Write your name here

Surname	Other names

Pearson Edexcel International Advanced Level

Centre Number | Candidate Number

Economics

International Advanced Subsidiary/Advanced Level
Unit 2: Macroeconomic performance and policy

Sample assessment material for first teaching September 2018
Time: 1 hour 45 minutes

Paper Reference
WEC12/01

You must have:
Source booklet (enclosed), calculator.

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.*
- **Candidates may use any calculator permitted by Pearson regulations.**

Advice

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

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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 Which **one** of the following is a withdrawal from the circular flow of income?

☐ **A** Investment

☐ **B** Exports

☐ **C** Imports

☐ **D** Government expenditure

(Total for Question 1 = 1 mark)

2 In July 2016, the unemployment rate in Greece was 23.2%.

Which **one** of the following is most likely to reduce unemployment in Greece?

☐ **A** An increase in interest rates

☐ **B** An increase in indirect taxation

☐ **C** An increase in direct taxation

☐ **D** An increase in government spending

(Total for Question 2 = 1 mark)

3 The World Bank calculates a 'PPP-adjusted level of GDP' for different countries.

What is compared to calculate Purchasing Power Parity (PPP)?

☐ **A** The price of a basket of comparable goods and services in different countries

☐ **B** The value of the currency of one country to the US dollar

☐ **C** Life expectancy and educational attainment in different countries

☐ **D** Inflation rates in different countries over a given time period

(Total for Question 3 = 1 mark)

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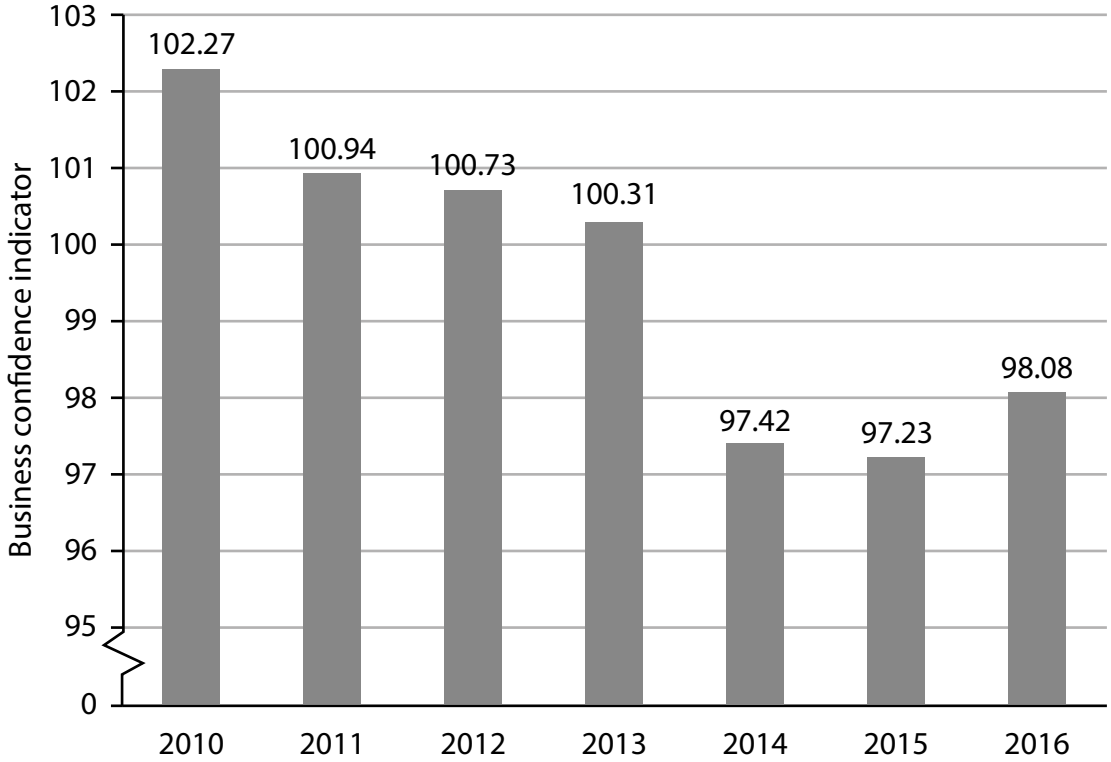
4 The chart shows the Business Confidence Indicator for Chile.



(Source: https://data.oecd.org/leadind/business-confidence-index-bci.htm#indicator-chart)

The Business Confidence Indicator is a measure of how confident businesses are about future sales.

Which **one** the following is most likely to result from the change in business confidence in Chile between 2010 and 2015?

		Real output	Price level
☒	**A**	Fall	Rise
☒	**B**	Fall	Fall
☒	**C**	Rise	Rise
☒	**D**	Rise	Fall

(Total for Question 4 = 1 mark)

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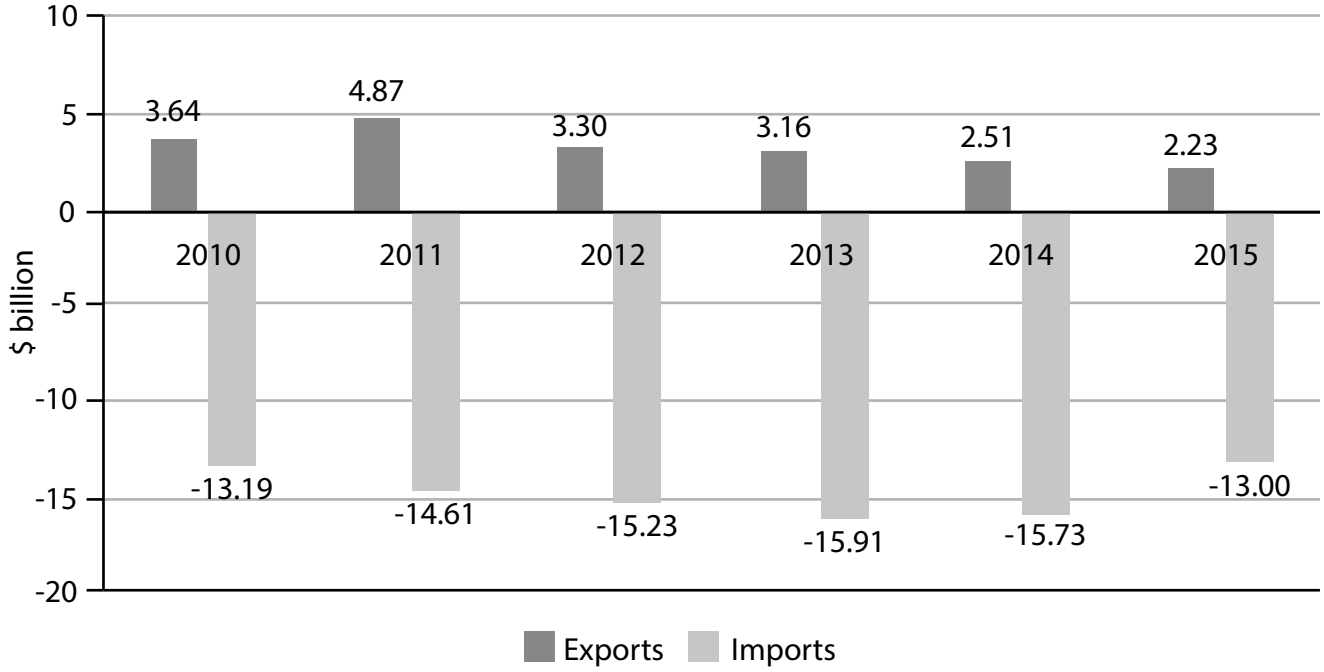
5 The chart shows the balance of trade between 2010 and 2015 for Lebanon.



(Source: http://blog.blominvestbank.com/lebanons-balance-of-trade-continued-to-show-a-decline-in-its-trade-deficit-by-september/)

Which **one** of the following can be deduced from the chart?

☒ **A** Lebanon's fiscal deficit was $12.75bn in 2013.

☒ **B** Lebanon's net trade balance was -$10.77bn in 2015.

☒ **C** Lebanon's net trade balance worsened each year between 2010 and 2015.

☒ **D** Lebanon had a fiscal deficit in each year between 2010 and 2015.

(Total for Question 5 = 1 mark)

6 Donald Trump, the President of the USA, has proposed a reduction in the top rate of income tax from 39.6% to 33%.

What would be the effect of this change in the marginal rate of tax?

☒ **A** It would decrease wealth.

☒ **B** It would increase withdrawals.

☒ **C** It would decrease the value of the multiplier.

☒ **D** It would increase the value of the multiplier.

(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 In the UK, 34% of graduates who complete university find themselves working in lower-paid, non-graduate jobs. It has been estimated that 3.4 million people were working part-time because they could not find full-time work or because they wanted more hours in their contract.

With reference to the information above, explain the term 'underemployment'.

(Total for Question 7 = 4 marks)

8 Until 2017, Hungary's tax on company profits was 10% up to $1.74 million. Profits above this were taxed at 19%. From 2017, the government reduced the rate to 9% on all business profits.

Draw a short-run AS and AD diagram to show the effect of this reduction in tax on the price level and real output.

(Total for Question 8 = 4 marks)

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9 In 2014, the Bank of England estimated the marginal propensity to consume of UK consumers was 0.5.

The UK government will spend £30 billion on improving railway services.

Using the information above, calculate the total increase in national income resulting from the £30 billion increase in investment.

(Total for Question 9 = 4 marks)

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10 The Bank of Japan has used asset purchases to increase the money supply. Between November 2014 and April 2016, asset purchases equalled ¥7 trillion.

Explain how asset purchases will likely affect the price level.

(Total for Question 10 = 4 marks)

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11 Between July 2015 and July 2016, Liberia's currency, the Liberian dollar, fell by 8.2% against the US dollar.

Explain the likely impact on Liberia's net trade balance of this change in the exchange rate.

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(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 interest rate' (Extract B, line 1).

(2)

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

(4)

(c) With reference to Figure 1 and Extract A, analyse **one** cause of economic growth in India.

(6)

(d) With reference to the information provided, discuss the likely impact of 'rapid economic growth' (Extract A, line 2) on the Indian economy.

(14)

(e) With reference to Extract B, examine the likely economic impact on the Indian economy of the reduction in the base interest rate.

(8)

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12 (a) Define the term 'base interest rate' (Extract B, line 1).

(2)

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

(4)

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(c) With reference to Figure 1 and Extract A, analyse **one** cause of economic growth in India.

(6)

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(d) With reference to the information provided, discuss the likely impact of 'rapid economic growth' (Extract A, line 2) on the Indian economy.

(14)

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(e) With reference to Extract B, examine the likely economic impact on the Indian economy of the reduction in the base interest rate.

(8)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2016, the GDP of Argentina was forecast to contract by 2% and consumer price inflation was predicted to increase by 4%.

Evaluate supply-side policies that would help Argentina achieve economic growth without inflationary pressure.

(Total for Question 13 = 20 marks)

OR

14 'The availability of credit has a significant influence over the level of consumption.'

Evaluate this view that the availability of credit is the most important factor influencing consumption.

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

Write your answer here:

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TOTAL FOR SECTION C = 20 MARKS

TOTAL FOR PAPER = 80 MARKS

Pearson Edexcel
International Advanced Level

Economics

International Advanced Subsidiary/Advanced Level
Unit 2: Macroeconomic performance and policy

Sample assessment material for first teaching
September 2018
Source booklet

Paper Reference
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Sources for use with Section C.

The Indian economy

Figure 1 – Real GDP per capita growth (annual %), 2010-2015

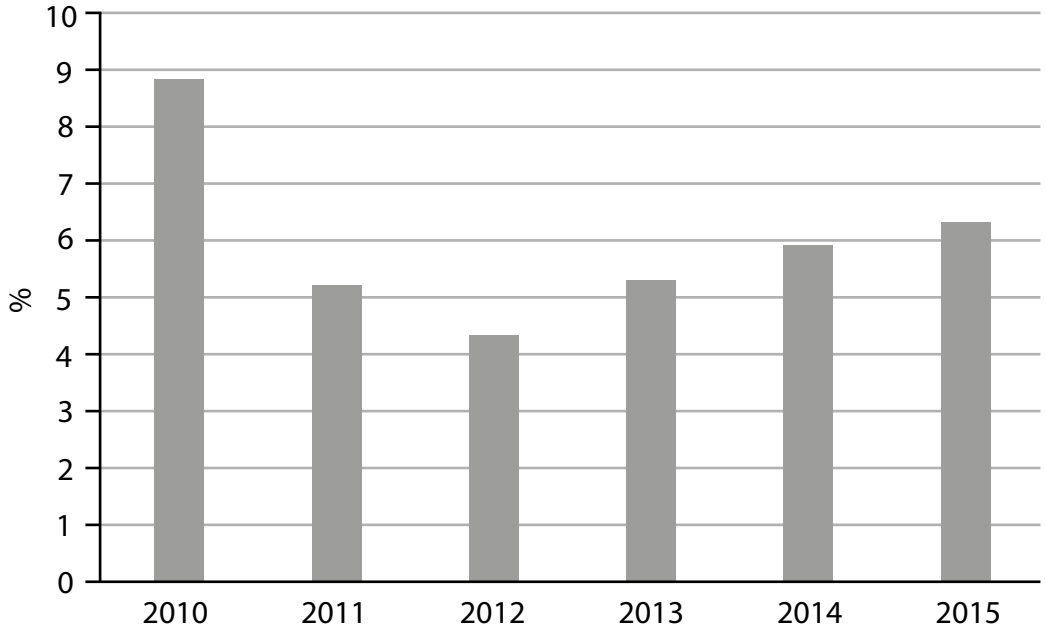
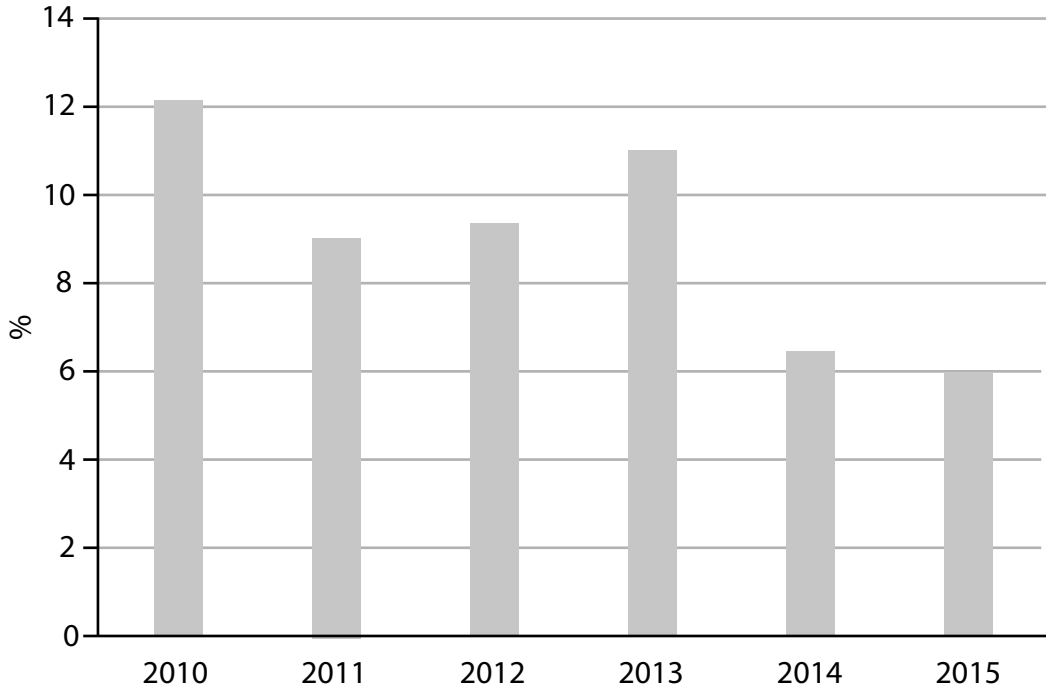


Figure 2 – The rate of inflation, as measured by the consumer price index (annual %), 2010-2015



Extract A – India's rapid economic growth

India's economic growth rate has remained rapid while growth rates in China, Brazil and Russia have slowed. This rapid economic growth has been supported by public sector pay increases, an increase in the quantity of exports and growth in private sector investment.

India's economic growth will support continued improvements in the standard of living. Rural areas are benefiting from the agricultural sector performing well. Urban areas are benefiting from growth in the manufacturing and services sectors. The growth in GDP is helping both the poor and rich.

In 2012, the Government spent more than it earned through taxation, and had a budget deficit at 5.8% of GDP. Between 2012 and 2015 economic growth increased resulting in increased tax revenues. This helped reduce the size of the deficit to just 3.9% of GDP in 2015. With economic growth continuing into 2016, imports grew by 8.1% in October 2016. This contributed to an increase in the balance of trade deficit of 4.8%.

With rapid economic growth, some Indian cities are struggling with pollution. In November 2016, Delhi experienced such severe air pollution that the local government closed schools for three days and banned cars in the city.

Extract B – India's central bank cuts base interest rates

In November 2016, India's central bank cut its base interest rate from 6.5% to 6.25%. It decided to do so because of slowing global economic growth. This was the lowest base rate in India for more than five years. Historically, the Indian Central Bank aimed to achieve currency stability and economic growth.

India is one of the fastest growing economies in the world and its economy seems relatively sheltered from the slowdown affecting other countries in the region. These factors make it very attractive to foreign investors.

Global growth has been slowing more than anticipated through 2016 and investment has been low. Meanwhile, several risks have worsened the economic outlook, including the United Kingdom's decision to leave the European Union, problems in the banking sector in Europe, a Chinese slowdown and rising protectionism.

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Acknowledgements

Figure 1 based on data taken from http://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GDP.PCAP.KD.ZG&country; Extract A adapted from http://economictimes.indiatimes.com/news/economy/indicators/indias-gdp-growth-to-remain-strong-world-bank/articleshow/54667642.cms; Extract B adapted from 'India's Central Bank Cuts Interest Rates', Gabriele Parussini, 04 October 2016, http://www.wsj.com/articles/indias-central-bank-cuts-interest-rates-1475572276