



Oxford Cambridge and RSA

Monday 19 May 2025 – Morning

AS Level Economics

H060/02 Macroeconomics

Time allowed: 1 hour 30 minutes



You can use:

- a scientific or graphical calculator



Please write clearly in black ink. **Do not write in the barcodes.**

Centre number

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Candidate number

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First name(s)

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Last name

StemUp Model Solution

INSTRUCTIONS

- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. You can use extra paper if you need to, but you must clearly show your candidate number, the centre number and the question numbers.
- Answer **all** the questions in Sections A and B and **one** question in Section C.

INFORMATION

- The total mark for this paper is **60**.
- The marks for each question are shown in brackets [].
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **16** pages.

ADVICE

- Read each question carefully before you start your answer.

Section A

Write your answer to each question in the box provided.

1 What might cause a fall in unemployment?

- A An increase in the minimum wage
- B An increase in the rate of income tax
- C An increase in the working population
- D An increase in unemployment benefits

Your answer

[1]

2 Which target is set for the Bank of England?

- A Exchange rate
- B Inflation
- C Interest rate
- D National debt

Your answer

[1]

3 In which sector does an insurance company operate?

- A Primary
- B Quaternary
- C Secondary
- D Tertiary

Your answer

[1]

4 What is meant by the government budget?

- A Balance between government receipts and expenditure
- B Decisions made by the government about expenditure and receipts
- C Government expenditure is greater than government receipts
- D Government receipts are greater than government expenditure

Your answer

[1]

- 5 The table shows the balance of payments position for four countries.

	Current account (£bn)	Financial and capital accounts (£bn)
Country A	−4587	−4587
Country B	−1548	+1548
Country C	−2497	+1267
Country D	−6472	−7163

Which country has a sustainable balance of payments position?

- A** Country A
B Country B
C Country C
D Country D

Your answer

B

[1]

- 6 The table shows the percentage change in real GDP during the year ending Quarter 1 2022.

	Change in real GDP (%)
UK	10.6
USA	3.7
Japan	0.6
Germany	3.5
France	4.8
Eurozone	5.5
G7	4.0
OECD	4.6

Which statement is true?

- A** Eurozone GDP growth was 4.9% percentage points lower than Japan
B France was the fastest growing economy
C The UK's GDP growth was 5.8 percentage points higher than France
D The USA had the lowest GDP growth

Your answer

C

[1]

7 What would cause the long run aggregate supply curve to shift to the right?

- A Decrease in employment levels
- B Decrease in productivity
- C Increase in investment
- D Increase in wages

Your answer C

[1]

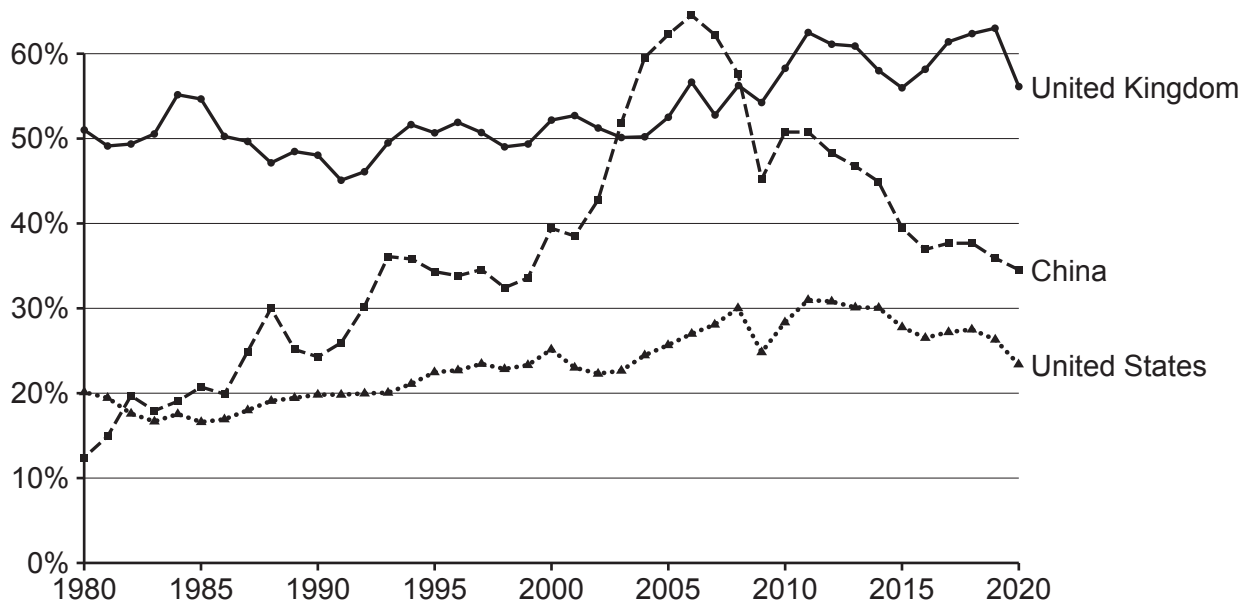
8 What is the definition of full employment?

- A All those of working age are working at the going wage rate
- B All those willing and able to work can find a job at the going wage rate
- C Some of those able to work are not accepting a job at the going wage rate
- D Some of those willing to work are not able to find a job at the going wage rate

Your answer B

[1]

9 The diagram shows trade as a percentage of GDP for selected countries.



What is the change in trade as a percentage of GDP for China from 1980 to 2020?

- A Approximately a five times increase
- B Approximately a four times increase
- C Approximately a three times increase
- D Approximately a two times increase

Your answer C

[1]

10 Crowding out occurs when:

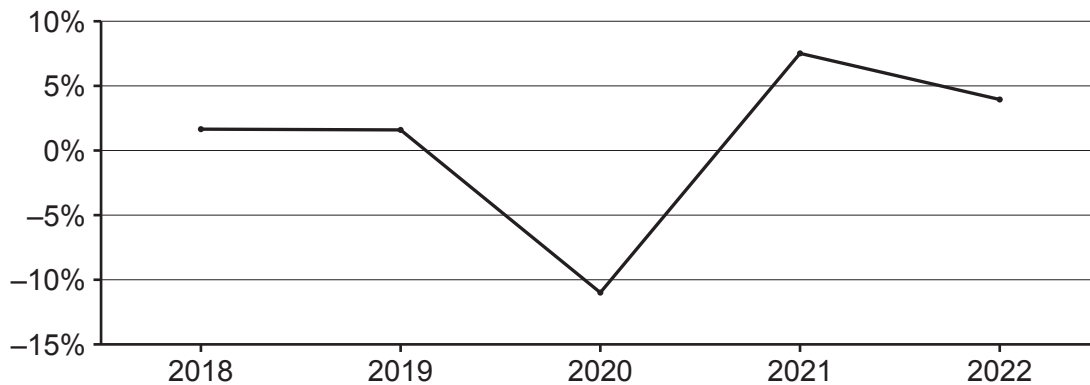
- A increased government spending leads to less private sector activity
- B increased imports lead to an increase in the exchange rate
- C increased income tax rates lead to less government tax revenue
- D increased interest rates causes household borrowing to fall

Your answer

A

[1]

11 The diagram shows the annual change in GDP in the UK.



Which statement about the diagram is correct?

- A Annual economic growth was highest in 2020
- B Annual economic growth was lowest in 2018
- C Annual economic growth was negative between 2018 and 2019
- D Annual economic growth was positive between 2021 and 2022

Your answer

D

[1]

12 Which policy is likely to include an increase in the money supply?

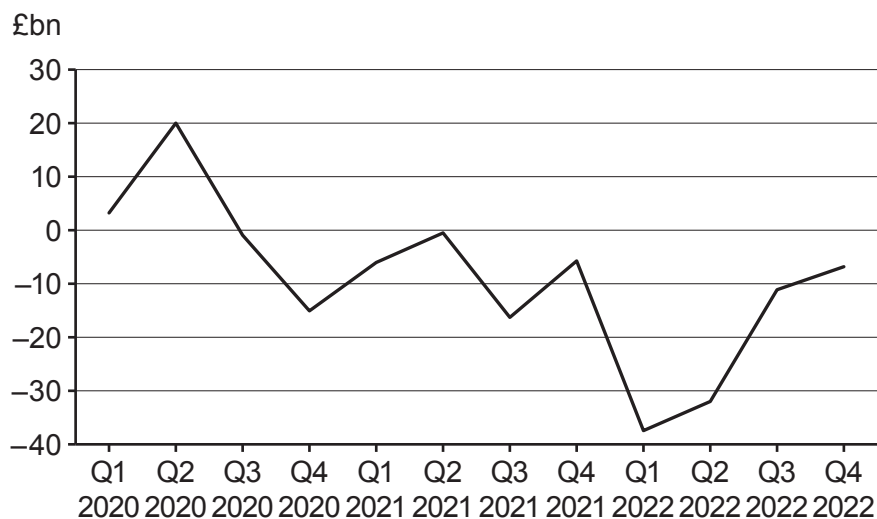
- A Contractionary fiscal policy
- B Contractionary monetary policy
- C Expansionary fiscal policy
- D Expansionary monetary policy

Your answer

D

[1]

13 The diagram shows the trade balance in goods and services for the UK.



What can be concluded about the trade balance?

- A There was a trade deficit for the entire period
- B There was a trade surplus for the entire period
- C There was a trade surplus for 2020
- D There was a trade surplus for 2021

Your answer

C

[1]

14 The Sterling exchange rate does **not** have an influence on:

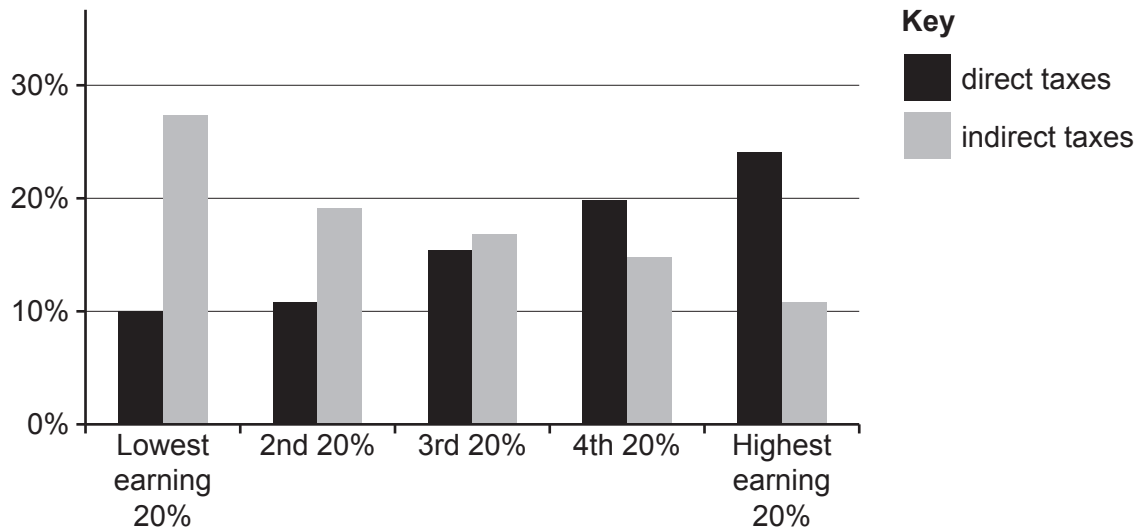
- A exports from the UK
- B imports into the UK
- C income of consumers overseas
- D purchasing power of consumers overseas

Your answer

C

[1]

15 The diagram shows the proportion of household income paid in taxes.



What can be concluded from the diagram about the impact of taxes on households?

- A Households experience a progressive effect from indirect taxes
- B The lowest earning 20% of households pay the highest proportion of their income in taxes
- C The lowest earning 20% of households pay the most indirect taxes
- D The total tax paid by a household is proportional to its income

Your answer

B

[1]

Turn over for Section B

Section B

UK inflation rate increases further as salad and vegetables push up prices

UK inflation rose in February 2023 due to food prices increasing at their highest rate for 45 years. CPI inflation has increased significantly since February 2021, when the rate of inflation was close to zero.

Food inflation was up 18.2% in February 2023, compared to February 2022, with salad and vegetable shortages driving the latest rises in prices for customers. Tomatoes, peppers, and cucumbers have been some of the goods in short supply, largely due to extreme weather in Spain and North Africa affecting harvests. In the winter, UK supermarkets import a lot of produce from abroad as it is cheaper than buying from UK farmers. 5

The UK and other northern European countries – particularly the Netherlands which is a big vegetable producer – have reduced how many crops they have planted over the winter or have avoided producing certain foods, due to rising production costs. This was partly due to large increases in the cost of energy required to light and heat greenhouses, as well as higher costs for the fertiliser used on plants. 10

Most farmers and suppliers have said the UK's exit from the EU is not the reason for the UK's empty supermarket shelves. However, many acknowledge that Brexit and the COVID pandemic have increased costs for growers, mostly as a result of having to pay higher wages to workers due to labour shortages. During the pandemic, all major economies saw their workforce decline. But while most developed economies have since recovered, the UK still has about 400 000 more people not working than in December 2019. Reasons include young people opting to study rather than work, older people retiring early, and more people being off work due to long-term sickness. The shortage of workers in the UK has also led to employers having to pay more to retain staff. Many supermarkets have given staff several pay rises as they struggle to find workers. 15 20

Unions say wages should reflect the cost of living and many workers, mainly in the public sector, have been striking over pay. However, the government argues large pay rises could push inflation higher because companies will have to increase prices as a result. 25

Some importers argue the additional costs and bureaucracy created by Brexit have put the UK at the back of the queue for supplies from European producers when crops are in short supply. It has also led to some delays at the UK border – a particular issue with imports of perishable produce. 30

Some organisations have suggested people should stop eating as much imported food and should be eating more seasonal produce while supporting UK farmers. A lot of people could be eating turnips in the winter months rather than eating lettuce and tomatoes. However, farmers argue they have had no support from the Government to help with rising costs.

Rising food prices have also pushed up inflation in other countries. 35

Adapted from: The Guardian and BBC News March 2023.

Fig. 1**Inflation in selected countries Jan 2022–Jan 2023**

© Michael Race, Why is inflation higher in UK than other countries?, 20 December 2023, www.bbc.co.uk, BBC. Item removed due to third party copyright restrictions. Link to material - <https://www.bbc.com/news/business-65037292>

Fig. 2**Wage increases and CPI in the UK Jan 2020–Jan 2023**

© UK inflation rate: How quickly are prices rising?, 14 January 2011, www.bbc.co.uk, BBC. Item removed due to third party copyright restrictions. Link to material - <https://www.bbc.com/news/business-12196322>

16

- (a) Using **Fig. 1**, describe the difference in the inflation rate between the UK and USA in January 2023.

In January 2023 inflation in the UK (about 10.1%) was higher than in the USA (about 6.4%), so the UK inflation rate was roughly 4 percentage points higher than the USA's.

.....

..... [3]

(b)

- (i) Using **Fig. 2**, explain how real wages changed for workers in the private sector in January 2023.

Real wages fell. Private sector wages increased by about 7%, but CPI inflation was about 10%, so prices rose by about 3 percentage points more than wages.

Change in real wages = 7% - 10% = -3%, so private sector workers' real wages fell by about 3%: their pay buys fewer goods and services than a year earlier.

.....

..... [3]

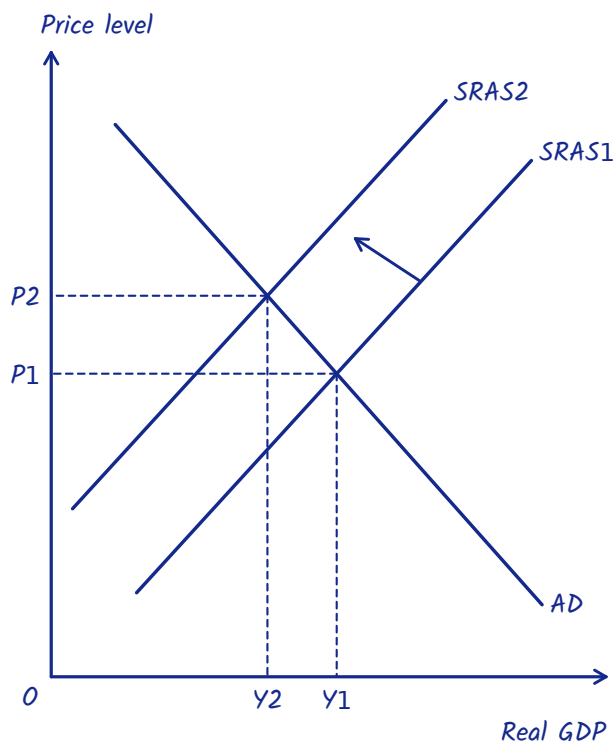
- (ii) Using the case study, explain **one** disadvantage for the UK of relying on importing salad and vegetable crops.

Supply is unreliable. Extreme weather in Spain and North Africa damaged harvests, so tomatoes, peppers and cucumbers were in short supply and UK supermarket shelves were empty, with the shortage also pushing up prices.

..... [2]

- (c) The UK government is concerned that "...large pay rises could push inflation higher".
Lines 25–26.

Using a diagram, explain how pay rises could push inflation higher.



Pay rises increase firms' costs of production, as wages are a large cost, so firms supply less at each price level: SRAS shifts left from SRAS1 to SRAS2 and the price level rises from P1 to P2 (cost-push inflation) while real GDP falls from Y1 to Y2. Higher pay also raises consumption, a component of AD, adding demand-pull pressure. [4]

- (d) Using the case study, explain **two** supply side policies the UK government could use to help farmers with rising costs.

1 Subsidies to farmers, e.g. grants towards energy costs or energy-efficient greenhouses. This lowers the cost of heating and lighting greenhouses and buying fertiliser, so farmers can afford to keep planting crops over the winter.

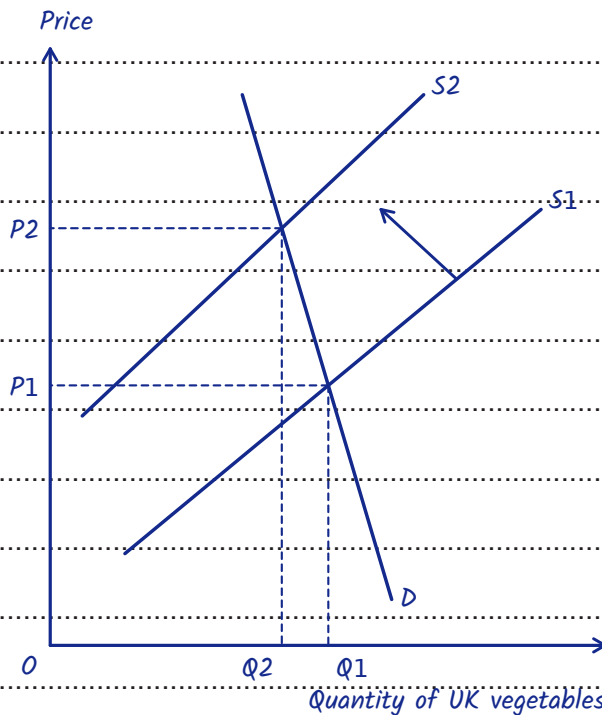
2 Increased immigration of workers, e.g. more seasonal agricultural worker visas. Labour shortages after Brexit and COVID forced growers to pay higher wages, so a bigger supply of labour would reduce wage costs.

[4]

(e)* Evaluate whether increases in UK inflation harm UK farmers.

[10]

Inflation is a sustained increase in the general price level, measured by the CPI. UK inflation was about 10% in January 2023, higher than Italy, France, Germany and the USA, and food inflation reached 18.2% in February 2023. Much of this was cost-push inflation, caused by shortages and rising costs. Rising energy costs to light and heat greenhouses and higher fertiliser costs raise farmers' costs of production and squeeze their profit margins. Some farmers have reduced how many crops they plant over the winter or stopped producing certain foods altogether, because production is no longer profitable. As the cost of living rises, workers also demand pay rises to protect their real wages, and with labour shortages (about 400 000 more people not working than in December 2019) growers must pay higher wages to recruit and retain staff, increasing costs further and risking a wage-price spiral. If UK inflation is higher than inflation abroad, UK produce becomes relatively more expensive than imports, so UK farmers become less internationally competitive. Supermarkets already import a lot of produce in winter because it is cheaper than buying from UK farmers, so UK farmers lose domestic sales and exports, and their revenue falls. Farmers also face menu costs from changing prices, and uncertainty makes it harder to plan, so they may cut investment, especially as they receive no government support. However, inflation does not necessarily harm all farmers. Food is a necessity, so demand is price inelastic and farmers can pass much of the cost increase on to consumers. In the diagram, higher costs shift supply from S_1 to S_2 , but because demand D is inelastic the price rises from P_1 to P_2 by proportionately more than quantity falls from Q_1 to Q_2 , so total revenue may even rise. Shortages of imported salad, due to bad weather and Brexit delays at the border, mean supermarkets may buy more from UK farmers, and campaigns to eat seasonal UK produce such as turnips raise demand. If inflation is demand-pull, higher prices and higher quantities could encourage farmers to expand. Inflation also reduces the real value of farmers' loan repayments, and since rising food prices have pushed up inflation in other countries too, foreign producers' prices may rise faster, making



UK farmers more competitive.

Overall, whether inflation harms farmers depends on how high it is, how long it lasts and its cause. At around 10%, driven by cost-push factors such as energy, fertiliser and wages, it harms most UK farmers in the short run, particularly energy-intensive greenhouse growers whose costs rose faster than they could raise prices while competing with imports. Farmers selling inelastic staples can protect their revenue, and if inflation falls quickly the harm will be limited. But if it persists, falling confidence and lower investment will cause lasting damage.

Section C

Answer Question 17 **or** Question 18.

- 17*** In December 2022, the UK government approved the opening of the country's first new deep coal mine for 30 years in Cumbria.

Evaluate, using an appropriate diagram(s), whether the opening of new coal mines will affect a policy of sustainable development. **[20]**

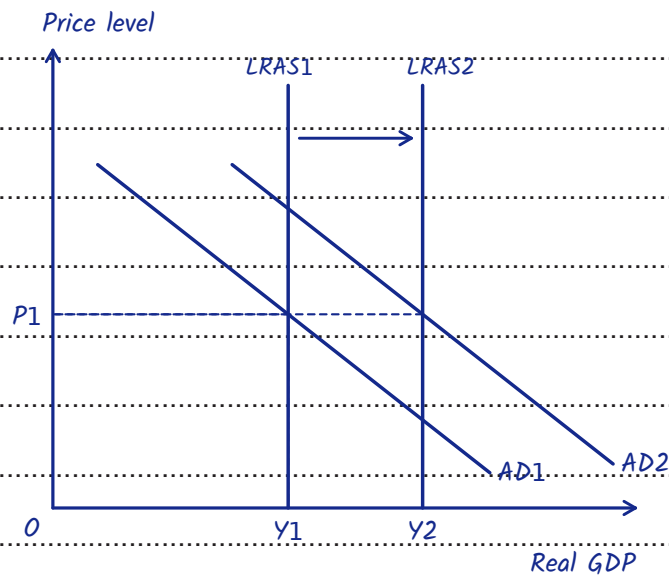
OR

- 18*** In September 2022, measures introduced in the UK's mini-budget threatened to affect confidence in the UK.

Evaluate, using an appropriate diagram(s), whether a loss of confidence in an economy will affect the exchange rate. **[20]**

Question No.**17**.....

Sustainable development is development which meets the needs of the present generation without compromising the ability of future generations to meet their own needs. A new deep coal mine in Cumbria, the first for 30 years, adds a natural resource (land) to the economy and so increases productive capacity. The mine uses previously unused coal reserves, which increases the quantity of factors of production available, so the productive capacity of the economy rises and LRAS shifts right from LRAS1 to LRAS2 (see diagram). The mine creates jobs locally and encourages other firms, such as suppliers and transport and local shops, to set up nearby. Miners spend their incomes locally, creating a local multiplier effect, and investment in the mine raises AD from AD1 to AD2, so real GDP grows from Y1 to Y2 without a rise in the price level (P1). This economic growth benefits the current generation through higher incomes and employment in an area which has lost many industrial jobs. Higher profits locally may be reinvested in other industries, generating further growth. Government tax revenue rises while benefit payments fall as unemployment falls, an automatic stabiliser, so the government may have more to invest in education, infrastructure or renewable energy, which could create sustainable growth for future generations. The coal can help meet the current generation's energy needs (the Cumbria coal is mainly coking



coal for steelmaking), and there may be enough reserves to supply future generations too. It also reduces the UK's reliance on coal imports, which is beneficial during disputes with coal-producing countries, and UK coal could be exported, increasing exports and improving the current account of the balance of payments.

However, coal is a finite, non-renewable resource. Once it is extracted it cannot be replaced, so supply will decline and eventually be used up, and it is difficult to know how long the jobs and firms that depend on the mine will exist. Using up the coal now reduces the resources available to future generations, which conflicts directly with sustainable development.

Coal mining and burning coal create negative externalities: greenhouse gas emissions such as carbon dioxide and methane add to climate change, and mining damages the local environment through air pollution, water contamination and lost landscape near the Lake District. These costs fall on third parties and future generations and reduce their quality of life. The mine also conflicts with the UK government's legally binding commitment to net zero emissions by 2050, and if stricter environmental regulation or carbon taxes make the coal uneconomic, the mine could close early, leaving stranded assets and structural unemployment.

In addition, if there are few unemployed workers with the required skills in Cumbria, the

increase in job vacancies may bid up wages and cause cost-push inflation rather than extra output. The jobs created (around 500) are small relative to the UK economy, so the effect on LRAS and national growth is likely to be very limited, and there is an opportunity cost: the same resources could have been used elsewhere.

Overall, opening new coal mines is likely to harm a policy of sustainable development. It brings short-term benefits to the current generation through local jobs, growth and lower import dependence, but coal is finite and polluting, so the costs fall on future generations. The extent depends on how long the reserves last, whether the coal replaces imported coal (which would be burned anyway) or adds to emissions, and whether the tax revenue is reinvested in sustainable projects. It may be better for the UK government to devote resources to renewable and cleaner energy sources such as wind and solar, which also create jobs and growth but cause less environmental damage and do not harm the quality of life of future generations.

END OF QUESTION PAPER

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If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

18

Confidence is how certain consumers, firms and investors feel about an economy's future, for example its economic growth prospects. A loss of confidence means they are less certain about the UK economy and concerned about its future. In September 2022 the mini-budget announced large unfunded tax cuts, which raised fears about rising government borrowing and inflation. The UK has a floating exchange rate, so the value of the pound is determined by the demand for and supply of pounds on the foreign exchange market.

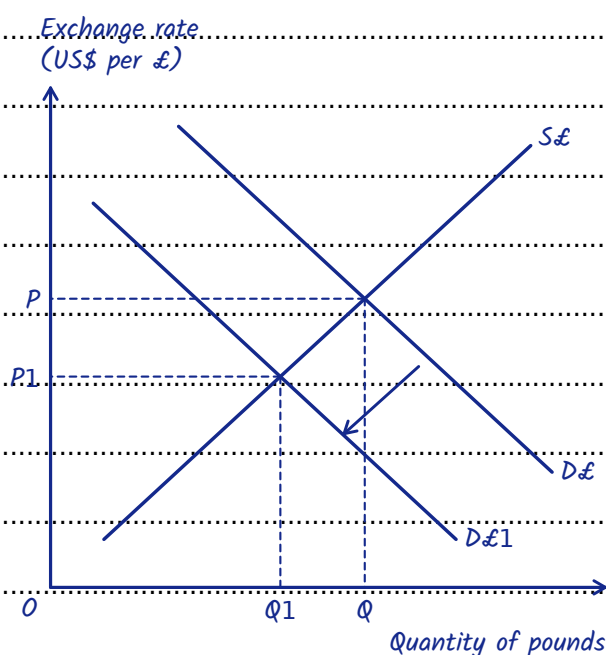
When confidence in the UK falls, foreign investors are less likely to invest in the UK, for example in UK government bonds, shares or factories (foreign direct investment), and invest elsewhere instead. Capital inflows fall, so fewer foreigners need to buy pounds and the demand for the pound falls. In the diagram overleaf, demand for pounds shifts left from $D_{\pounds}$ to $D_{\pounds 1}$, the quantity of pounds traded falls from Q to Q_1 and the exchange rate falls from P to P_1 : the pound depreciates. This happened after the mini-budget, when the pound fell to a record low of about \$1.03.

Speculators reinforce this. If they expect the pound to fall, they sell pounds to avoid losses, which increases the supply of pounds and reduces demand, so the pound falls further, a self-fulfilling expectation. UK residents and firms may also move their savings abroad, again increasing the supply of pounds. If low confidence is linked to high domestic inflation, UK goods become relatively more expensive, so UK consumers, who have a high marginal propensity to import, buy more imports because they are now relatively cheaper than home-produced goods. Importers supply more pounds to buy foreign currency, shifting the supply of pounds right and reducing the exchange rate further. Foreign buyers also buy fewer UK exports, reducing demand for pounds. However, a loss of confidence may not reduce the exchange rate much. If UK interest rates are relatively higher than in other countries, the UK may still attract significant

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18



hot money flows, keeping demand for the pound high. After the mini-budget, markets expected the Bank of England to raise interest rates sharply, and the pound recovered within weeks once the policies were reversed. So the effect depends on the relative interest rate and how the central bank responds.

Low confidence also tends to increase saving and reduce consumption and investment, so AD falls. This reduces spending on imports of consumer goods and capital goods, which reduces the supply of pounds and could even increase the exchange rate, partly offsetting the fall in demand. If the UK is known for producing high-quality, innovative products or services that cannot be bought elsewhere, such as financial services or specialist engineering, demand for UK exports is relatively price inelastic, so foreigners keep buying them and demand for pounds, and the exchange rate, will not fall as much.

Furthermore, under a floating system the exchange rate is likely to self-correct. A fall in the pound makes UK exports cheaper in foreign currency and imports dearer, so

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18

foreign buyers purchase more UK exports, the demand for pounds increases and the currency appreciates again. A lower pound also makes UK assets cheaper for foreign investors, which may attract them back. The effect also depends on confidence in other economies: if confidence falls worldwide, the pound may not fall against other currencies, and the US dollar may rise because investors see it as a safe haven. Overall, a loss of confidence is likely to cause the exchange rate to fall, as shown by the pound's fall after the September 2022 mini-budget, mainly through reduced capital inflows and speculation. However, the size of the effect depends on how long the loss of confidence lasts. Exchange rates are more likely to fall if confidence is low in the long term: a short-term loss, as in 2022, may cause only a temporary fall that reverses once policy changes, interest rates rise or exports become more competitive. Low confidence is also likely to affect domestic consumption and investment, which may damage future growth prospects more than short-term exchange rates.