OXFORD
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I declare this is my own work.

INTERNATIONAL AS
ECONOMICS

Unit 2 The National Economy in a Global Environment

Friday 19 May 2023 07:00 GMT Time allowed: 1 hour 45 minutes

Materials

For this paper you must have:
- the Source Booklet, provided as an insert (enclosed)
- a calculator, which you are expected to use where appropriate.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do **not** write outside the box around each page or on blank pages.
- Do **not** write in the Source Booklet.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You may use a bilingual dictionary for this exam.
- You may **not** use an English dictionary.

For Examiner's Use	
Question	Mark
1–15	
16	
17	
18	
19	
20	
21	
TOTAL	

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Section A

Answer **all** questions in the spaces provided.

Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD ⬬ WRONG METHODS ⊗ ⦿ ≋ ✓

If you want to change your answer you must cross out your original answer as shown. ⬬

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. ⬬

0 1 A central bank reduces the base rate of interest. The bank hopes aggregate demand will rise as a result.

This is an example of

[1 mark]

A contractionary fiscal policy. ⬭

B contractionary monetary policy. ⬭

C expansionary fiscal policy. ⬭

D expansionary monetary policy. ⬭

0 2 Which one of the following is an example of frictional unemployment?

[1 mark]

A A bus driver loses their job because of a recession. ⬭

B A farm worker is replaced by a new machine. ⬭

C A hotel worker does not have a job for part of the year. ⬭

D A teacher starts a job two months after leaving their old job. ⬭

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0 3 **Table 1** shows the impact of a rise in national income of $100m in an open economy with a government sector.

Table 1

Items in the circular flow of income	**Increase**
Saving	$10m
Imports	$8m
Tax	

If the economy has a multiplier of 4, what is the increase in tax?

[1 mark]

A $4m ⬭

B $7m ⬭

C $18m ⬭

D $82m ⬭

0 4 **Table 2** shows an index that measures a country's exchange rate compared to other currencies.

Table 2

Year	**2019**	**2020**	**2021**	**2022**
Exchange rate index	102	97	96	92

All other things being equal, what is the most likely impact on inflation of the changes shown in **Table 2**?

[1 mark]

A Cost-push inflation will decrease. ⬭

B Cost-push inflation will increase. ⬭

C Demand-pull inflation will decrease. ⬭

D There will be no effect on inflation. ⬭

Do not write outside the box

0 5 Which one of the following is an example of secondary income on the current account of the balance of payments?

[1 mark]

A Aid received from foreign countries

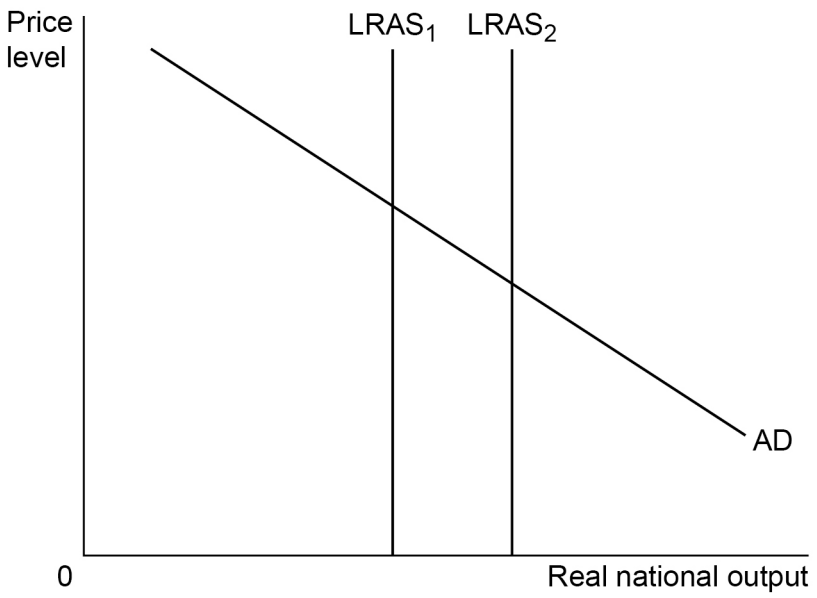
B Interest people earn on their savings abroad

C Profits earned in another country by firms

D Revenue from exports of manufactured goods

0 6 **Figure 1** shows aggregate demand (AD) and long-run aggregate supply (LRAS) curves in an economy.

Figure 1



Which one of the following is the most likely cause of the shift from $LRAS_1$ to $LRAS_2$?

[1 mark]

A A fall in the marginal propensity to save

B A rise in indirect taxes

C The discovery of oil in the country

D The rate of unemployment has fallen

Do not write outside the box

0 7 Which one of the following is an injection into the circular flow of income?

[1 mark]

A Consumption ⬭

B Exports ⬭

C Profits ⬭

D Savings ⬭

Turn over for the next question

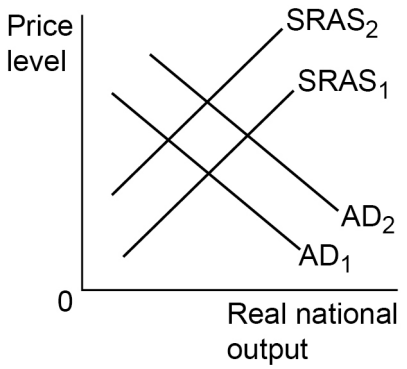
Do not write outside the box

0 8 The diagrams show aggregate demand (AD) and short-run aggregate supply (SRAS) curves in an economy.

There has been a fall in energy prices and a cut in interest rates. All other things being equal, which diagram is most likely to show the impact of these changes?

[1 mark]

A



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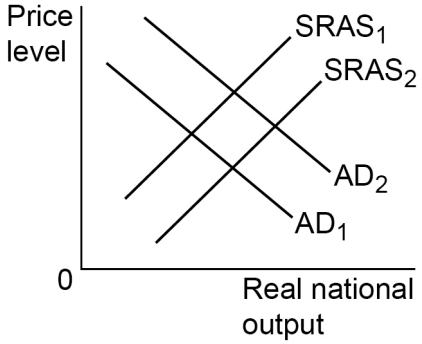

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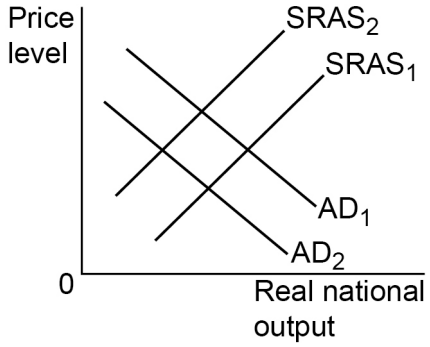

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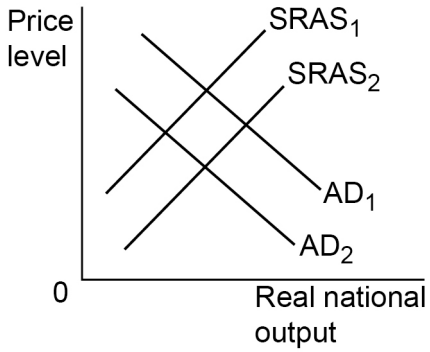

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0 9 **Table 3** shows real GDP per capita and the Gini coefficient for four countries.

All other things being equal, which country has the most **unequal** distribution of income?

[1 mark]

Table 3

	Country	Real GDP per capita ($)	Gini coefficient	
A	**A**	10 000	0.4	⬭
B	**B**	12 000	0.6	⬭
C	**C**	14 000	0.3	⬭
D	**D**	22 000	0.2	⬭

1 0 A government cuts income tax rates as part of its supply-side policy.

Which one of the following is most likely to be the objective of this policy?

[1 mark]

A A fall in demand-pull inflation ⬭

B A larger budget deficit ⬭

C An increased incentive to work ⬭

D More spending on imports ⬭

Turn over for the next question

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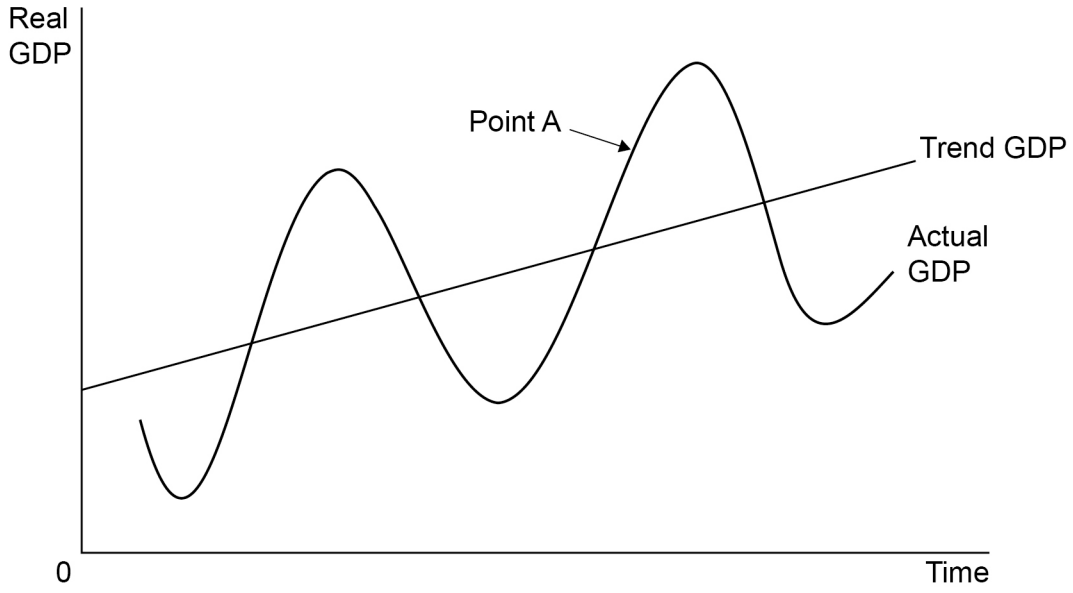
1 1 **Figure 2** shows a diagram of the economic cycle.

Figure 2



All other things being equal, at Point A the economy is most likely to experience

[1 mark]

A consumption rising and employment falling. ⬭

B imports falling and exports rising. ⬭

C inflation rising and incomes falling. ⬭

D unemployment falling and investment rising. ⬭

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1 2 **Table 4** shows the proportion of income spent on a good by different groups of the population.

Table 4

	Low-income group	Middle-income group	High-income group
Proportion of income spent on the good	10%	5%	2%

The government puts a new tax on the good.

Which one of the following best describes the tax?

[1 mark]

A Direct ⬭

B Progressive ⬭

C Proportional ⬭

D Regressive ⬭

1 3 Which one of the following is most likely to be a macroeconomic policy objective for a government?

[1 mark]

A Falling average price level ⬭

B High level of taxation ⬭

C Low unemployment ⬭

D Positive output gap ⬭

Turn over for the next question

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1 4 Which one of the following explains how a rise in national income leads to a rise in investment?

[1 mark]

A Accelerator process

B Demand-side shock

C Multiplier process

D Supply-side shock

1 5 **Table 5** shows real GDP growth, government spending and total tax revenue for an economy, for the years 2018 to 2022.

Table 5

	2018	**2019**	**2020**	**2021**	**2022**
Real GDP growth (%)	2.3	–1.7	–1.5	1.5	1.8
Government spending ($bn)	115	120	125	130	135
Total tax revenue ($bn)	103	104	105	106	107

It can be concluded from **Table 5** that the country has

[1 mark]

A a rising structural budget deficit.

B a worsening current account deficit.

C an improving current account deficit.

D an increasing cyclical budget deficit.

15

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Section B

Look at the Source Booklet and answer **all** questions in the spaces provided.

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1 6 . 1 Define 'inflation' (**Extract B**, line 4).

[3 marks]

1 6 . 2 Define 'investment' (**Extract C**, line 12).

[3 marks]

6

Turn over for the next question

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1 7 **Extract A** shows the balance of payments on current account, as a percentage of GDP, and productivity for selected countries.

You are advised to show your working for the calculations.

1 7 . 1 In 2020, Argentina's GDP was $389.59bn.

Use **Extract A (i)** to calculate the value of Argentina's balance of payments on current account in 2020.

Give your answer in $bn to **two** decimal places.

[3 marks]

1 7 . 2 An index of productivity for Kenya has 2016 as the base year.

Use **Extract A (ii)** to calculate the value of this index in 2018.

Give your answer to **one** decimal place.

[3 marks]

6

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1 8 **Extract B** (lines 3–4) states: 'Higher productivity can improve a country's balance of payments on current account.'

1 8 . 1 Explain how higher productivity can lead to an improvement in a country's balance of payments on current account.

[6 marks]

Question 18 continues on the next page

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1 8 . 2 To what extent do the data suggest that higher productivity leads to an improvement in a country's balance of payments on current account?

Use the data in **Extract A** to help support your answer.

[6 marks]

12

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1 9 **Extract B** (lines 1–2) states: 'Argentina's 10 years of fast economic growth at the start of this century was helped by high demand for the country's farm exports'.

With the help of a diagram, explain how rising exports could increase a country's short-run economic growth.

[9 marks]

Extra space

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2 0 **Extract C** (lines 6–7) states: 'Higher saving can provide more funds for businesses to borrow and invest.'

Analyse the determinants of saving in an economy.

[12 marks]

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Extra space

12

Turn over for the next question

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2 1 **Extract C** (lines 14–15) states: 'However, governments can use supply-side policies to improve an economy's macroeconomic performance'.

Use the extracts and your knowledge of economics to assess the extent to which supply-side policies are likely to improve an economy's macroeconomic performance.

[20 marks]

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END OF QUESTIONS

20

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ANSWER IN THE SPACES PROVIDED

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