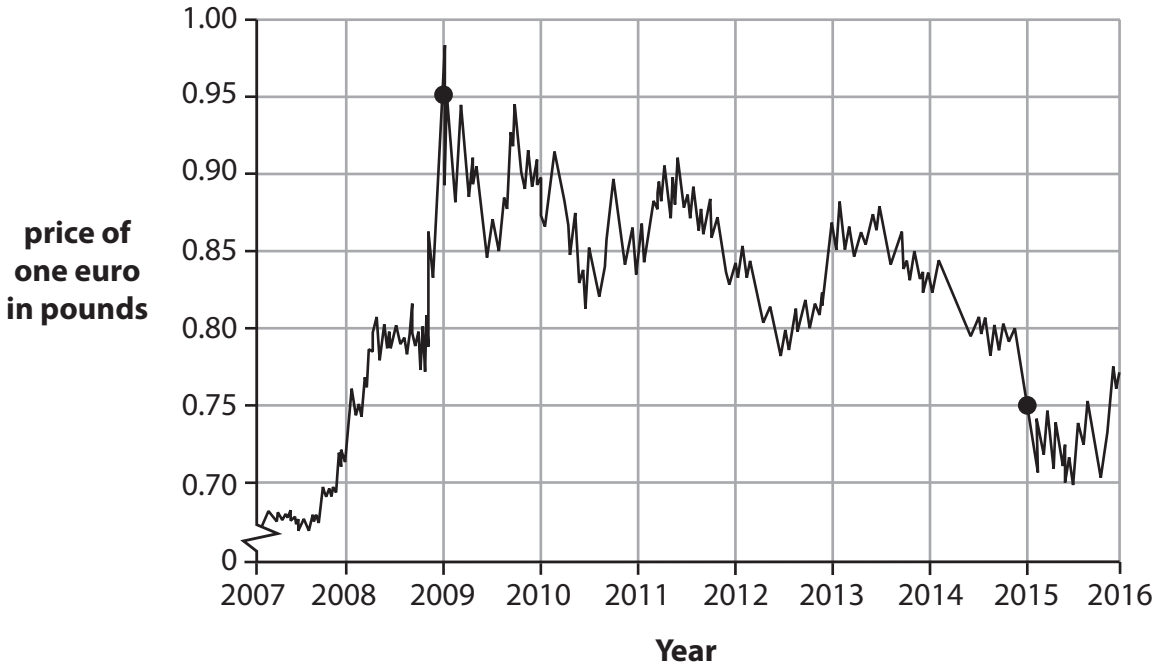
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The Eurozone economy

Figure 1: Exchange rate of the euro (€) to the British pound (£)

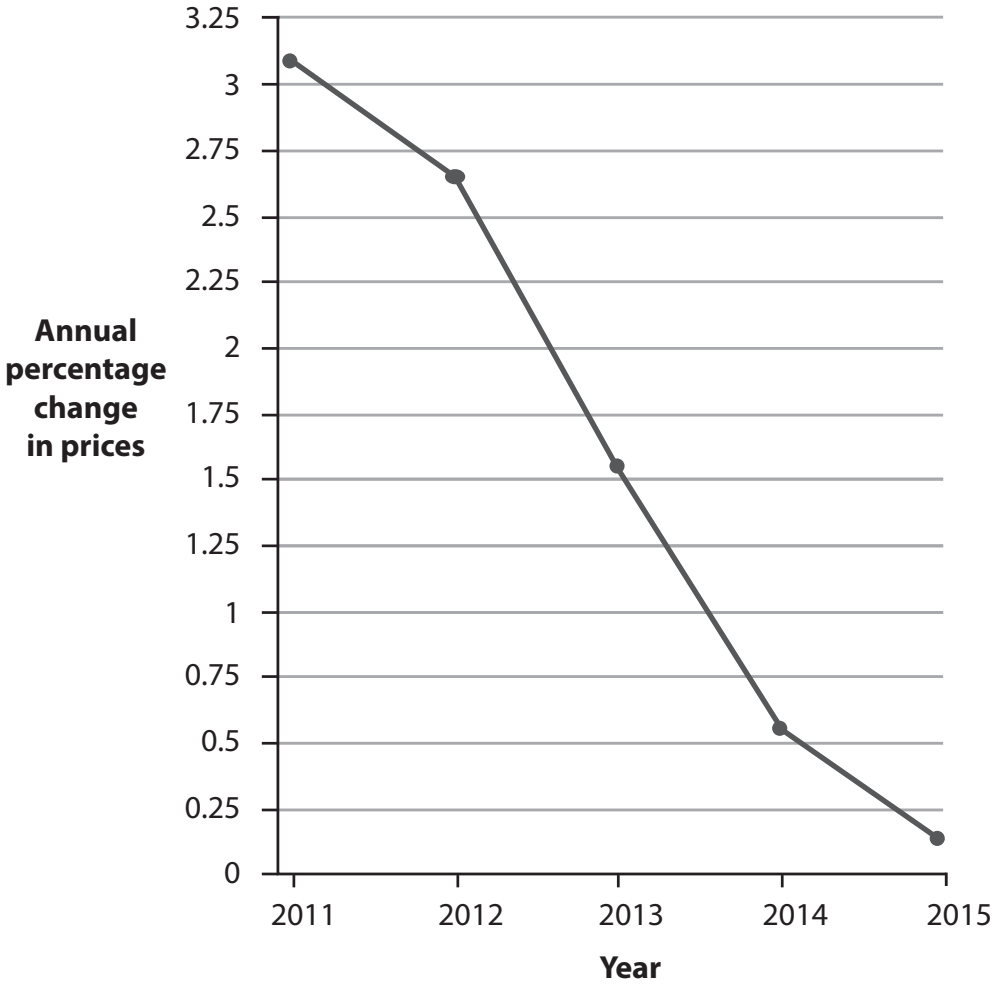


(Source: https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-gbp.en.html#)

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Figure 2: Eurozone inflation rate as measured by the Consumer Prices Index (CPI)



(Source: adapted from http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/download.aspx)

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Extract A

European Central Bank disappoints markets with weaker than expected stimulus

Mario Draghi, president of the European Central Bank (ECB), surprised financial markets in November 2015 with a less ambitious package of monetary stimulus than many had anticipated.

The ECB cut its base interest rate by 0.1% to minus 0.3% in order to encourage private banks to lend funds to companies and households rather than deposit them at the central bank. The central bank agreed to extend its €60 billion (£45 billion) monthly bond-buying quantitative easing (QE) programme for a further six months. The ECB's €1.1 trillion QE scheme had originally been due to end in September 2016.

"We are doing more because it works," Mr Draghi said. Yet the ECB did not increase the size of its monthly asset purchases and also disappointed those expecting that it would cut interest rates more aggressively.

The euro rose almost 3% against the dollar to $1.08 after the announcement. Italian and Spanish bond yields both jumped by 0.27% to 1.62% and 1.72% respectively.

The ECB's economists reduced their inflation forecasts for the next two years. They now predict consumer prices in the Eurozone rising by just 1% in 2016 and 1.6% in 2017 – still below the central bank's ceiling of 2%. In November 2015, the inflation rate was just 0.1% and core inflation, excluding volatile items such as fuel and food, dropped to 0.9%.

Mr Draghi stressed again that monetary policy alone could not restore the Eurozone to economic health. He called for looser fiscal policy among member states to support aggregate demand and more rapid implementation of supply-side reforms. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively," he said.

(Source: http://www.independent.co.uk/news/business/news/ecb-disappoints-traders-with-weaker-than-expected-stimulus-a6759786.html, 4th December 2015)

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(a) With reference to Figure 1, calculate the percentage change in the value of the euro in pounds from the start of 2009 to the start of 2015.

(5)

(b) With reference to the information provided and your own knowledge, examine **two** factors which might explain the change in the rate of Eurozone inflation as shown in Figure 2.

(8)

(c) Since mid-2015 the euro has appreciated. Assess the likely impact of an appreciation of the euro on the current account of the balance of payments for Eurozone countries.

(10)

(d) Discuss the likely success of the ECB's quantitative easing programme in moving Eurozone inflation closer to 'the central bank's ceiling of 2%' (Extract A, line 17).

(12)

(e) Discuss 'looser fiscal policy' and 'supply-side reforms' (Extract A, lines 20 and 21) that may be used by governments of Eurozone countries to increase economic growth.

(15)

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(a) With reference to Figure 1, calculate the percentage change in the value of the euro in pounds from the start of 2009 to the start of 2015.

(5)

From Figure 1: start of 2009, €1 = £0.95; start of 2015, €1 = £0.75.

Percentage change = (new value − old value) / old value × 100

= (0.75 − 0.95) / 0.95 × 100

= −0.20 / 0.95 × 100

= −21.05%

Answer: the value of the euro in pounds fell by about 21.1% (a depreciation of the euro against the pound), i.e. a percentage change of −21.1%.

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(b) With reference to the information provided and your own knowledge, examine **two** factors which might explain the change in the rate of Eurozone inflation as shown in Figure 2.

(8)

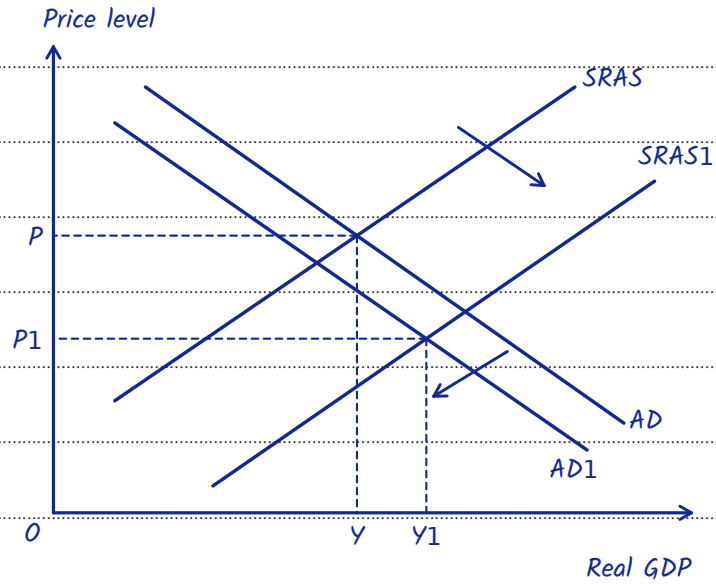
Figure 2 shows disinflation in the Eurozone: CPI inflation fell from just over 3% in 2011 to less than 0.25% in 2015, and Extract A says it was just 0.1% in November 2015.

The first factor is falling oil and commodity prices. Oil is a key cost of production for transport, manufacturing and energy, so cheaper oil lowers firms' costs and the prices of many products, and fuel is a large item in the CPI basket. Extract A shows core inflation, which excludes fuel and food, was 0.9%, well above the headline 0.1%, so volatile energy and food prices explain much of the fall. On the diagram SRAS shifts right to SRAS1, reducing the price level from P towards P1.

The second factor is weak aggregate demand. Many Eurozone governments tightened fiscal policy (austerity) to cut budget deficits, and consumer and business confidence was low after the debt crisis, so consumption and investment were weak and saving rose. AD shifts left to AD1, giving little demand-pull inflation, which is why Mr Draghi calls for looser fiscal policy.

However, this may be temporary: oil prices are very volatile and could rise rapidly due to events such as instability in the Middle East, and the ECB expects inflation to rise to 1% in 2016 and 1.6% in 2017. As Eurozone GDP recovers, demand-pull inflation may return. The relative importance of each factor depends on the extent of fiscal tightening, but the gap between headline and core inflation suggests oil, a significant cost for businesses, was the bigger cause (see diagram overleaf).

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(c) Since mid-2015 the euro has appreciated. Assess the likely impact of an appreciation of the euro on the current account of the balance of payments for Eurozone countries.

(10)

An appreciation means the euro buys more units of other currencies, e.g. it rose almost 3% against the dollar to $1.08 (Extract A). The current account records trade in goods and services, primary income and secondary income; the Eurozone as a whole has run a large current account surplus.

Exports: Eurozone exports become more expensive when converted into other currencies. A German car priced at €30 000 rises in dollar price from about $31 500 at $1.05 to $32 400 at $1.08, so foreign demand for Eurozone exports falls, reducing export revenue.

Imports: imports become cheaper in euros, so Eurozone households and firms buy more foreign goods and fewer domestic substitutes, and spending on imports rises. With export earnings falling and import spending rising, the trade balance worsens, so the current account surplus narrows (or a deficit widens). Primary income from abroad, such as profits from overseas investment, is also worth fewer euros, worsening the current account further.

However, the impact depends on the price elasticity of demand. By the Marshall-Lerner condition, the current account only worsens if the sum of the PEDs for exports and imports is greater than 1. In the short run demand is inelastic as contracts are fixed, so a J-curve effect may occur: export revenue in foreign currency may even rise at first and the current account may improve before it worsens in the long term.

The magnitude is also small: a 3% rise against the dollar only partly reverses the earlier depreciation, and Figure 1 shows the euro was still only about £0.73 in 2015, far below £0.95 in 2009, so the euro may not have appreciated against all currencies.

About half of Eurozone trade is between member states, which is unaffected by the

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euro's external value.

Non-price factors such as quality, brand and reliability (e.g. German machinery and cars) may matter more than price, so demand for many Eurozone exports is price inelastic. Cheaper imported raw materials and oil also lower firms' costs, partly offsetting the loss of competitiveness. Finally, the current account depends more on growth in trading partners' incomes, e.g. US and Chinese demand.

Overall, the appreciation is likely to reduce the Eurozone's current account surplus slightly over time, but because the rise is small, much trade is internal and many exports are price inelastic, the impact is likely to be limited, especially in the short run.

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(d) Discuss the likely success of the ECB's quantitative easing programme in moving Eurozone inflation closer to 'the central bank's ceiling of 2%' (Extract A, line 17).

(12)

Quantitative easing is when the central bank creates new money electronically to buy assets, mainly government bonds, from banks and other financial institutions. The ECB is buying €60 billion of bonds a month in a €1.1 trillion scheme, now extended for a further six months.

QE can raise inflation through several channels. Buying bonds raises their price and lowers their yield, so long-term interest rates fall, making borrowing cheaper for firms and households, which encourages investment and consumption. Banks receive extra liquidity, which, together with the base rate cut to −0.3%, should encourage them to lend to firms rather than deposit funds at the ECB. Higher asset prices create a wealth effect, raising consumption. QE also tends to depreciate the euro, making exports cheaper and imports dearer, raising net exports (X − M) and import prices. AD shifts right from AD to AD1 (diagram), increasing real GDP and raising the price level from P to P1, creating demand-pull inflation that moves it towards 2%. Low government bond yields also make it cheaper for governments to borrow, and inflation and confidence would probably have been much lower without QE.

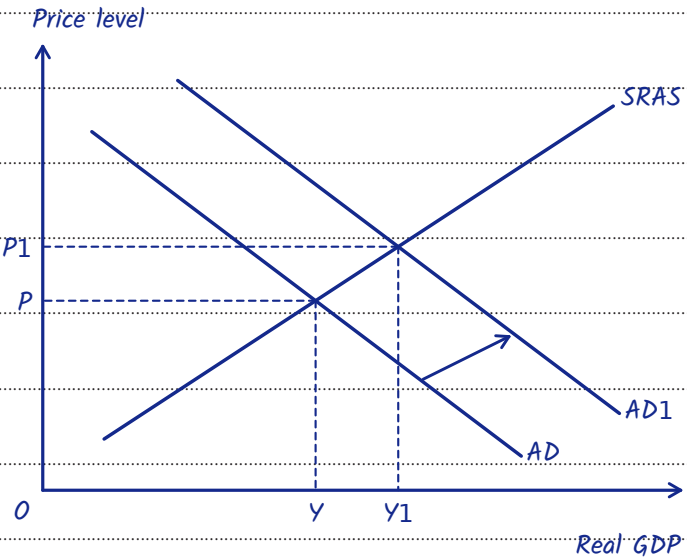
However, the programme may not succeed. Inflation was just 0.1% in November 2015 and the ECB's own economists forecast only 1% in 2016 and 1.6% in 2017, still below 2%, which suggests QE has not yet worked; the need to extend it also suggests this. Low inflation is largely due to falling oil prices, which are outside the central bank's control, and core inflation was 0.9%. If confidence is low, banks may hoard the extra liquidity rather than lend, and firms and consumers may not want to borrow even at very low rates, a liquidity trap, so AD barely shifts. There are also time lags of up to two years. In addition, the euro rose almost 3% against the dollar after the announcement, and Italian and Spanish bond yields jumped by 0.27%, which works

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against the stimulus.

Overall, QE is likely to move inflation closer to 2% over time, but it is unlikely to reach 2% by 2017. Its success depends on oil prices and on whether other policies, such as looser fiscal policy and supply-side reforms, support it, as Mr Draghi himself says monetary policy alone cannot restore economic health.



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(e) Discuss 'looser fiscal policy' and 'supply-side reforms' (Extract A, lines 20 and 21) that may be used by governments of Eurozone countries to increase economic growth.

(15)

Economic growth is an increase in real GDP. In the short run it comes from higher AD (actual growth), and in the long run from an increase in the productive potential of the economy, shown by LRAS shifting right.

Looser fiscal policy means higher government spending and/or lower taxation. Eurozone governments could raise spending on infrastructure such as transport and broadband: G is a component of AD, so AD shifts right, and through the multiplier the final rise in real GDP is larger than the initial injection, reducing unemployment. Cutting income tax raises disposable income and consumption, and cutting corporation tax raises post-tax profits, increasing investment and therefore AD. Investment and infrastructure also raise the capital stock, so LRAS shifts right too.

Supply-side reforms aim to increase the quantity and quality of factors of production. Increased spending on education and training creates a more highly skilled and therefore more productive workforce, and reduces structural unemployment, which is very high in Spain and Greece. Labour market reforms, such as reducing strict employment protection, make it easier for firms to hire, increasing labour market flexibility and occupational mobility. Product market reforms such as deregulation and privatisation increase competition, lowering costs and encouraging innovation. These shift LRAS right from LRAS to LRAS1, so real GDP rises from Yf to Yf1 without inflationary pressure (diagram), which is ideal combined with higher AD.

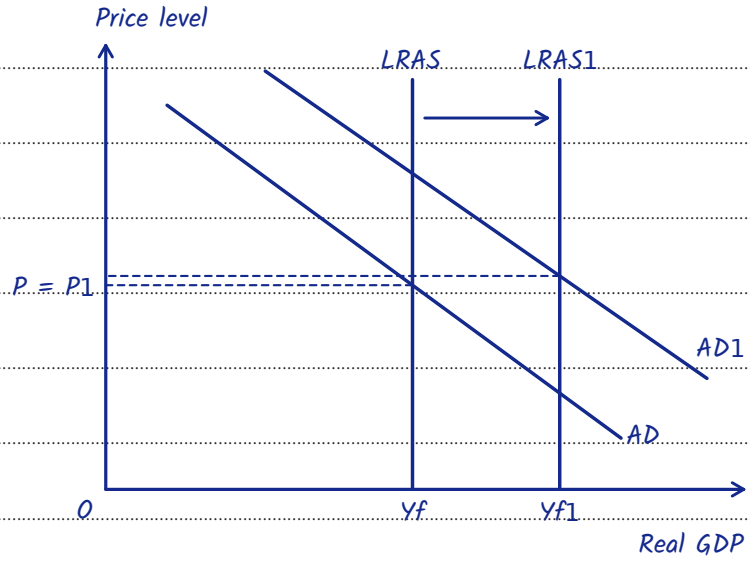
However, many Eurozone governments must focus on reducing national debt and cannot afford tax cuts or extra spending: the Stability and Growth Pact limits budget deficits to 3% of GDP and debt to 60% of GDP, and debt in Italy and Greece is well over 100% of GDP. Extra borrowing may raise bond yields, which already jumped to 1.62%

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in Italy and 1.72% in Spain, and may crowd out private investment. The multiplier may be small because Eurozone economies are very open, so much of the extra spending leaks into imports from other member states. Germany, with a budget surplus, has room for fiscal loosening, but it is the country least in need.

Supply-side policies take a long time to have an impact, e.g. education spending may take ten years or more to raise productivity, so they do little for growth now. Labour market reforms are politically unpopular, as protests over reforms in France show, and may increase job insecurity and inequality. Their success also depends on there being enough demand: if AD stays weak, extra capacity will simply be unused.

Overall, the policies are complementary: looser fiscal policy, especially in countries with fiscal space such as Germany, can boost AD in the short run, while supply-side reforms in countries such as Italy and Spain raise long-run growth. The best combination depends on each country's debt level and how quickly reforms can be implemented.



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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

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SECTION C

Answer ONE question from this section.

Write your answer in the spaces provided.

You are advised to spend 30 minutes on this section.

EITHER

7 Since the global financial crisis of 2008 there have been over 5 700 increases in tariffs, quotas and administrative controls on international trade.

Evaluate the likely effects of an increase in protectionism on the economy of a developing country of your choice.

(Total for Question 7 = 25 marks)

OR

8 Global oil prices fell from a 2008 peak of $147 a barrel to $27 in 2016.

Evaluate the likely macroeconomic consequences of a significant fall in global oil prices.

(Total for Question 8 = 25 marks)

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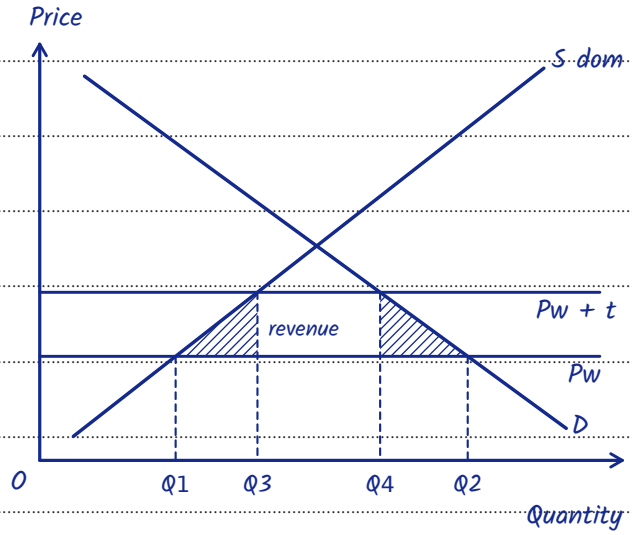
Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☒ **Question 8** ☒

Write your answer here:

Question 7

Protectionism is the restriction of free trade through tariffs, quotas, export subsidies and administrative barriers. I will consider Bangladesh, a developing country that both imposes protection and faces it, since garments make up around 80% of its export earnings.



Tariff on imports:
price rises from Pw to Pw + t;
domestic output Q1 to Q3,
imports fall from Q1Q2 to Q3Q4;
hatched areas = welfare loss

If Bangladesh raises tariffs on imports, the domestic price rises from the world price Pw to Pw + t. Domestic producers expand output from Q1 to Q3, protecting jobs in infant industries, while consumption falls from Q2 to Q4 and imports fall from Q1Q2 to Q3Q4. The government gains tariff revenue, which matters for a developing country with a narrow tax base. However, consumers lose consumer surplus through higher prices, and the two hatched triangles are a deadweight welfare loss from inefficient domestic production and lost consumption.

By the law of comparative advantage, protection reduces specialisation: resources move into industries where Bangladesh has a comparative disadvantage, so total output and living standards fall. Higher prices of imported inputs, such as machinery and fabric for garment factories, raise costs, shifting SRAS left and causing cost-push inflation, which hits the poor hardest. Other

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countries may also retaliate.

Rising protectionism abroad is even more serious. If the EU or USA raises tariffs or quotas on garments, demand for Bangladeshi exports falls, so net exports and AD fall, and via the multiplier real GDP falls. Unemployment rises among the roughly four million garment workers, most of them women, increasing poverty, while lower export earnings worsen the current account and reduce the foreign currency needed to import fuel and capital goods, slowing development. Lost economies of scale raise firms' average costs further.

However, the effects depend on the type of protectionism. Tariffs raise revenue, whereas quotas do not, and administrative controls are harder to measure. The 5 700 measures quoted come from Global Trade Alert, which includes subsidies and bailouts for domestic firms that may hardly affect Bangladesh, so the increase in protection it faces may be smaller than it seems.

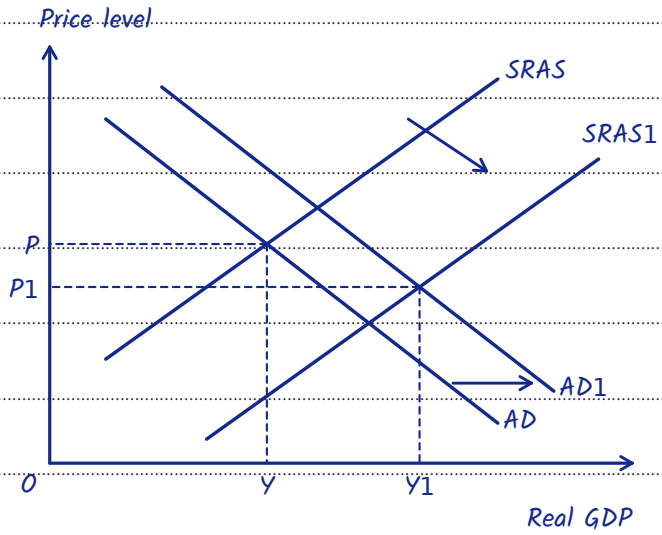
Trade blocs matter too: as a least developed country, Bangladesh has duty-free access to the EU under the Everything But Arms scheme, so protection elsewhere may simply change the pattern of trade. The extent of its dependency on world trade also matters: exports are about 15 to 20% of GDP, so the impact is significant but not total.

In the short run, protection for infant industries may build capacity and diversify the economy away from garments, as some East Asian economies did; in the long run, however, protected firms lack competition and become inefficient. Dumping of cheap imports may give consumers short-term benefits but long-term costs if domestic firms close. The WTO also limits how far protection can rise, and its rulings are more closely adhered to than in the 1930s, when protectionism after the Great Depression deepened the slump.

Overall, an increase in protectionism is likely to harm Bangladesh, mainly by reducing export demand and raising costs, outweighing any infant industry gains. The size of the harm depends on whether it faces new barriers in its key EU and US markets and on how long the rise in protectionism lasts.

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Question 8



Cheaper oil cuts costs: SRAS shifts right to SRAS1; higher real incomes and net exports shift AD to AD1; real GDP rises from Y to Y1 and the price level falls to P1

The price of oil fell from $147 to $27 a barrel, a fall of about 82%. Oil is an input into almost all production, so the main effect for an oil importer such as the UK is on costs. Lower fuel and transport costs shift SRAS right from SRAS to SRAS1, so real GDP rises and the price level falls; estimates suggest a 10% fall in oil prices boosts growth by 0.1 to 0.5 percentage points. Oil-intensive sectors such as airlines, road haulage, agriculture and chemicals benefit most.

There is a logical link to AD. Lower petrol and heating prices raise households' real incomes after essential costs, so consumers spend more in domestic markets; as cost savings are passed on, prices fall and real wages rise as fast-expanding sectors demand more labour. Consumption rises and AD shifts right to AD1. Oil importers spend less on imports, narrowing the UK trade deficit and improving the current account. Inflation falls: UK CPI inflation was about 0% in 2015, largely due to fuel. Higher growth raises tax revenue from income and corporation tax, cutting the budget deficit, and countries such as South Korea can stop subsidising energy and reduce external debt.

However, the consequences are very different for oil exporters such as Russia, Saudi Arabia, Nigeria and Venezuela. Export revenues collapse, the current account worsens, government tax

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revenue falls, external debt rises and currencies such as the rouble depreciate, causing recession and political instability. Even in the UK, the North Sea oil and gas sector cuts jobs and investment and the government loses tax revenue.

The size of the benefit also depends on pass-through. In the UK most of the petrol price is fuel duty and VAT, so a large fall in crude prices gives a much smaller fall at the pump. Consumers may save rather than spend if confidence is low, so AD may not rise. In the Eurozone, very low inflation risks deflation: if consumers delay purchases expecting lower prices, AD falls and real debt burdens rise.

Financial markets may react badly: share prices of energy firms collapse, hitting pension funds and confidence. Lower prices reduce investment in exploration and in new technologies to replace oil, and cheap fuel raises consumption of fossil fuels, increasing negative externalities such as carbon emissions, though fracking may also become unprofitable. Finally, it depends on how long prices stay low: firms will not change plans if they expect the fall to be temporary, and a later rise could reverse the gains.

Overall, a significant fall in oil prices is likely to raise growth, cut inflation and improve the current account for oil importers, since the supply-side effect is large and fairly certain. For oil exporters it is damaging, so the global effect depends on the balance between them and on how long low prices last.

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