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 14 October 2019

Afternoon (Time: 1 hour 45 minutes) | Paper Reference **WEC12/01**

# Economics

## International Advanced Subsidiary
## Unit 2: Macroeconomic performance and policy

**You must have:**
Source Booklet (enclosed)

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** questions in Sections A, B and C.
- Answer **ONE** question in Section D.
- 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.*
- 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 in this section.**

**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 ☒.**

**1** The short-run Phillips curve illustrates a possible trade-off between

- ☒ **A** economic growth and income inequality
- ☒ **B** inflation and unemployment
- ☒ **C** economic growth and protection of the environment
- ☒ **D** inflation and income inequality

**(Total for Question 1 = 1 mark)**

**2** Ghana's rate of economic growth increased from 3.6% in 2016 to 8.5% in 2017.

Which **one** of the following is a likely result of this increase in the rate of economic growth?

- ☒ **A** An increase in unemployment
- ☒ **B** A decrease in investment
- ☒ **C** An increase in living standards
- ☒ **D** A decrease in tax revenues

**(Total for Question 2 = 1 mark)**

**3** The UK Government is spending £56 billion on building HS2, a high-speed railway network.

Which **one** of the following is also an injection into the circular flow of income?

- ☒ **A** Increased spending on imports
- ☒ **B** Increased spending on exports
- ☒ **C** Increased levels of saving
- ☒ **D** Increased income tax receipts

**(Total for Question 3 = 1 mark)**

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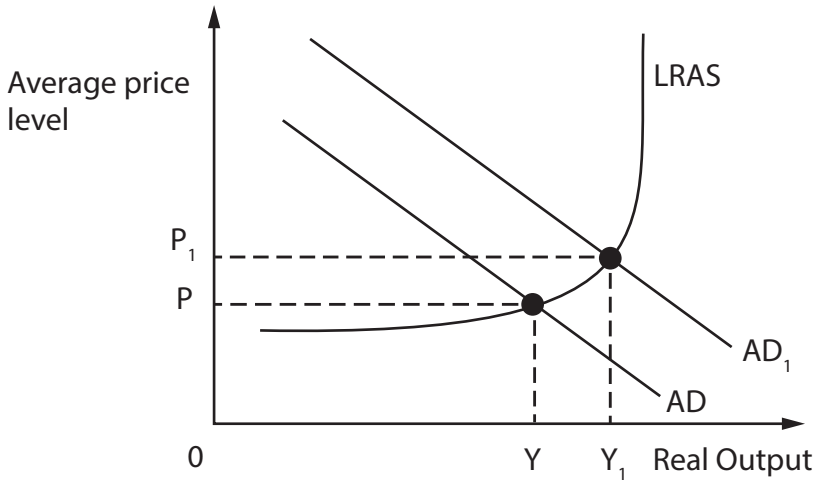
**4** In 2017 a fall in mining and manufacturing production led to the Brazilian economy operating below its productive potential.

Which **one** of the following is most likely to be associated with a negative output gap?

- ☒ **A** High unemployment
- ☒ **B** High business confidence
- ☒ **C** An increase in house prices
- ☒ **D** An increase in wellbeing

**(Total for Question 4 = 1 mark)**

**5** The diagram shows aggregate supply and aggregate demand for an economy.



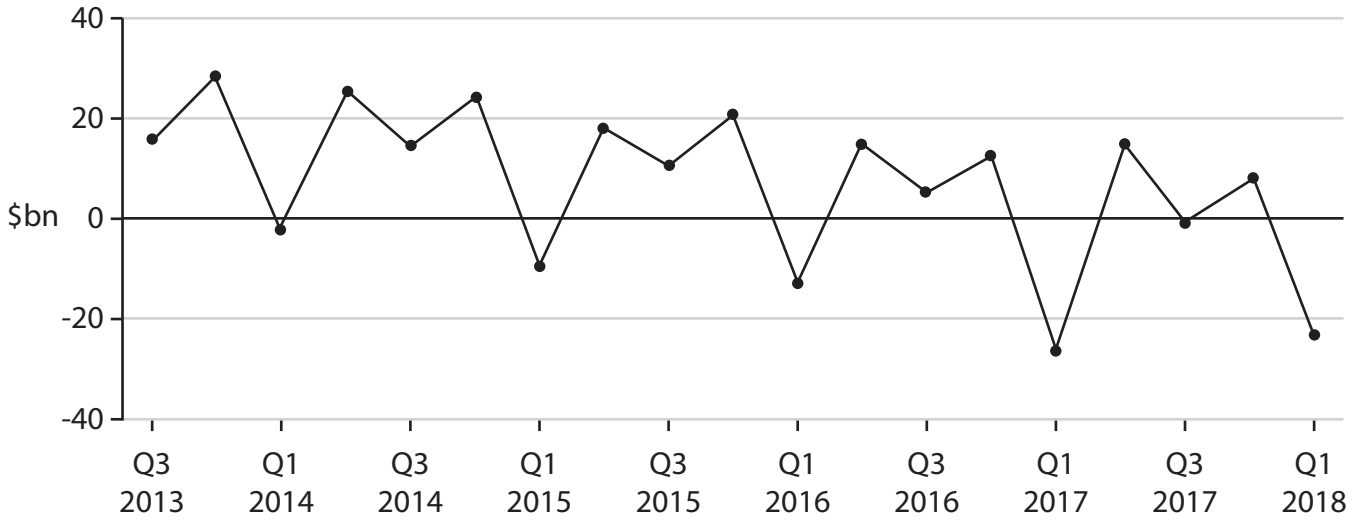

Which **one** of the following was the most likely cause of the change from AD to $AD_1$?

- ☒ **A** A decrease in government spending
- ☒ **B** An increase in interest rates
- ☒ **C** A decrease in net exports
- ☒ **D** An increase in consumption

**(Total for Question 5 = 1 mark)**

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**6** The chart shows a government budget between quarter 3 2013 and quarter 1 2018 ($ billion).




What can be deduced from this chart?

- ☒ **A** There was a budget surplus in quarter 3 2015
- ☒ **B** There was a budget deficit in quarter 3 2013
- ☒ **C** Tax receipts exceeded government expenditure in quarter 1 2017
- ☒ **D** Government expenditure exceeded tax receipts in quarter 3 2015

**(Total for Question 6 = 1 mark)**

**TOTAL FOR SECTION A = 6 MARKS**

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## SECTION B

**Answer ALL questions in this section in the space provided.**

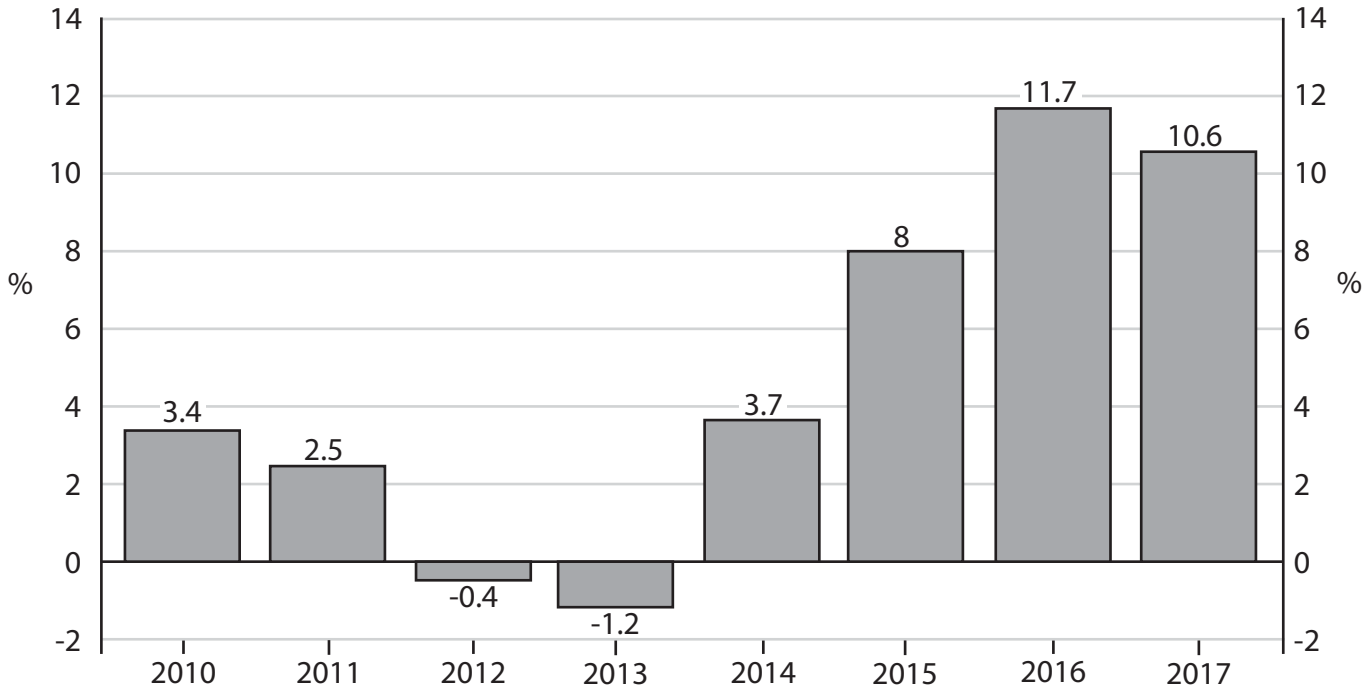
**7** Bosnia and Herzegovina, a country in Europe, experienced high levels of unemployment. In 2013 the unemployment rate was 46% and in 2018 it was 37%.

Explain **one** possible effect of high rates of unemployment on the public finances of Bosnia and Herzegovina.

**(Total for Question 7 = 4 marks)**

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**8** The chart shows the balance of payments on the current account for Thailand as a percentage of GDP for the period 2010-2017.




(Source: https://tradingeconomics.com/thailand/current-account-to-gdp)

With reference to the chart, explain the difference between a current account deficit and a current account surplus.

**(Total for Question 8 = 4 marks)**

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**9** Since 2012 the United Arab Emirates (UAE) has experienced a high rate of economic growth. This has resulted in rising business confidence.

Explain **one** possible impact of increased business confidence on the economy of the UAE.

**(Total for Question 9 = 4 marks)**

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**10** In 2017 real wages rose by 19% in the Ukraine. This led to a 7.8% increase in consumption.

Draw a SRAS and AD diagram to show the possible impact of this increase in consumption on the price level **and** real output.

**(Total for Question 10 = 4 marks)**

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**11** The table shows the nominal GDP and the population for the USA in 2016 and 2017.

| Year | GDP | Population | GDP per capita |
|---|---|---|---|
| **2016** | $18 624.5 billion | 0.3234 billion | $57 589.70 |
| **2017** | $19 390.6 billion | 0.3257 billion | |

Using the information above, calculate the change in GDP per capita between 2016 and 2017. Show your workings.

**(Total for Question 11 = 4 marks)**

**TOTAL FOR SECTION B = 20 MARKS**

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## SECTION C

**Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.**

**Write your answers in the space provided on the following pages.**

**12** (a) Define the term 'base rate of interest' (Figure 1).

**(2)**

(b) With reference to Figure 2, explain the term 'recession'.

**(4)**

(c) With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments.

**(6)**

(d) With reference to the information provided, examine the likely impact of inflation on the economy of Argentina.

**(8)**

(e) Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption.

**(14)**

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**12** (a) Define the term 'base rate of interest' (Figure 1).

**(2)**

(b) With reference to Figure 2, explain the term 'recession'.

**(4)**

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(c) With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments.

**(6)**

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(d) With reference to the information provided, examine the likely impact of inflation on the economy of Argentina.

**(8)**

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(e) Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption.

**(14)**

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**(Total for Question 12 = 34 marks)**

**TOTAL FOR SECTION C = 34 MARKS**

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**SECTION D BEGINS ON THE NEXT PAGE.**

## SECTION D

**Answer ONE question from this section.**

**Write your answer in the space provided.**

**EITHER**

**13** Productivity in France and Germany was significantly higher than in the UK between 2007 and 2016.

Evaluate the importance of productivity for the rate of economic growth in a country.

**(Total for Question 13 = 20 marks)**

**OR**

**14** In 2017 the rate of unemployment in South Africa was 27.7%. The Government is committed to reducing the unemployment rate by increasing spending on education and training.

Evaluate the use of supply-side policies as a means of reducing unemployment.

**(Total for Question 14 = 20 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 13** ☐ **Question 14** ☐

Write your answer here:

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**TOTAL FOR SECTION D = 20 MARKS**
**TOTAL FOR PAPER = 80 MARKS**

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Pearson Edexcel International Advanced Level

# Monday 14 October 2019

Afternoon | Paper Reference **WEC12/01**

# Economics

## International Advanced Subsidiary
## Unit 2: Macroeconomic performance and policy

**Source Booklet**
**Do not return this Source Booklet with the question paper.**

*Turn over* ▶

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**Sources for use with Section C.**

## The economy of Argentina

**Figure 1 The base rate of interest for Argentina, April 2013 – April 2018**

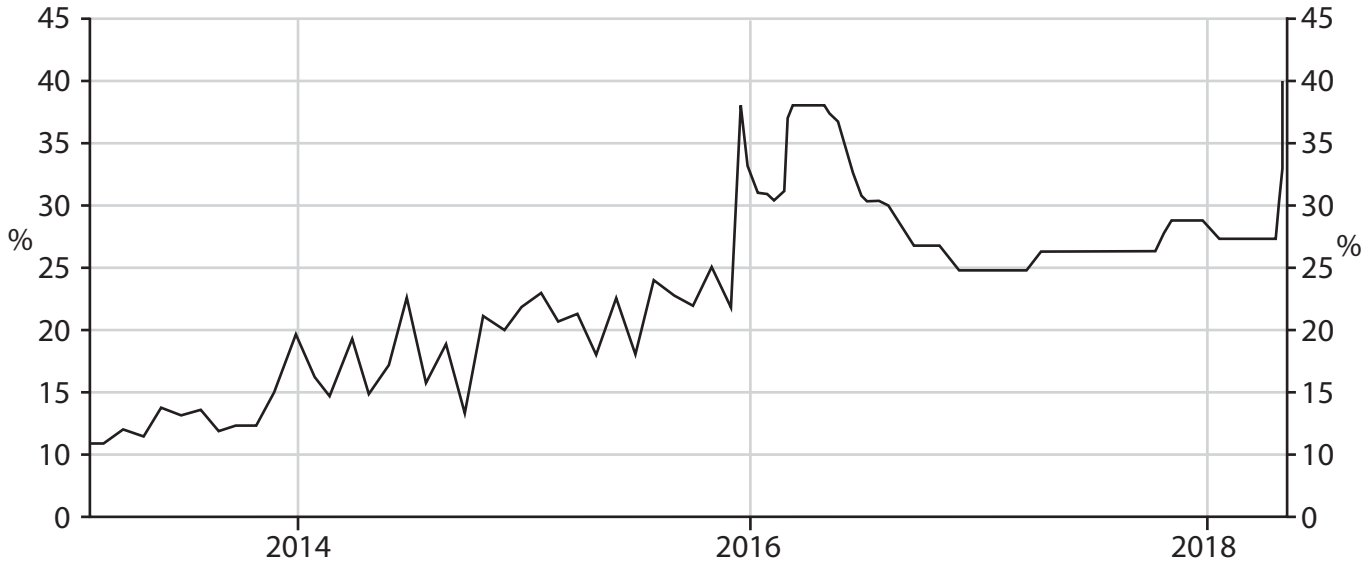
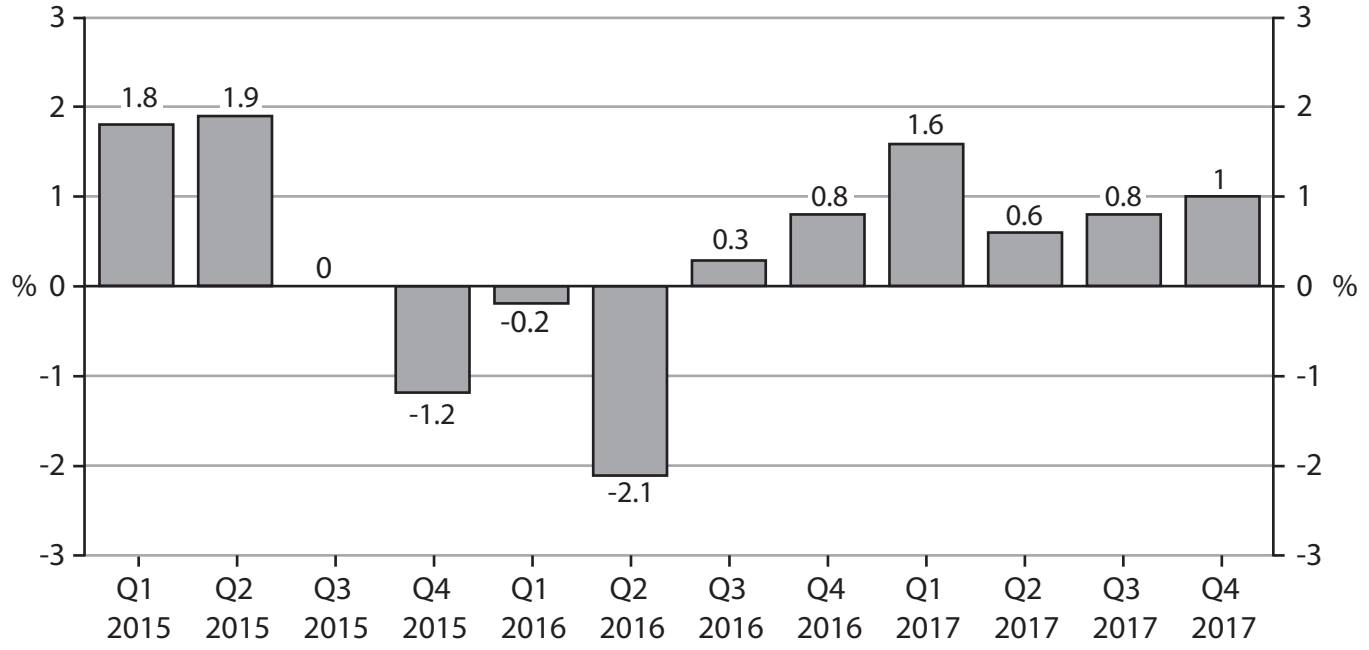



**Figure 2 Quarterly GDP growth rate (%), 2015 – 2017**



**Extract A The problems facing the economy**

Argentina is South America's second largest economy. Mauricio Marci was elected as its President in 2015. He faced the difficult task of controlling inflation which was between 30%–40% per year. He also needed to reduce the large budget deficit which was 7.1% of GDP. Between the end of 2015 and the beginning of 2016 the economy went into recession. This was caused by a significant reduction in government spending in an attempt to balance the budget. The purchasing power of consumers declined as wages fell and the rate of inflation rose to 40%. A fall in demand for Argentina's exports also contributed to the decrease in economic growth.

**Extract B Improving economic outlook**

Since coming out of recession in 2016, economic growth in Argentina has stabilised at an annual rate of around 3% per year. However, high inflation is still a major problem. Inflation was 25% in 2017. The effect of this inflation is damaging to both households and businesses. Rising prices have reduced domestic business investment as firms are unsure about future costs. One of the Argentinian Government's key economic policies is to stabilise prices to encourage consumption and investment.

A fall in the value of the Argentinian currency, the peso, against the dollar also caused inflationary pressure. In 2018 the peso lost around 12% of its value against the dollar. This makes importing goods from the USA very expensive. At the same time there was a decrease in the value of commodity exports, causing a current account deficit. In an attempt to reduce the rate of inflation and to stabilise the currency, the Central Bank of Argentina increased the base rate of interest to 40%.

However, the situation is not all bad. Real wages are rising in many sectors and consumer spending is increasing. Also, the Government plans to spend US$14 billion on infrastructure. These positive changes have helped Argentina to attract investment from Japanese transport companies such as Mitsubishi and Marubeni Corp, and the American technology company, Apple.

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**Acknowledgements**

Figure 1 based on data taken from https://tradingeconomics.com/argentina/interest-rate

Figure 2 based on data taken from https://tradingeconomics.com/argentina/gdp-growth

Extract A adapted from https://www.washingtonpost.com/opinions/why-the-financial-crisis-in-argentina-matters/2018/05/13/ee84f270-553f-11e8-a551-5b648abe29ef_story.html?noredirect=on&utm_term=.3e3e5547ece8 and https://www.economist.com/briefing/2014/02/17/a-century-of-decline

Extract B adapted from https://news.sky.com/story/why-argentinas-economy-is-in-trouble-again-11358456 and https://www.cnbc.com/2018/05/09/argentina-looks-be-headed-for-another-economic-storm.html