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Surname	Other names

Pearson Edexcel
Level 3 GCE

Centre Number	Candidate Number

Economics A

Advanced
Paper 2: The National and Global Economy

Tuesday 12 June 2018 – 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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P 5 2 3 1 4 A 0 1 3 6

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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 trade deal known as the Comprehensive Economic and Trade Agreement (CETA) is designed to eliminate or reduce trade barriers between the European Union (EU) and Canada. It is estimated that it will increase trade by 20% and boost EU GDP by 12 billion euros.

(Source: http://www.theguardian.com/business/2016/oct/30/eu-canada-sign-ceta-free-trade-deal-trudeau-juncker)

(a) Which **one** of the following is most likely to decrease as a result of CETA?

(1)

☒ **A** Economic growth in EU countries

☒ **B** Exports from EU countries to Canada

☒ **C** Imports from Canada to EU countries

☒ **D** Tariffs on European exports to Canada

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(b) With reference to the theory of comparative advantage, explain how CETA may increase the GDP of both the EU and Canada.

(4)

(Total for Question 1 = 5 marks)

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2 (a) Which **one** of the following would be most likely to cause aggregate demand to increase?

A fall in:

(1)

- ☒ **A** government spending
- ☒ **B** net trade (X–M)
- ☒ **C** the marginal propensity to consume
- ☒ **D** the marginal propensity to save

(b) Draw an aggregate demand and aggregate supply diagram illustrating the likely impact of a rise in interest rates on the price level and real output.

(4)

(Total for Question 2 = 5 marks)

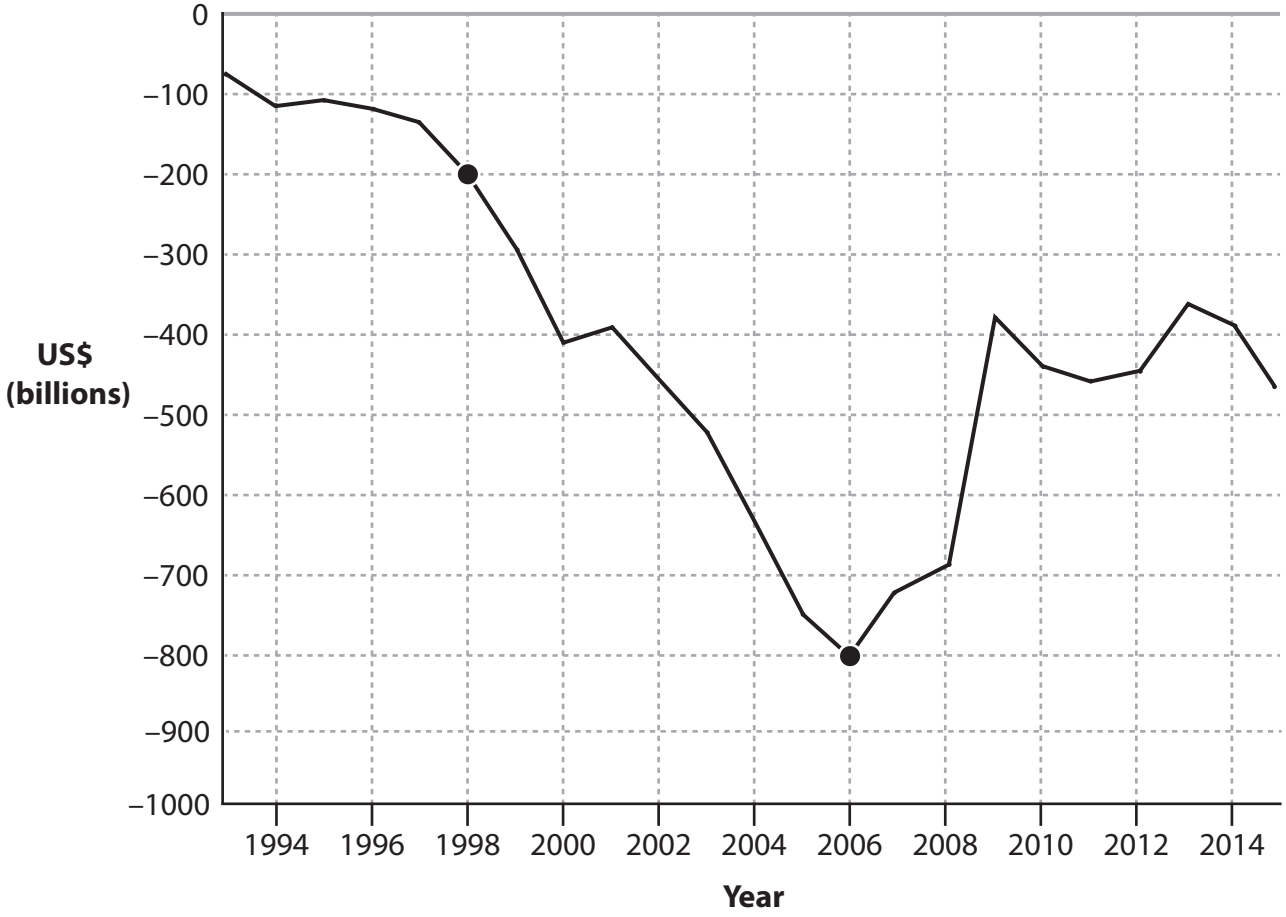
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QUESTION 3 BEGINS ON THE NEXT PAGE.

3 United States current account of the balance of payments, 1993–2015



(Source: http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993)

(a) Calculate the percentage change in the United States current account deficit on the balance of payments between 1998 and 2006.

(2)

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(b) Explain the term 'current account of the balance of payments'.

(2)

(c) Using the chart on page 6, which **one** of the following may be inferred about the United States balance of payments?

(1)

- ☒ **A** The current account deficit decreased between 2001 and 2006
- ☒ **B** The current account surplus increased between 2001 and 2006
- ☒ **C** There was a current account deficit for the entire period shown
- ☒ **D** There was a current account surplus for the entire period shown

(Total for Question 3 = 5 marks)

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4 The UK has experienced a budget deficit since 2001. The government aimed to reach a budget surplus by 2019, but in 2016 this target was abandoned.

(Source: adapted from https://www.gov.uk/government/news/autumn-statement-2016-some-of-the-things-weve-announced)

(a) Explain **one** likely reason why the 2019 budget surplus target was abandoned.

(2)

(b) Explain the likely impact of abandoning the budget surplus target on the UK national debt.

(2)

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(c) If a government takes decisions to target a budget surplus, this is an example of:

(1)

- ☒ **A** contractionary monetary policy
- ☒ **B** discretionary fiscal policy
- ☒ **C** expansionary fiscal policy
- ☒ **D** expansionary monetary policy

(Total for Question 4 = 5 marks)

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5 UK total bank lending to individuals, percentage change on previous year

2014	2.5%
2015	3.2%
2016	4.0%

(Source: Bank of England 2017)

(a) Explain **one** likely reason why consumer demand for bank loans has increased.

(2)

(b) Which **one** of the following is most likely to result from an increase in bank lending to individuals?

(1)

☒ **A** An improvement in net trade (X–M)

☒ **B** An increase in consumption

☒ **C** An increase in unemployment

☒ **D** Deflation

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(c) Calculate the index number for the total value of bank lending in 2016 using 2015 as a base year.

(2)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

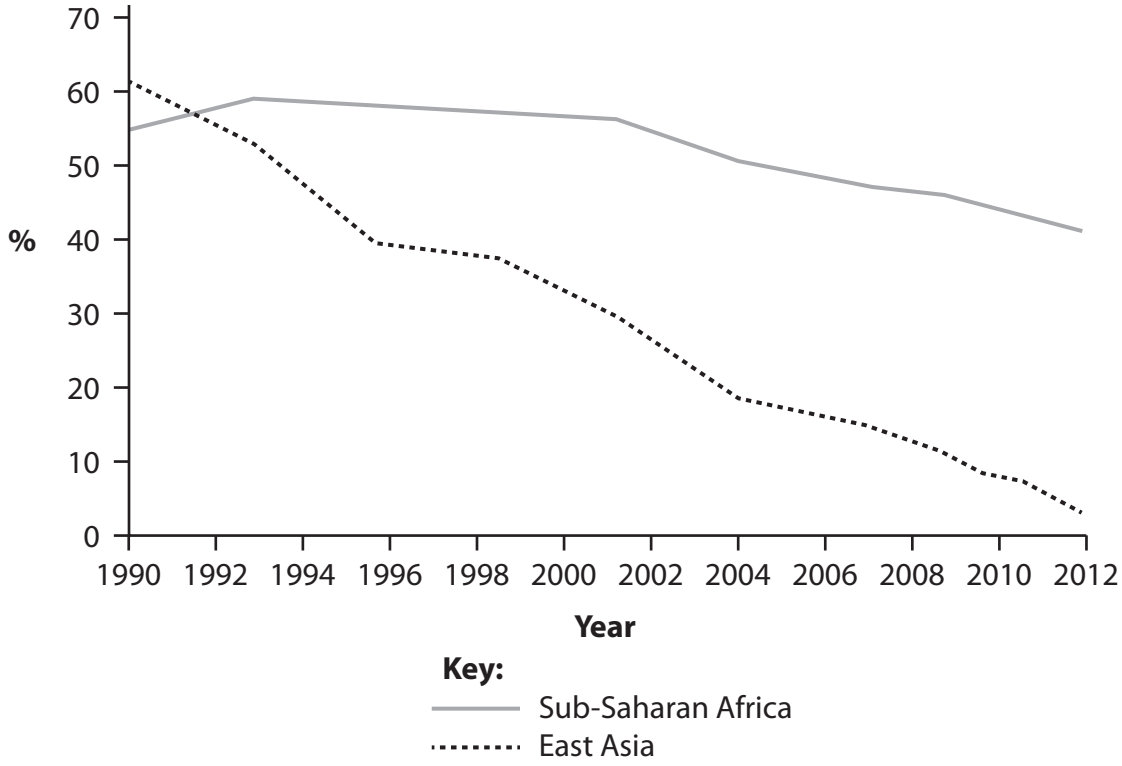
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US$1.90-a-day 2011 PPP)



(Source: https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

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Extract A

Lessons from globalisation

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

(Source: adapted from https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism)

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Extract B

Tackling inequality

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.

These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution.

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.

(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

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6 (a) With reference to the information provided, explain the distinction between absolute poverty and relative poverty.

(5)

(b) With reference to the information provided and your own knowledge, examine **two** factors that might explain the differing rates of decline in absolute poverty in East Asia and Sub-Saharan Africa.

(8)

(c) With reference to Extract A, discuss **two** macroeconomic policies, apart from protectionism, that a government could use to reduce the negative effects of globalisation.

(12)

(d) Assess the view that 'some level of inequality is desirable to maintain an appropriate incentive structure in the economy' (Extract B, lines 19 and 20).

(10)

(e) Discuss the role of the financial sector in the growth and development of developing countries.

(15)

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(5)

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(12)

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

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SECTION C BEGINS ON THE NEXT PAGE.

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 In 2016 the UK Chancellor of the Exchequer announced that the government would spend an extra £23 billion on innovation and infrastructure over the following five years.

Evaluate the likely economic effects of this planned increase in government expenditure.

(Total for Question 7 = 25 marks)

OR

8 The British pound fell by over 10% to a 30-year low against the US dollar after the UK voted to leave the European Union.

To what extent will this depreciation impact on future economic growth in the UK?

(Total for Question 8 = 25 marks)

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:

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TOTAL FOR SECTION C = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

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