Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel International Advanced Level

Centre Number | Candidate Number

Monday 15 October 2018

Afternoon (Time: 1 hour 30 minutes) | Paper Reference **WEC02/01**

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic Performance and Policy

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.
- Answer **all** the questions in Section A and **one** question from Section B.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of expression.
- 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

©2018 Pearson Education Ltd.
1/1/1/1/1

P 5 5 4 6 0 A 0 1 4 0

Pearson

SECTION A

Answer ALL questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Between June 2017 and August 2017 the annual rate of inflation in Peru increased from 2.7% to 3.2%.

(a) Which one of the following is an example of a fiscal policy measure that could be used to reduce the rate of inflation?

(1)

A An increase in interest rates

B An increase in income tax rates

C An increase in government spending

D An introduction of maximum price controls

Answer ☐

(b) Explanation

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 1 = 4 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

2 In the Democratic Republic of Congo, tax revenues exceeded government expenditure by $43 million in 2015.

(a) Ceteris paribus, this means that

(1)

A the value of the multiplier would increase

B there was a net injection into the circular flow of income

C government expenditure would have to increase in the following year

D there was a net withdrawal from the circular flow of income

Answer ☐

(b) Explanation

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

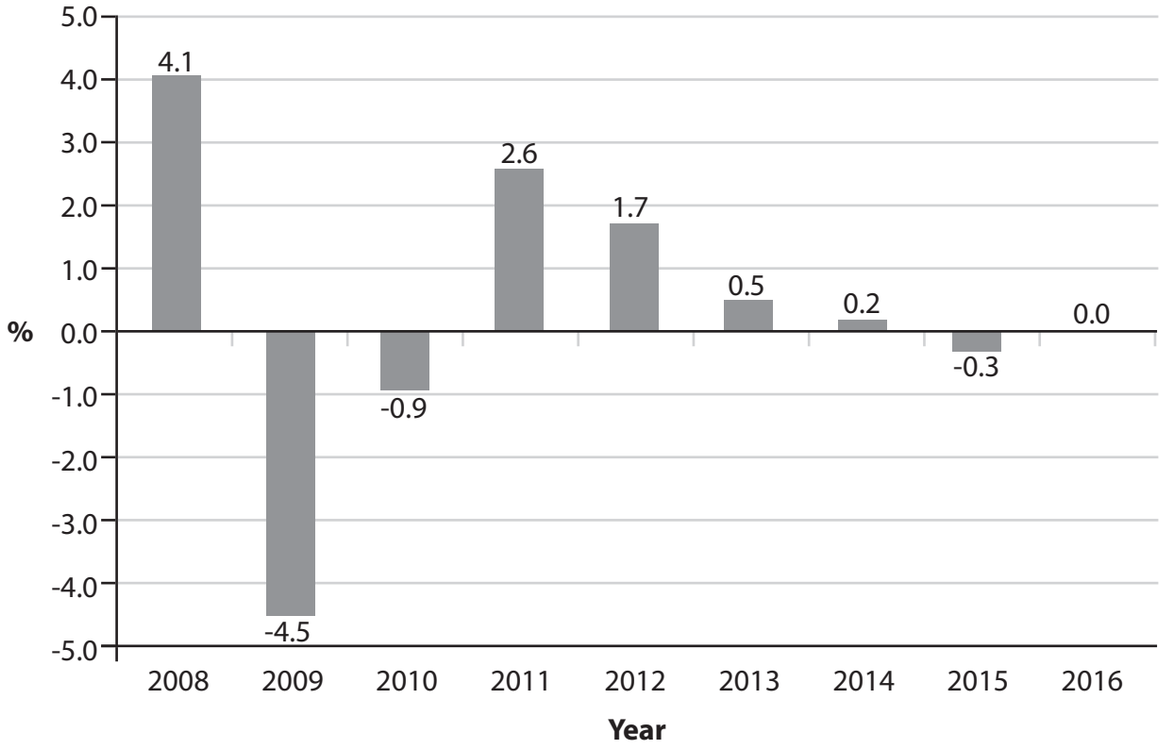
.....

.....

(Total for Question 2 = 4 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

3 The chart shows the annual percentage change in consumer prices as measured by the consumer price index (CPI) for Ireland between 2008 and 2016.



(Source: http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG)

(a) From this chart, it can be deduced that

(1)

A there was deflation between 2011 and 2013

B there was disinflation between 2009 and 2010

C average consumer prices were higher in 2013 than in 2011

D average consumer prices were lower in 2015 than in 2011

Answer

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

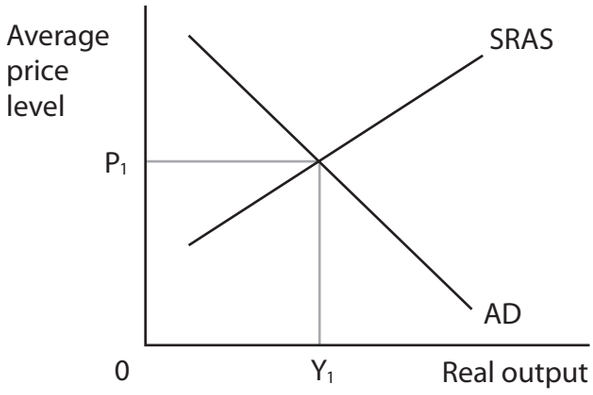
(b) Explanation

(3)

(Total for Question 3 = 4 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

4 The aggregate demand (AD) and short-run aggregate supply (SRAS) diagram represents the economy of Switzerland with equilibrium real output at Y_1 and price level at P_1.



(a) Which of the following are most likely to result from an increase in the value of Switzerland's currency against the euro and other major currencies?

	AD curve	SRAS curve
A	Leftward shift	Rightward shift
B	Rightward shift	Leftward shift
C	Leftward shift	Leftward shift
D	No shift	No shift

(1)

Answer

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

5 The UK Government plans to spend £17.6 billion building a new runway at Heathrow Airport. The final increase in GDP as a result of this investment is estimated to be £56.32 billion.

(a) In this case the value of the multiplier would be

(1)

A 0.3

B 1.0

C 3.2

D 4.0

Answer

(b) Explanation

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 5 = 4 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

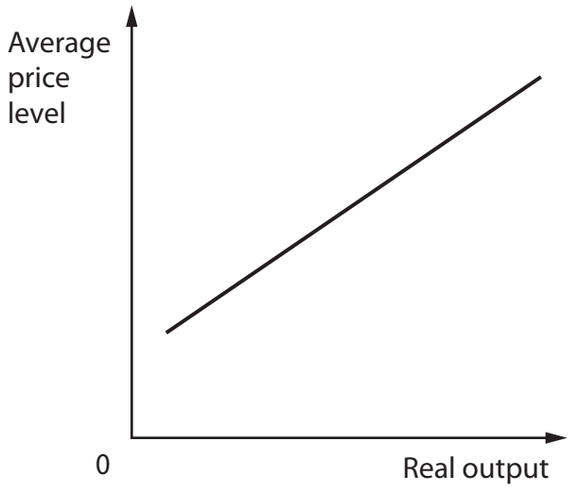
BLANK PAGE

QUESTION 6 BEGINS ON THE NEXT PAGE.

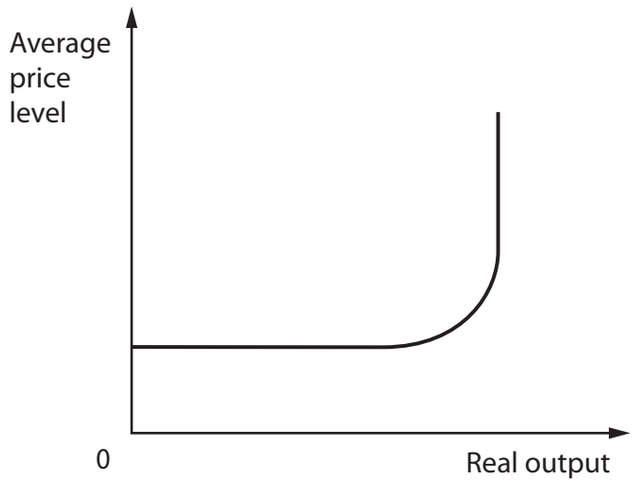
6 (a) Which one of the following diagrams illustrates a Keynesian aggregate supply (AS) curve?

(1)

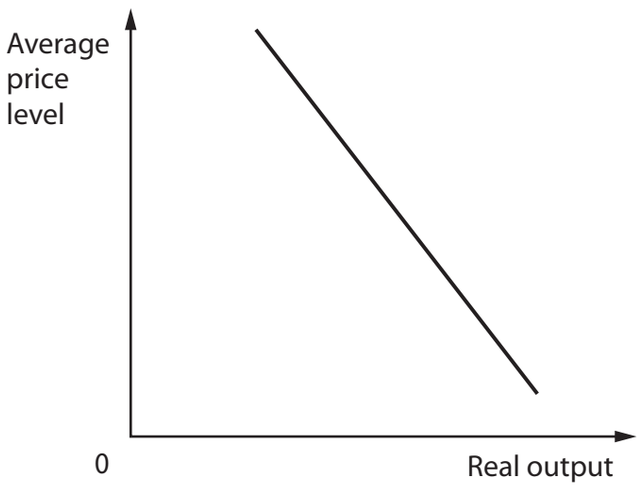
A



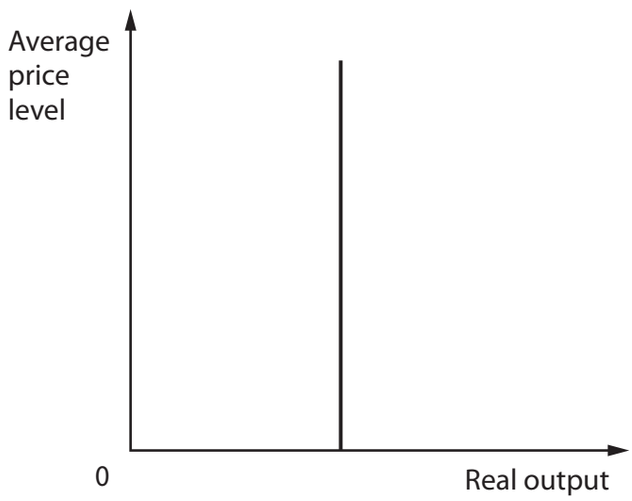
B



C



D



Answer

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

7 The table shows selected economic indicators for an economy in 2016.

Indicator	**Annual percentage change**
Nominal GDP growth	9.0%
Rate of inflation	6.5%
Population growth	2.5%

(a) The annual percentage change in real GDP per capita was

(1)

A 5.0%

B 2.5%

C 0.0%

D -2.5%

Answer

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

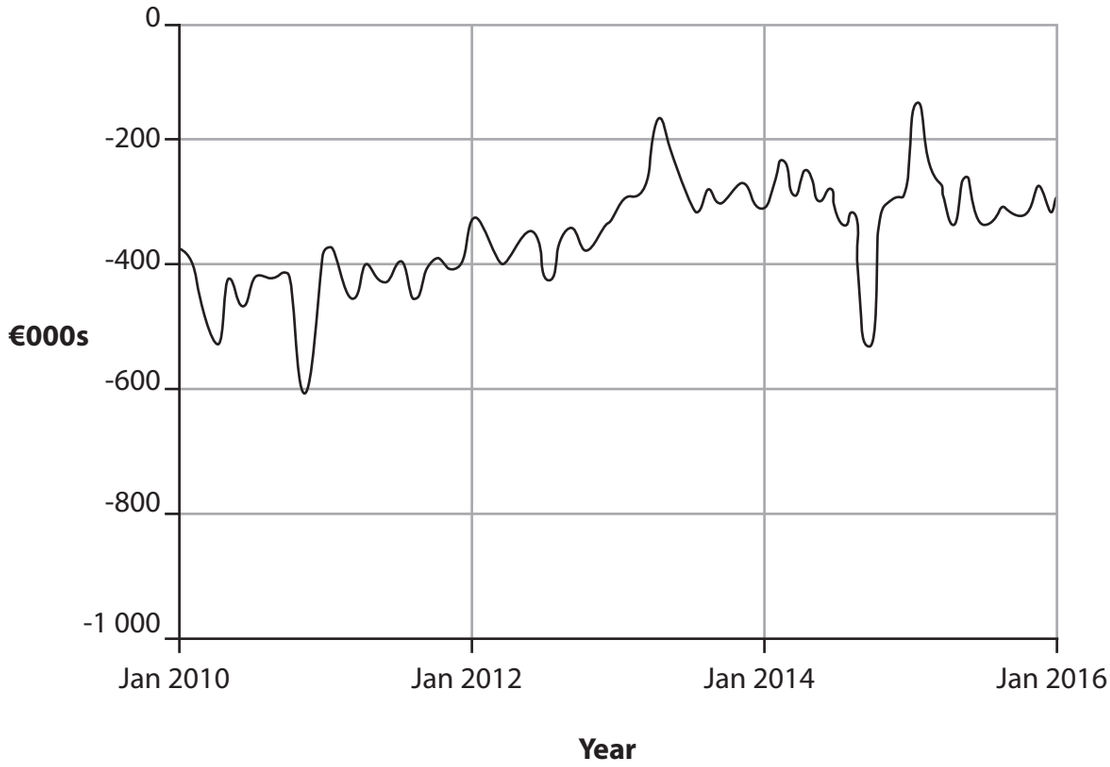
(b) Explanation

(3)

(Total for Question 7 = 4 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

8 The chart shows the balance of trade of Cyprus between January 2010 and January 2016.



(Source: http://www.tradingeconomics.com/cyprus/balance-of-trade)

(a) From this chart it can be deduced that, for the whole of this period,

(1)

A the value of exports was greater than the value of imports

B government expenditure was greater than tax revenues

C the value of savings was greater than the value of investment

D the value of imports was greater than the value of exports

Answer

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

SECTION B

Answer EITHER Question 9 OR Question 10.

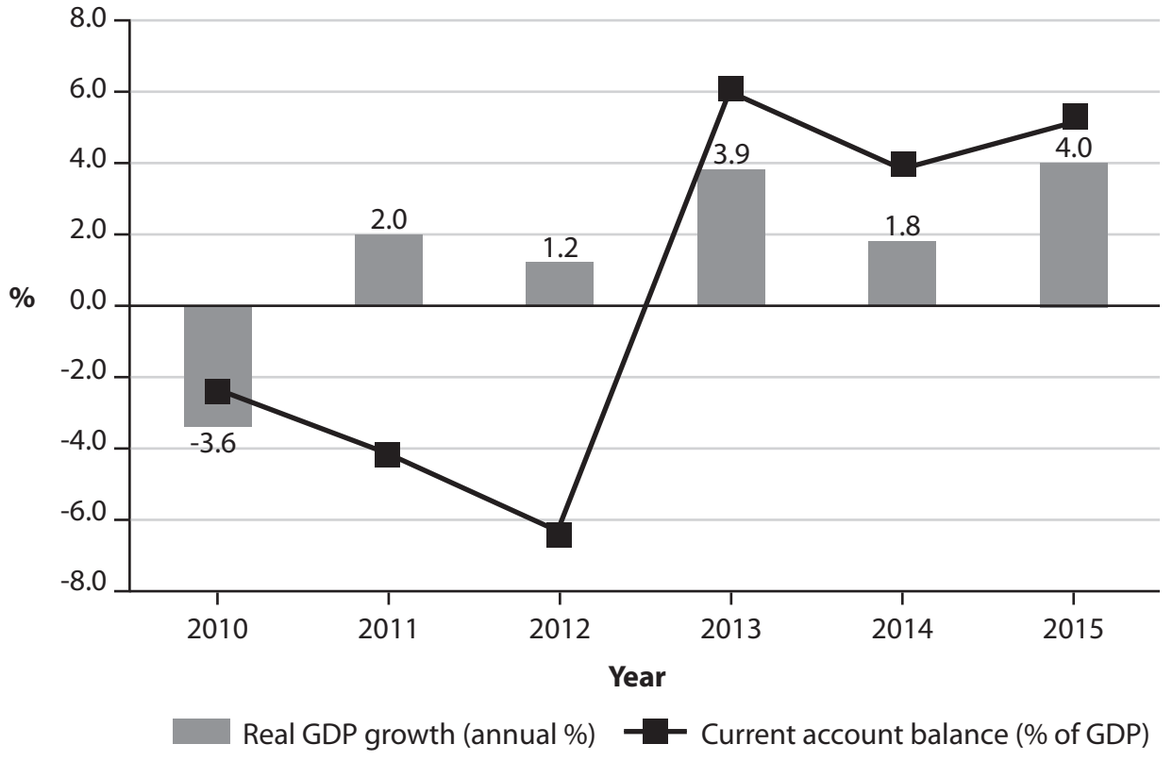
You are advised to spend 55 minutes on this question.

If you answer Question 9 put a cross in the box ☒ .

Question 10 starts on page 28.

9 The economy of Iceland

Figure 1 Annual percentage change in real GDP and balance of payments on current account as a percentage of GDP, 2010–2015



(Source: http://data.worldbank.org/country/Iceland)

Figure 2 Selected economic indicators, 2010–2015

	2010	2011	2012	2013	2014	2015
Consumption (annual % change)	-0.3	2.5	2.1	1.0	3.0	4.8
Investment (annual % change)	-8.6	11.6	5.3	2.2	16.0	18.6
Inflation (annual % change in CPI)	5.4	3.9	5.2	3.8	2.0	1.6
Budget balance (% of GDP)	-9.8	-5.6	-3.7	-1.8	-0.1	-0.5
Unemployment rate (ILO)	7.6	7.4	5.8	4.4	3.6	2.9

(Source: http://www.focus-economics.com/countries/iceland and http://data.worldbank.org/country/Iceland)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

Extract 1 Economic recovery

Between 2008 and 2010, the economy of Iceland contracted by 13%, while real wages fell by 10%. The unemployment rate, which had stood at less than 2% in 2008, reached 8% in 2009 while the rate of inflation more than doubled to 12%.

Before 2008, banking, energy and fishing were Iceland's most important industries. However, following the significant fall in the value of the krona (Iceland's currency) in 2008, the tourist industry has become increasingly important.

Tourism accounted for more than a quarter of Iceland's trade balance with 1 million foreign visitors in 2014 and 1.8 million in 2016. This provided a huge boost to the economy and a vital source of foreign currency.

(Source: adapted from http://www.theaustralian.com.au/news/world/the-times/icelands-economy-comes-in-from-the-cold/news-story/912212e2ae7d898e4a1f19f5bd7b67d4)

Extract 2 The financial sector

There are problems with the approach taken by the Government of Iceland to promote economic recovery. For example, the growth in investment by firms has been slower than would have been the case if there had not been a shortage of finance. Similarly, the growth in consumption has been slowed by a difficulty in obtaining finance for house purchases. There are restrictions on the movement of money into and out of Iceland. However, in June 2015, the Government announced plans to remove these restrictions. This move is an important step to enable banks to provide funds for investment and consumption.

(Source: adapted from http://www.worldfinance.com/infrastructure-investment/government-policy/failing-banks-winning-economy-the-truth-about-icelands-recovery)

(a) With reference to Figure 2, explain what is meant by *budget balance*.

(4)

(b) With reference to the information provided and your own knowledge, assess the likely impact of the falling rate of unemployment on the economy of Iceland.

(10)

(c) With reference to the information provided, explain how tourism contributes to the balance of payments on current account.

(6)

(d) With reference to the information provided and your own knowledge, assess the likely causes of change in the rate of economic growth in Iceland between 2014 and 2015.

(14)

(e) Evaluate the likely impact of a lack of funds for investment and consumption on Iceland's economy.

(14)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(a) With reference to Figure 2, explain what is meant by *budget balance*.

(4)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) With reference to the information provided and your own knowledge, assess the likely impact of the falling rate of unemployment on the economy of Iceland.

(10)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

(c) With reference to the information provided, explain how tourism contributes to the balance of payments on current account.

(6)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(d) With reference to the information provided and your own knowledge, assess the likely causes of change in the rate of economic growth in Iceland between 2014 and 2015.

(14)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

(e) Evaluate the likely impact of a lack of funds for investment and consumption on Iceland's economy.

(14)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

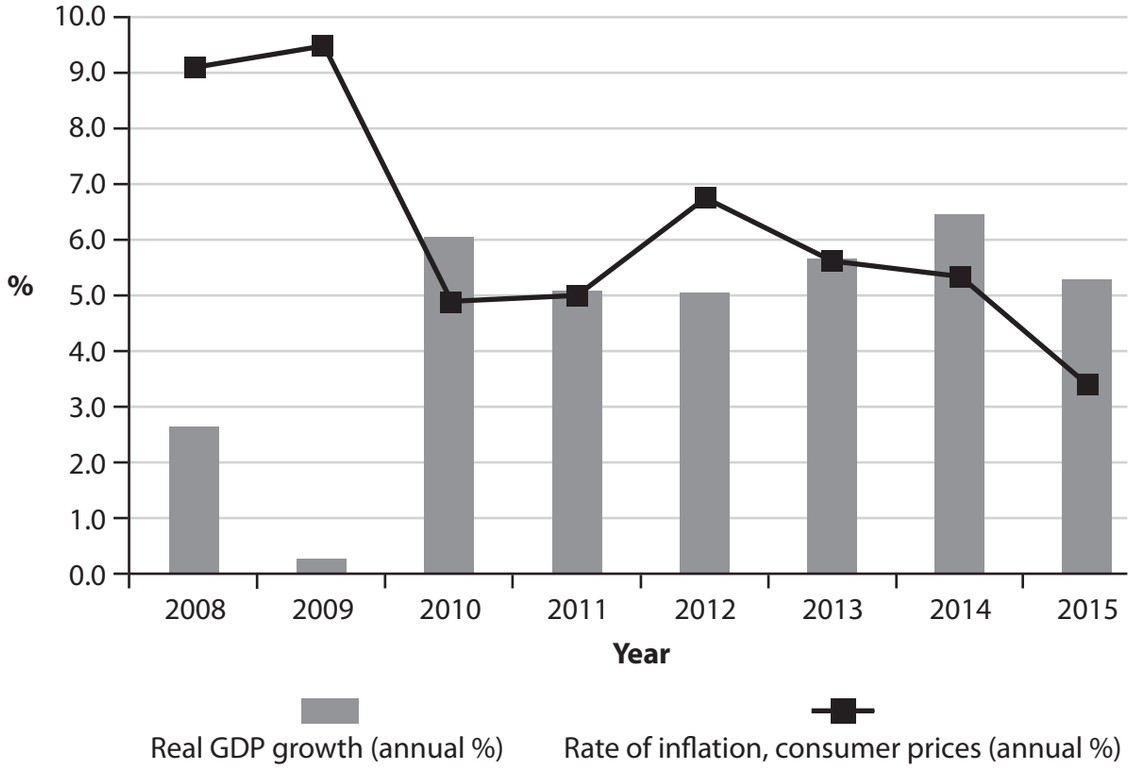
DO NOT WRITE IN THIS AREA

(Total for Question 9 = 48 marks)

If you answer Question 10 put a cross in the box ☒ .

10 The economy of Namibia

Figure 1 Annual percentage change in real GDP and the rate of inflation (CPI), 2008–2015



(Source: http://data.worldbank.org/country/namibia)

Figure 2 Macroeconomic indicators in selected developing countries, 2015

	Real GDP per capita in US$ (2010 exchange rate)	Current account of the Balance of Payments (% of GDP)	Human Development Index (HDI)
Namibia	6 000	-6.2	0.64
Botswana	7 080	9.3	0.69

(Source: http://data.worldbank.org/indicator and http://ieconomics.com/current-account-balance-percent-of-gdp and http://hdr.undp.org/en/countries)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

Extract 1 Economic growth

Namibia is one of the most unequal countries in the world. Relatively strong economic growth has not been sufficient to reduce income inequality and unemployment. Despite relatively high government spending on health and education, economic growth has not been accompanied by higher employment.

All major industries, including mining, tourism and fisheries, are affected by changes in demand from overseas markets. Therefore, employment, household income and government tax revenue can change due to factors beyond the control of the Namibian Government.

Investment in mining projects and the Government's reflationary fiscal policy have led to an increase in the rate of economic growth. The Government's policy priorities include increasing access to education and improving its quality. It also needs to deregulate the labour market.

Urbanisation and the growth of the mining sector have led to a rapid increase in demand for electricity. With no significant new electricity generation capacity, there has been a sustained increase in electricity prices.

(Source: adapted from https://www.worldbank.org/en/country/namibia/overview)

Extract 2 The tourist industry

The tourism sector has grown by an average of 8% per year between 2012 and 2016. The tourism industry is an important contributor to investment, employment and economic growth. The Government plans to invest in roads, railways and airports to support the tourist industry. However, demand for tourism is seasonal, which means that incomes do not flow evenly throughout the year.

(Source: adapted from https://www.newera.com.na/2017/04/21/tourism-sector-will-employ-64-000-by-2022/)

(a) With reference to the information provided, explain how reflationary fiscal policy may influence economic growth.

(6)

(b) With reference to the information provided, assess the benefits of economic growth on living standards in Namibia.

(10)

(c) With reference to Figure 2, explain **one** possible reason for the difference in HDI between Namibia and Botswana.

(4)

(d) With reference to the information provided, evaluate the main constraints on economic growth in Namibia.

(14)

(e) To what extent might supply-side policies be successful in helping the Namibian Government to achieve its macroeconomic objectives?

(14)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(a) With reference to the information provided, explain how reflationary fiscal policy may influence economic growth.

(6)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) With reference to the information provided, assess the benefits of economic growth on living standards in Namibia.

(10)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

(c) With reference to Figure 2, explain **one** possible reason for the difference in HDI between Namibia and Botswana.

(4)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(d) With reference to the information provided, evaluate the main constraints on economic growth in Namibia.

(14)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

(e) To what extent might supply-side policies be successful in helping the Namibian Government to achieve its macroeconomic objectives?

(14)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS

TOTAL FOR PAPER = 80 MARKS

P 5 5 4 6 0 A 0 3 9 4 0

BLANK PAGE

Every effort has been made to contact copyright holders to obtain their permission for the use of copyright material. Pearson Education Ltd. will, if notified, be happy to rectify any errors or omissions and include any such rectifications in future editions.

DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA