Write your name here

Surname		Other names

PEARSON Edexcel
International
Advanced Level

Centre Number

Candidate Number

Economics
International Advanced Subsidiary
Unit 2: Macroeconomic Performance and Policy

Sample Assessment Material
Time: 1 hour 30 minutes

Paper Reference
SAM

You do not need any other materials.

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 Section A and **one** question from Section B.
- 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.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- 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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PEARSON

Section A: Answer all the questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1   Croatia's annual rate of inflation fell from 4.6% in January 2013 to 4.4% in February 2013. This suggests that

(1)

    A   the standard of living has necessarily risen

    B   the purchasing power of money has fallen

    C   the price level has fallen

    D   real wages have increased

Answer   [ ]

Explanation

(3)

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(Total for Question 1 = 4 marks)

2 Which of the following is an example of a monetary policy measure designed to reduce the rate of inflation?

(1)

    A   Asset purchases by the central bank

    B   An increase in income tax rates

    C   Removal of maximum price controls

    D   An increase in interest rates

Answer ☐

Explanation

(3)

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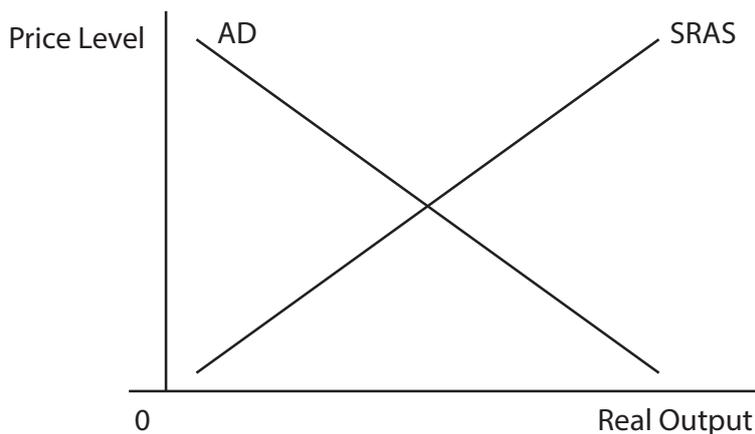
(Total for Question 2 = 4 marks)

3 Aggregate demand and short-run aggregate supply diagram

The diagram shows the aggregate demand (AD) curve and short-run aggregate supply curve (SRAS) for a country's economy. Assume the country is an importer of commodities. What would be the effect of an increase in world commodity prices on the economy's real output and its price level? (You may annotate the diagram.)

(1)

	Price Level	Real Output
A	Fall	Rise
B	Rise	Rise
C	Rise	Fall
D	Fall	Fall

Answer [ ]

Explanation

(3)

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(Total for Question 3 = 4 marks)

4 The Spanish Government increased value added tax, a major indirect tax, from 16% to 18% in 2010 and increased it again in 2012 to 21%. Further, it is increasing income tax rates in 2013 by between 0.75% and 7%. These are examples of

(1)

  A deflationary monetary policy

  B supply side policy

  C direct controls by the government

  D deflationary fiscal policy

Answer ☐

Explanation

(3)

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(Total for Question 4 = 4 marks)

5 Household consumption in Singapore is likely to increase following

(1)

   A   an increase in the rate of interest

   B   a reduction in consumer confidence

   C   an increase in the rate of income tax

   D   a sustained increase in house prices

Answer [ ]

Explanation

(3)

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(Total for Question 5 = 4 marks)

6 In September 2012, the central bank of Argentina increased its base interest rate to 12.36%. The most likely effect on Argentina's economy would be to cause an increase in

    A investment

    B unemployment

    C real output

    D exports

(1)

Answer ☐

Explanation

(3)

(Total for Question 6 = 4 marks)

7 Which of the following is most likely to lead to an increase in aggregate demand, assuming all other factors remain constant?

(1)

    A A decrease in investment

    B A decrease in imports

    C An increase in the deficit on the current account of the balance of payments

    D An increase in taxation

Answer ☐

Explanation

(3)

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(Total for Question 7 = 4 marks)

8   Exchange rate indices

Against the € (€ per currency, rebased)

Source: Thomson Reuters Datastream
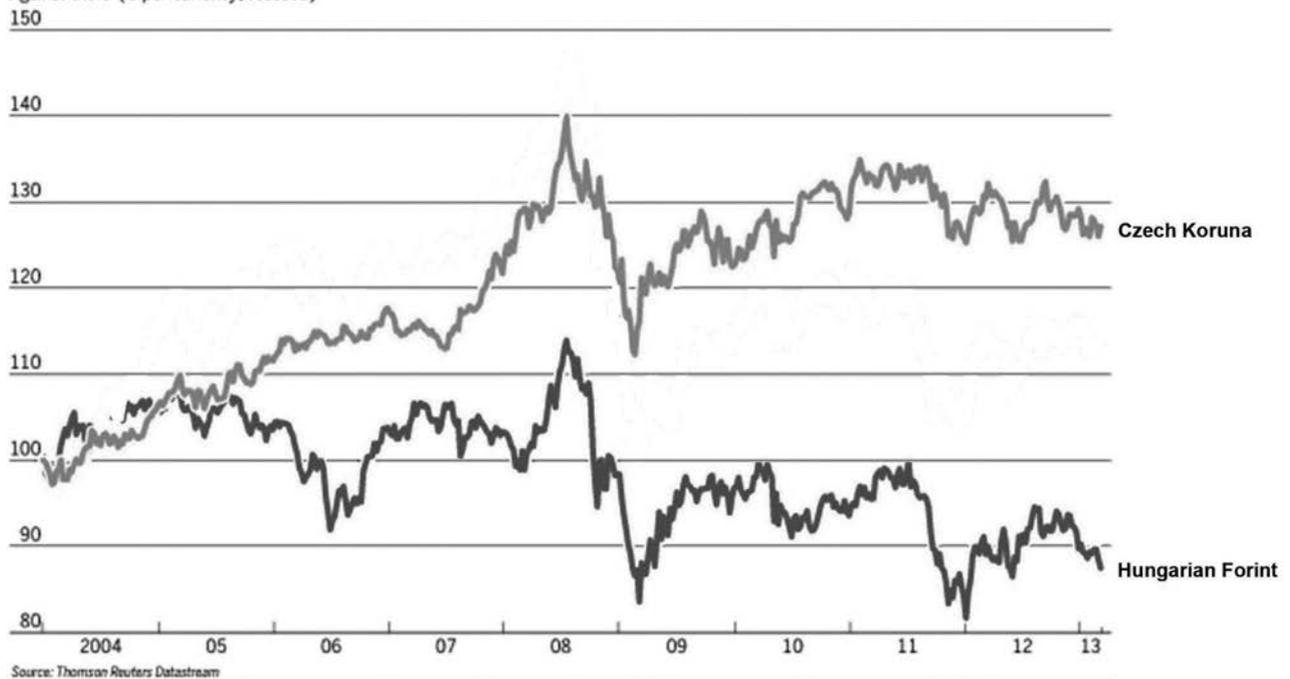
(Source: Financial Times Chart of the week, 13 March 2013)

The above chart shows the exchange rate of the Hungarian forint and Czech koruna against the euro. It can be deduced that, in 2013, compared with 2004

(1)

   A   Hungarian goods will be more expensive in eurozone countries

   B   Czech exports will be more expensive in eurozone countries

   C   Hungarian imports from eurozone countries will be cheaper

   D   Czech imports from the eurozone countries will be more expensive

Answer [   ]

Explanation

(3)

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(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

Section B: Answer either Question 9 or Question 10.

If you answer Question 9 put a cross in this box ☒ .

Question 10 starts on page 23.

You should spend 55 minutes on this section.

9   Measures of economic performance

Figure 1 Measures of economic performance in selected developed countries (2012)

	Economic growth %	Inflation (% increase in CPI)	Current account of the Balance of Payments (€bn)	Gross Domestic Product (GDP) per capita ($)
France	0.0	2.2	-38.9	41,140
Germany	0.7	2.1	147.4	41,512
Spain	-1.4	2.4	-37.5	29,288
United Kingdom	0.3	2.8	-24.3	38,588

(Source: Eurostat, http://epp.eurostat.ec.europa.eu, © European Union, 1995–2013)

Extract 1 The French Labour Market

The French labour market is often described as being rigid and inflexible. One example of this relates to employment contracts. Roughly 82% of all new jobs are on temporary contracts, the majority held by young people. These are the first to be made redundant when the economy slows down. The result is that those lucky enough to have long-term contracts are reluctant to change jobs. Other factors also increase the inflexibility of France's labour market including the relatively high minimum wage, excessively generous welfare payments and powerful trade unions.

5

(Source: Adapted from Financial Times Editorial *French Labour Market,* 17 January 2013)

Figure 2 Life expectancy at birth and Human Development Index (HDI) ranks in selected developed and developing countries

	Life expectancy at birth 2012	HDI rank in 2005	HDI Rank in 2012
France	81.7	10	20
Spain	81.6	13	23
United Kingdom	80.3	16	26
Kenya	57.7	148	145
Pakistan	65.7	136	146
Ethiopia	59.7	169	173
Niger	55.1	174	186

(Source: © United Nations Development Programme (UNDP). All rights reserved)

(a) Does France's current account balance in Figure 1 represent a net injection or net withdrawal? Explain your answer.

(4)

(b) Assess **two** possible reasons for Germany's current account balance, with reference to the data in Figure 1.

(10)

(c) With reference to Extract 1, assess the use of supply side policies to achieve economic growth in France.

(14)

(d) Explain how the consumer price index is calculated.

(6)

(e) Evaluate the usefulness of the HDI in making comparisons between countries.

(14)

(a) Does France's current account balance in Figure 1 represent a net injection or net withdrawal? Explain your answer.

(4)

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(10)

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(10)

(d) Explain how the consumer price index is calculated.

(6)

(e) Evaluate the usefulness of the HDI in making comparisons between countries.

(14)

(Total for Question 9 = 48 marks)

If you answer Question 10 put a cross in this box ☒ .

10 **Consumption, Investment and the UK Government's Fiscal Target**

Extract 1 Components of Aggregate Demand (Report from the Office of Budgetary Responsibility)

The real disposable income of UK households is forecast to have fallen by 2.3% in 2011. Earnings growth is not expected to overtake inflation again until 2013 and not by a significant margin until 2014.

We expect private sector employment to rise by around 1.7 million between the start of 2011 and the start of 2017, but this will be partly offset by a fall of around 710,000 in general government employment. The government still aims to reduce the budget deficit rapidly in order to achieve its fiscal target.

5

Business investment has shown virtually no growth in 2011. An industrial trends survey suggests that the investment that has taken place has largely replaced worn out assets, rather than added to capital stock.

10

Businesses have used some of their profits to pay back loans. They may also have started to build up cash reserves because uncertainty has risen. This might lead to a reduction in business investment in 2012. We also continue to predict a small current account deficit in the medium term.

(Source: © Crown Copyright Office of Budgetary Responsibility Autumn Report, November 2011)

Figure 1 UK savings ratio: percentage of UK household disposable income saved
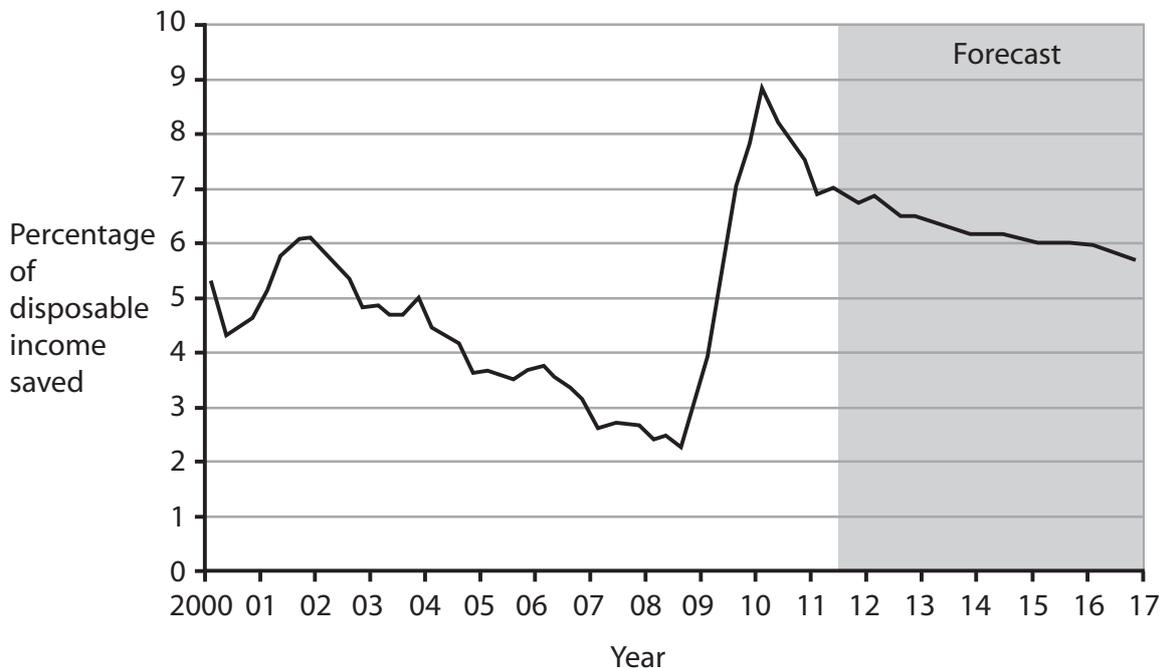
Figure 2 The UK output gap
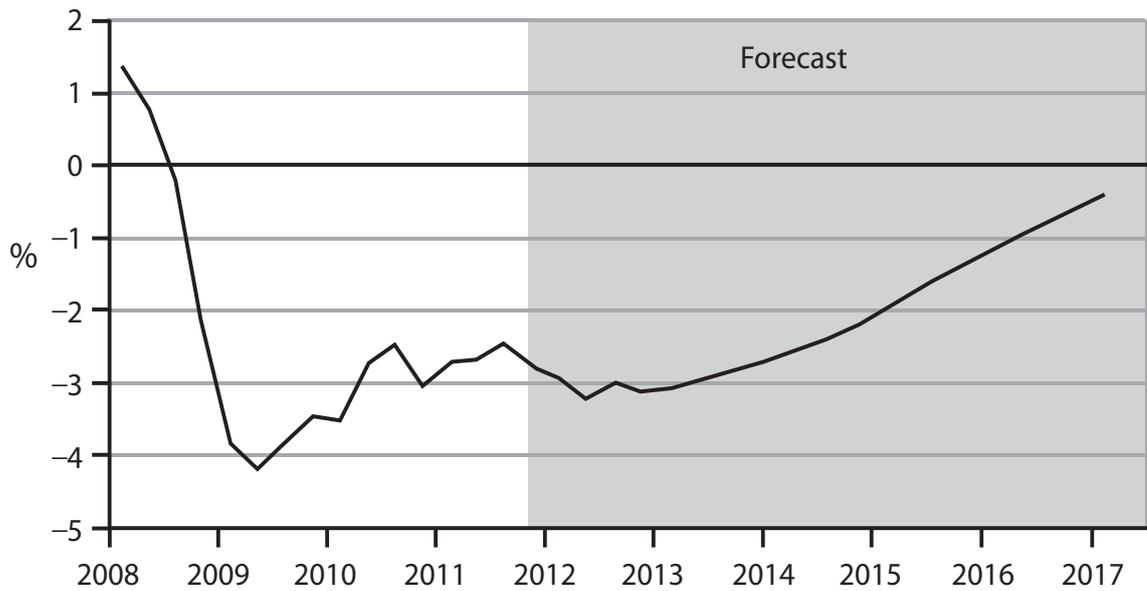
Figure 3 Total UK Government public spending and tax receipts
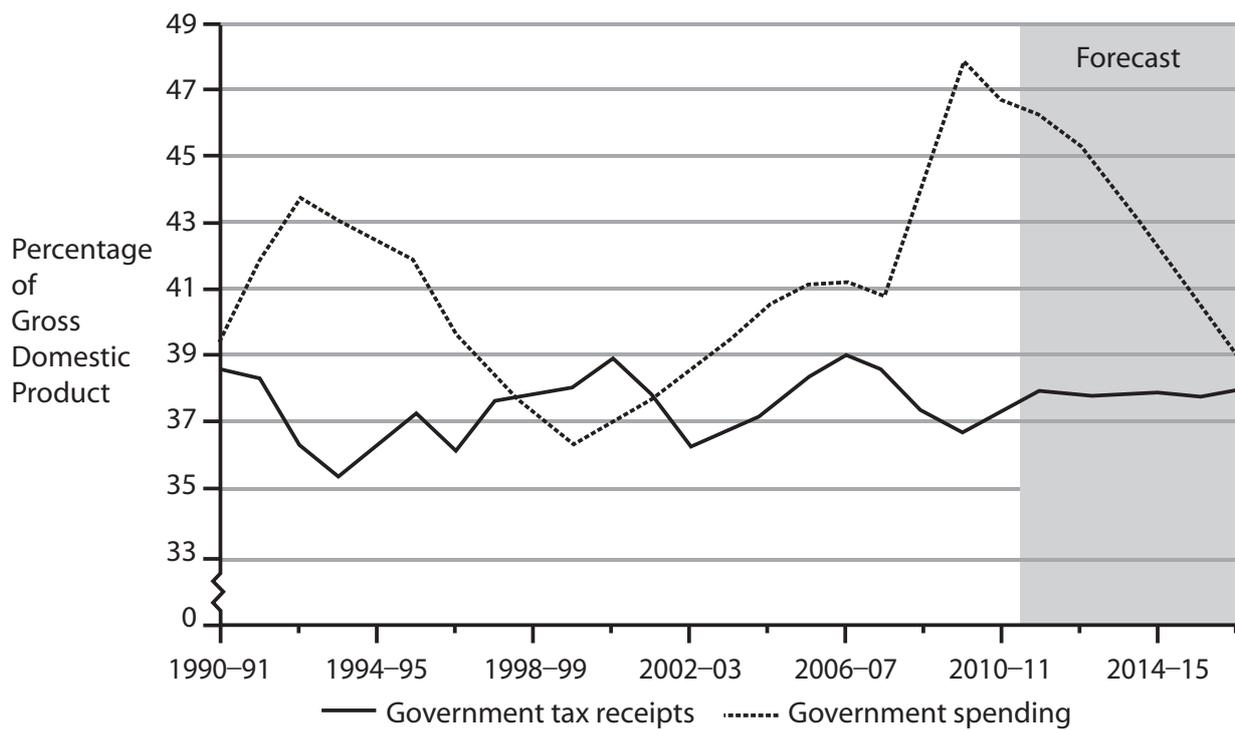
(Source for Figures 1–3: © Crown Copyright Office of Budget Responsibility Economic and Fiscal Outlook, November 2011)

(a) Explain whether the relationship between public expenditure and tax receipts in the UK from 2002–03 in Figure 3 represent a net injection or net withdrawal.

(4)

(b) Identify and explain **two** factors that influence the level of business investment (Extract 1).

(6)

(c) With reference to Figure 1, examine how the forecast change in the savings ratio from 2011 might affect the value of the multiplier.

(10)

(d) With reference to Figure 2, discuss the likely consequences of the output gap from 2009 for the UK economy.

(14)

(e) Evaluate the impact on unemployment and the price level of a government trying to reduce its budget deficit.

(14)

(a) Explain whether the relationship between public expenditure and tax receipts in the UK from 2002–03 in Figure 3 represent a net injection or net withdrawal.

(4)

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(b) Identify and explain **two** factors that influence the level of business investment
(Extract 1).

(6)

(c) With reference to Figure 1, examine how the forecast change in the savings ratio from 2011 might affect the value of the multiplier.

(10)

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(d) With reference to Figure 2, discuss the likely consequences of the output gap from 2009 for the UK economy.

(14)

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Advanced Level in Economics

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Sample Assessment Materials

(e) Evaluate the impact on unemployment and the price level of a government trying to reduce its budget deficit.

(14)

(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS

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