PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



EXAM QUESTION PACK

UNIT 2: AGGREGATE DEMAND (AD)

SCORE	PERCENTAGE
/187	%

STEMUP

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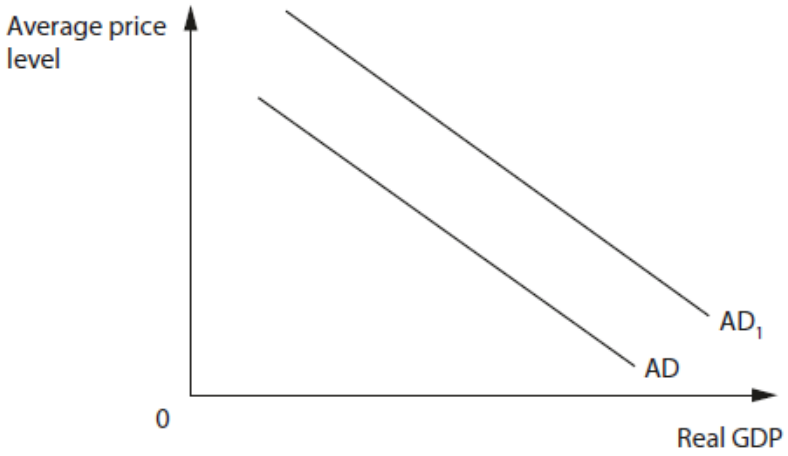
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Q1.

The diagram shows a shift in the aggregate demand curve for an economy.



Which of the following combinations was the most likely cause of the change from AD to AD_1?

		Interest rate	Exchange rate
☒	**A**	Rise	Fall
☒	**B**	Rise	Rise
☒	**C**	Fall	Fall
☒	**D**	Fall	Rise

(Total for question = 1 mark)

Q2.

In 2021 average house prices in the Philippines fell by over 10%. This had a significant impact on existing homeowners.

Based on this information, draw an AD and LRAS diagram to show the likely impact of this fall in house prices on the price level **and** real output in the Philippines.

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(Total for question = 4 marks)

Q3.

Study Figure 1, Figure 2, Extract A and Extract B in the Source Booklet before answering this question.

With reference to Figure 2 and Extract A, analyse **two** factors that influence business investment.

(Total for question = 6 marks)

Q4.

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering this question.

With reference to Figure 1 and the first paragraph of Extract A, analyse **two** influences on the level of investment in the eurozone.

(Total for question = 6 marks)

Q5.

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering this question.

With reference to Extract A, analyse **two** reasons for the improvement in living standards in Ireland between
2015 and 2022.

(Total for question = 6 marks)

Q6.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

The table shows average UK house prices between November 2022 and January 2023.

Month and year	Average house price (£)
November 2022	294 693
December 2022	293 162
January 2023	289 818

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

☒ **A** Existing homeowners experienced negative wealth effects

☒ **B** Existing homeowners experienced an increase in consumer confidence

☒ **C** Between November 2022 and January 2023 average house prices fell by 0.52%

☒ **D** There will be a greater incentive for construction companies to build new houses

(Total for question = 1 mark)

Q7.

The table shows the average value of personal disposable income in China, in Chinese RMB, 2014–2018.

Year	Personal disposable income (Chinese RMB)
2014	29381
2015	31790
2016	33616
2017	36396
2018	39251

Using 2018 as the base year, calculate an index number for personal disposable income in 2014. Show your workings.

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(Total for question = 4 marks)

Q8.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

The net monthly balance of trade deficit in goods and services for Honduras increased from $475.8 million in April 2022 to $647.9 million in April 2023.

Which **one** of the following is the most likely reason for this increase in the balance of trade deficit for Honduras?

☒ **A** A decrease in its rate of inflation relative to its trading partners

☒ **B** An increase in the external value of its currency

☒ **C** A decrease in the real incomes of its citizens

☒ **D** An increase in the quality of its goods and services

(Total for question = 1 mark)

Q9.

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.

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(Total for question = 4 marks)

Q10.

The table shows the value of exports and imports of goods and services, $ billion, for Thailand in 2020 and 2021.

	Exports ($ billion)	Imports ($ billion)
2020	208	187
2021	257	230

Calculate the *change* in Thailand's balance of trade between 2020 and 2021.
Show your workings.

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(Total for question = 4 marks)

Q11.

The table shows the value of Canada's exports and imports of goods and services, $ billion, 2019–2020.

	Exports ($ billion)	Imports ($ billion)
2019	555.8	583.6
2020	477.1	510.8

(Source adapted from: https://data.worldbank.org/country/canada)

Calculate the *change* in Canada's balance of trade between 2019 and 2020.
Show your workings.

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(Total for question = 4 marks)

Q12.

Between January 2016 and January 2018 the price of oil rose from $30 per barrel to $65 per barrel. France is a net importer of oil.

Draw a short-run AS and AD diagram to show the effect of the increase in the price of oil on the price level and real output for France.

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(Total for question = 4 marks)

Q13.

Between June 2021 and June 2022 the savings ratio in the USA fell from 9.5% to 5.1%.

Draw an AD and SRAS diagram to show the likely impact of this change in the savings ratio on the economy of the USA.

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(Total for question = 4 marks)

Q14.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

The table shows Mexico's consumer confidence index (CCI), April 2021 to April 2023.

Year	CCI
April 2021	101.5
April 2022	102.8
April 2023	103.4

The CCI is a measure of consumers' willingness to spend.

With reference to the above table, which **one** of the following is most likely to result from this change in consumer confidence between April 2021 and April 2023?

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

(Total for question = 1 mark)

Q15.

Between quarter 2 2022 and quarter 2 2023 average house prices in Canada decreased by 8.5%.

With reference to the information above, explain **one** likely macroeconomic impact of this decrease in house prices on existing homeowners.

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(Total for question = 4 marks)

Q16.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

In 2017 Turkey's deficit on the current account of the balance of payments increased to $4.2 billion.

This increase in the deficit on the current account is most likely to have resulted from

☒ **A** an increase in the value of imports

☒ **B** an increase in the value of exports

☒ **C** a decrease in government spending

☒ **D** a decrease in employment

(Total for question = 1 mark)

Q17.

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering the question.

Define the term 'Consumption' (Extract A, line 9).

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(Total for question = 2 marks)

Q18.

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering this question.

Define the term 'corporation tax' (Extract A, lines 4 and 5).

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(Total for question = 2 marks)

Q19.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

Which **one** of the following is most likely to cause a deterioration in a developed country's trade balance?

☒ **A** An increase in the non-price competitiveness of the country's products

☒ **B** A fall in the real incomes of the country's citizens

☒ **C** A fall in the non-price competitiveness of a major trading partner's products

☒ **D** An increase in the country's exchange rate against other currencies

(Total for question = 1 mark)

Q20.

Between May 2022 and April 2023 the central bank of Nigeria increased the country's base rate of interest by six percentage points.

Draw an AD and LRAS diagram to show the effect of this increase in the base rate of interest on *consumption*, the price level and real output.

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(Total for question = 4 marks)

Q21.

Between October 2022 and February 2023 consumer confidence increased in the eurozone.

Draw an AD and SRAS diagram to show the likely impact of this increase in consumer confidence in the eurozone.

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(Total for question = 4 marks)

Q22.

In 2019 the new President of the European Central Bank asked governments of eurozone countries to cut taxation and increase government expenditure to stimulate the rate of economic growth.

Evaluate fiscal policy instruments as a means of increasing the rate of economic growth.

(Total for question = 20 marks)

Q23.

In quarter 1 2019 the unemployment rate in South Africa was 27.6%. In quarter 2 it increased to 29%. An additional 455 000 workers became unemployed.

Evaluate the likely impact of an increase in the unemployment rate on workers, public finances and resource utilisation.

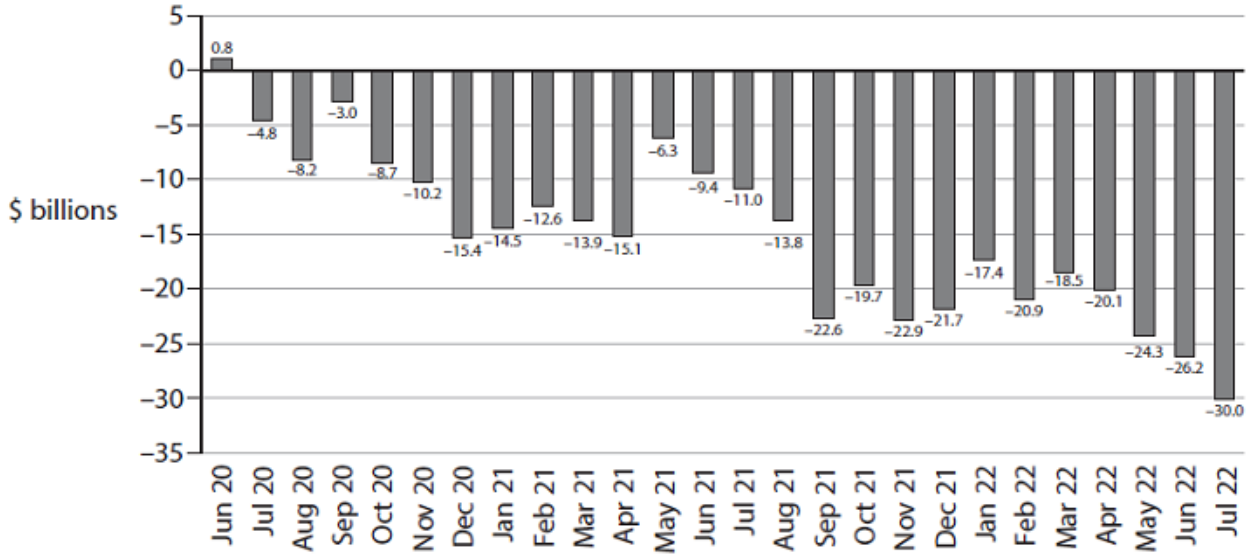
(Total for question = 20 marks)

Q24.

Study Figure 1 and Extract A in the Source Booklet before answering this question.

The Indian economy

Figure 1 Balance of trade, June 2020 to July 2022



Extract A Balance of trade, inflation and economic growth

In 2022 the Indian economy was experiencing several challenges following the global health crisis. In particular, there was a rising rate of inflation caused by its dependence on imported oil. Oil accounts for 30% of India's imports by value. This is more than double the average of 14.7% for other major Asian economies, such as China, Japan and South Korea. In July 2022 India reported a record balance of trade deficit of $30 billion, largely caused by the increased expenditure on imported oil. This deficit was one of the largest of all the Asian economies. Economists expect the rate of inflation to increase which will have a further negative impact on India's balance of trade.

The rate of inflation was 7.01% in June 2022 compared with June 2021. This was the second highest rate of inflation of the larger Asian economies. This higher rate of inflation reduced the purchasing power of consumers in India. As a result, many consumers were struggling to afford basic necessities. According to economists there were increasing signs that consumer expenditure would increase at a slower rate in the second half of 2022 than in the first half of 2022. This was likely to cause a fall in the rate of economic growth.

During 2022, India's currency, the rupee, fell in value against the US dollar. In order to prevent the rupee from falling further, and to control the rising rate of inflation, India's central bank raised the country's base rate of interest to 4.9% in June 2022. This represented an increase of 0.5 percentage points from the previous month.

Unlike several other Southeast Asian countries, exports of services contribute more to India's economic growth rate than exports of goods.

The Asian Development Bank (ADB) decreased its projected GDP growth rate for India to 6.7% for 2022. This was as a result of the high rate of inflation in India and the deflationary monetary policy adopted by India's central bank. The ADB predicted a small increase in consumer expenditure in the second half of 2022. However, it believed that this increase in consumption will not be sufficient to maintain India's rate of economic growth.

Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7).

(Total for question = 8 marks)

Q25.

With reference to Figure 1 and Extract A, examine the likely impact of a fall in business confidence on Germany's real output.

(Total for question = 8 marks)

Q26.

Study Figure 1, Extract A and Extract B in the Source Booklet before answering this question.

With reference to the third paragraph of Extract A, explain the term ‘exchange rate’.

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(Total for question = 4 marks)

Q27.

The chart shows the value of the Canadian dollar in terms of the US dollar exchange rate, January 2018 to December 2018.



(Source: https://www.cbc.ca/news/business/loonie-canadian-dollar-1.4964691)

What can be deduced from this chart?

☒ **A** Canadian exports will be less competitive in the USA

☒ **B** Canadian imports from the USA will be more competitive

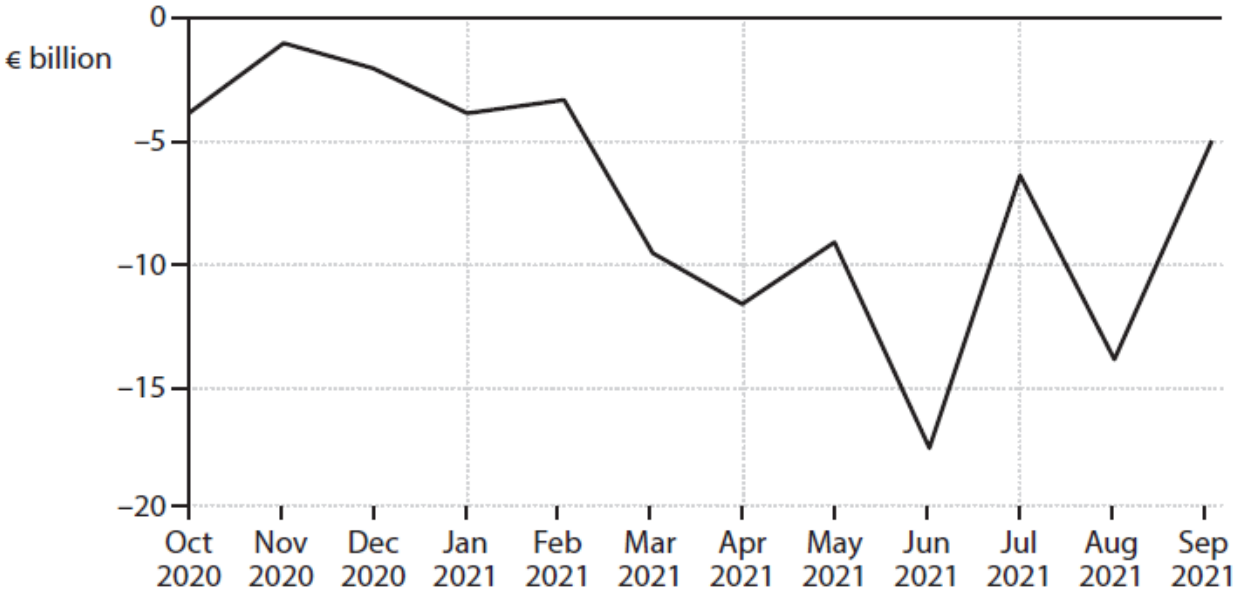
☒ **C** Between the start of February and the end of June, the Canadian dollar increased in value against the US dollar

☒ **D** Between the start of October and the end of December, the Canadian dollar decreased in value against the US dollar

(Total for question = 1 mark)

Q28.

The chart shows Austria's net monthly balance of trade in goods and services, October 2020 to September 2021.



With reference to the chart, explain **one** likely cause of the deficit in Austria's balance of trade in goods and services.

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(Total for question = 4 marks)

Q29.

In September 2020 the average house price in the UK was £258 155. By September 2021 the

average house price had risen by 11.5%.

With reference to this information, explain **one** likely macroeconomic impact of an increase in house prices on existing homeowners.

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(Total for question = 4 marks)

Q30.

In the first quarter of 2019 average house prices decreased by 15% in real terms in Sydney, Australia.

Explain **one** possible impact of this change in house prices on the level of consumption.

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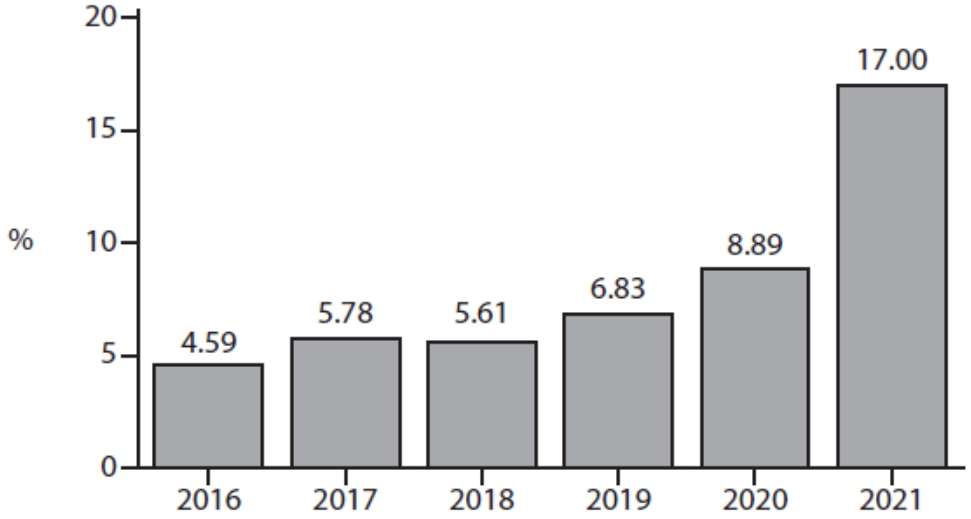
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(Total for question = 4 marks)

Q31.

The chart shows the savings ratio for Latvia between 2016 and 2021.



(Source adapted from: https://tradingeconomics.com/latvia/gross-household-saving-rate-b8g-b6gd8net100-eurostat-data.html)

With reference to the trend shown in the chart, explain what is meant by the 'savings ratio'.

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(Total for question = 4 marks)

Q32.

In 2022 average house prices increased by 6% in India. For example:

- in the city of Bengaluru, average house prices increased by 9%
- in the city of Ahmedabad, average house prices increased by 3%.

With reference to the data, explain what is meant by the 'wealth effect'.

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(Total for question = 4 marks)

Q33.

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.

(Total for question = 6 marks)

Q34.

In China, government expenditure was CN¥24.64 trillion in 2021 and CN¥20.37 trillion in 2022.

Which **one** of the following is the percentage decrease in China's government expenditure between 2021 and 2022?

- ☒ **A** 4.27
- ☒ **B** 17.33
- ☒ **C** 20.96
- ☒ **D** 82.67

(Total for question = 1 mark)

Q35.

In 2022 the Government of China decided to invest 1.48 trillion yuan in many new transportation, energy and telecommunication infrastructure projects.

Evaluate the likely benefits of an increase in government expenditure on infrastructure.

Refer to a country of your choice in your answer.

(Total for question = 20 marks)

Q36.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

Which **one** of the following is most likely to result in an increase in investment?

☒ **A** An increase in the rate of corporation tax

☒ **B** An increase in the rate of tax relief for investment

☒ **C** An increase in the central bank's interest rate

☒ **D** An increase in commercial banks' reserve asset (liquidity) requirements

(Total for question = 1 mark)

Q37.

The table shows the value of gross investment in Tanzania for 2015 and 2020.

	Gross investment ($ billions)
2015	15.5
2020	25.6

(Source: https://data.worldbank.org)

With reference to the table, explain what is meant by 'gross investment'.

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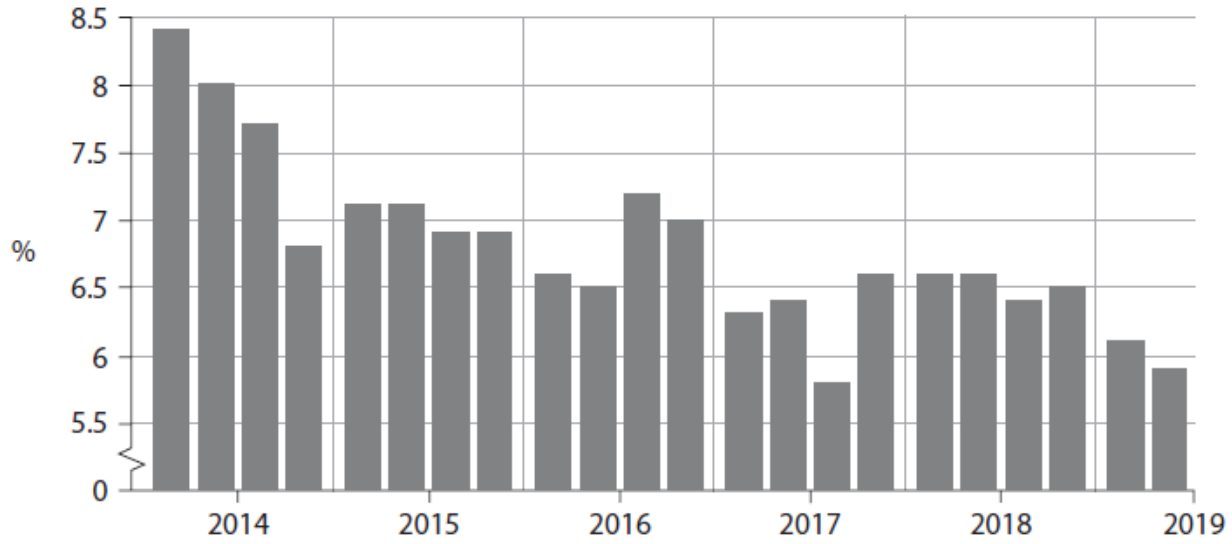
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(Total for question = 4 marks)

Q38.

The chart shows Portugal's household savings ratio by quarter, Q1 2014–Q2 2019.



According to the long-term trend in the chart, *ceteris paribus*, which **one** of the following is most likely to have risen in Portugal?

☒ **A** Consumption

☒ **B** Exports

☒ **C** Unemployment

☒ **D** Withdrawals

(Total for question = 1 mark)

Q39.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

In Japan, private sector investment increased by 1.9% in the second quarter of 2019.

Which **one** of the following was the most likely cause of this increase in investment?

☒ **A** A decrease in the rate of economic growth

☒ **B** An increase in indirect taxation

☒ **C** An increase in the tax on company profits

☒ **D** A decrease in interest rates

(Total for question = 1 mark)

Q40.

In November 2018 Serbia's money supply increased by 8.4% year-on-year. This was a result of an increase in the availability of credit.

Explain **one** possible impact of this increase in the availability of credit on the level of investment on the
economy of Serbia.

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(Total for question = 4 marks)