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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

Thursday 12 January 2017 – Afternoon
Time: 1 hour 30 minutes

Paper Reference
WEC02/01

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 your spelling, 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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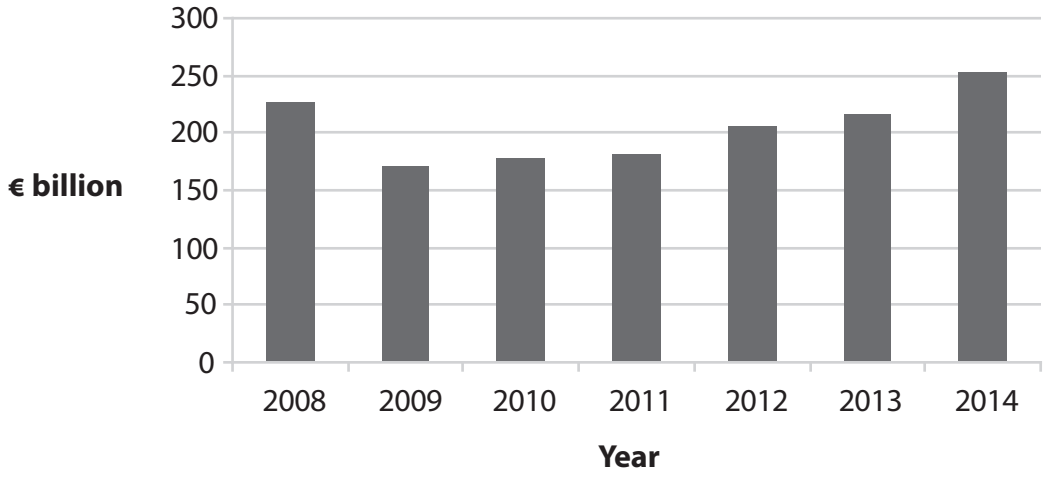
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SECTION A

Answer ALL 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 The chart below shows Germany's balance of trade, 2008–2014 (€ billion).



(Source: http://data.worldbank.org/country/germany)

(a) From this chart it can be deduced that between 2008 and 2014

(1)

A the value of imports was greater than the value of exports

B government expenditure was greater than tax revenues

C the value of exports was greater than the value of imports

D savings were greater than investment

Answer ☐

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(b) Explanation

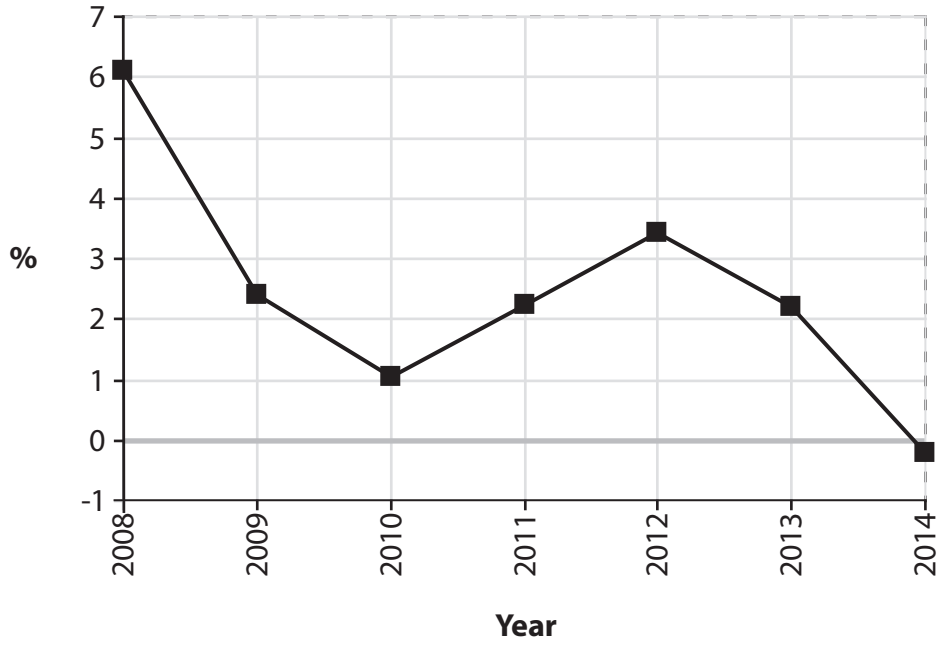
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(Total for Question 1 = 4 marks)

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2 The chart below shows the rate of inflation, as measured by the consumer price index (CPI), for Croatia, 2008–2014.



(Source: http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG)

(a) From this chart it can be deduced that

(1)

A there was deflation between 2008 and 2010

B there was disinflation between 2010 and 2012

C average prices were lower in 2010 than in 2009

D average prices were higher in 2014 than in 2012

Answer ☐

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(b) Explanation

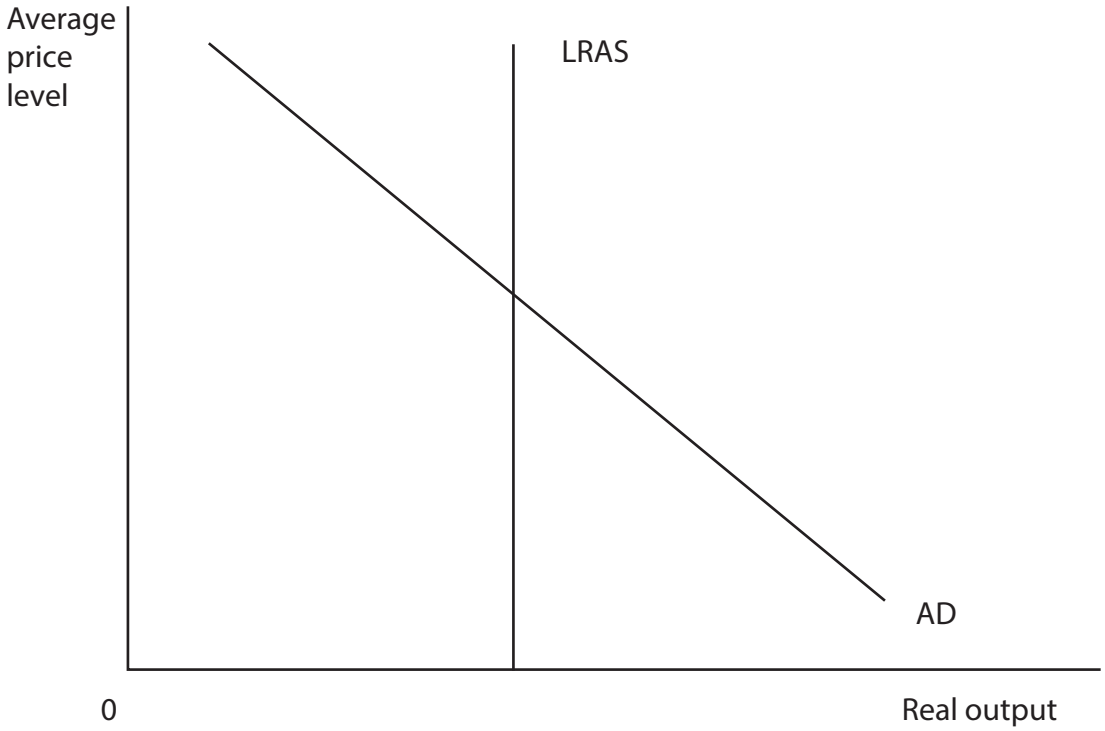
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3 The diagram shows the aggregate demand (AD) curve and long-run aggregate supply (LRAS) curve for an economy.



(a) Which one of the following would be the long-run effect of significant technological advances on the country's average price level and real output?

You may wish to annotate the diagram in your answer.

(1)

	Average price level	**Real output**
A	Rise	Rise
B	Rise	Fall
C	Fall	Rise
D	Fall	Fall

Answer ☐

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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 In May 2015, Tanzania's Central Bank raised the minimum reserve ratio for commercial banks from 8% to 10%.

(a) This is most likely to cause

(1)

A an increase in the price level

B a decrease in the price level

C an increase in real output

D a decrease in unemployment

Answer ☐

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

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5 The table below shows Gross Domestic Product (GDP) growth and population growth for Spain, 2011–2014.

Year	GDP growth (annual %)	Population growth (annual %)
2011	–0.6	0.4
2012	–2.0	0.1
2013	–1.2	–0.3
2014	1.3	–0.5

(Source: http://data.worldbank.org/country/spain)

(a) From the data it can be deduced that

(1)

A per capita GDP fell in each year

B per capita GDP was higher in 2012 than in 2011

C per capita GDP increased in 2014

D total GDP was higher in 2014 than in 2011

Answer ☐

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(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 The producer (wholesale) price index in China decreased by 5.4% in July 2015 compared to July 2014.

(a) The index is useful as a predictor of future changes in

(1)

A consumer price index

B marginal propensity to import

C tax revenues

D government spending

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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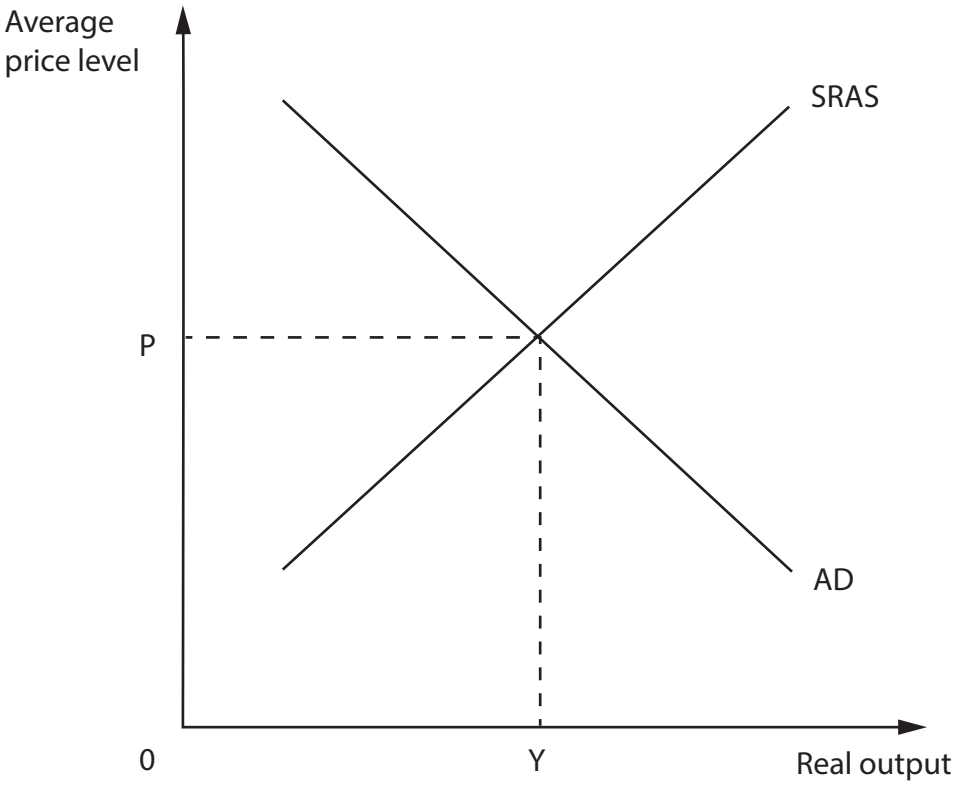
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7



The aggregate demand (AD) and short-run aggregate supply (SRAS) diagram above represents the South Korean economy in equilibrium at real output Y and average price level P.

(a) Which of the following are most likely to result from a 20% increase in the exchange rate of the won, South Korea's currency?

(1)

	AD curve	**SRAS curve**
A	Shift to right	Shift to left
B	Shift to left	Shift to right
C	No change	No change
D	Shift to left	Shift to left

Answer ☐

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 For the tax year ending April 2014, tax revenues exceeded government expenditure in Norway by 319 billion krone.

(a) From this data it can be deduced that

(1)

A there was a net injection from the government sector in the circular flow of income

B aggregate demand exceeded aggregate supply

C the value of exports was greater than the value of imports

D there was a net withdrawal from the government sector in the circular flow of income

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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QUESTION 9 BEGINS ON THE NEXT PAGE.

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SECTION B

Answer EITHER Question 9 OR Question 10.

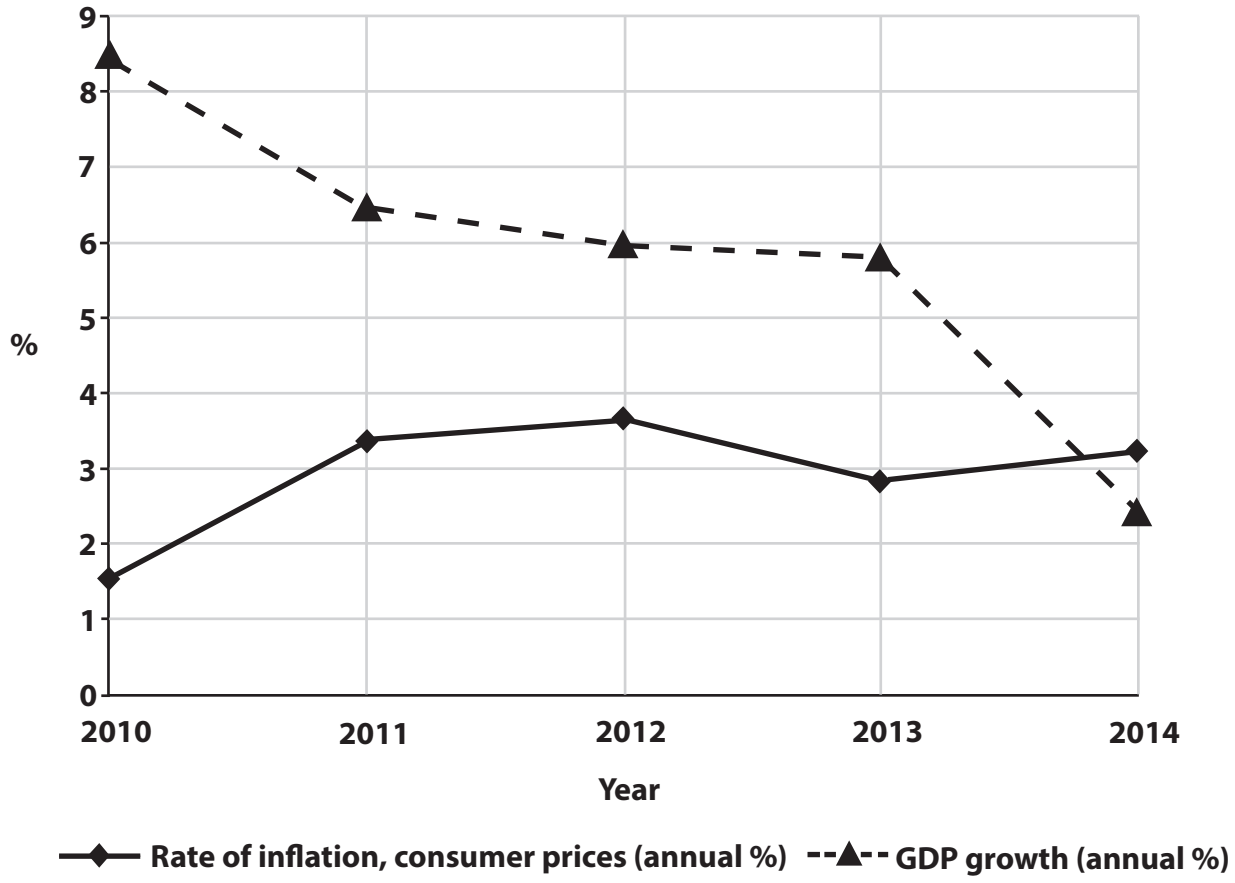
You should spend 55 minutes on this question.

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

Question 10 starts on page 32.

9 The economy of Peru

Figure 1 Inflation and real GDP growth, 2010–2014



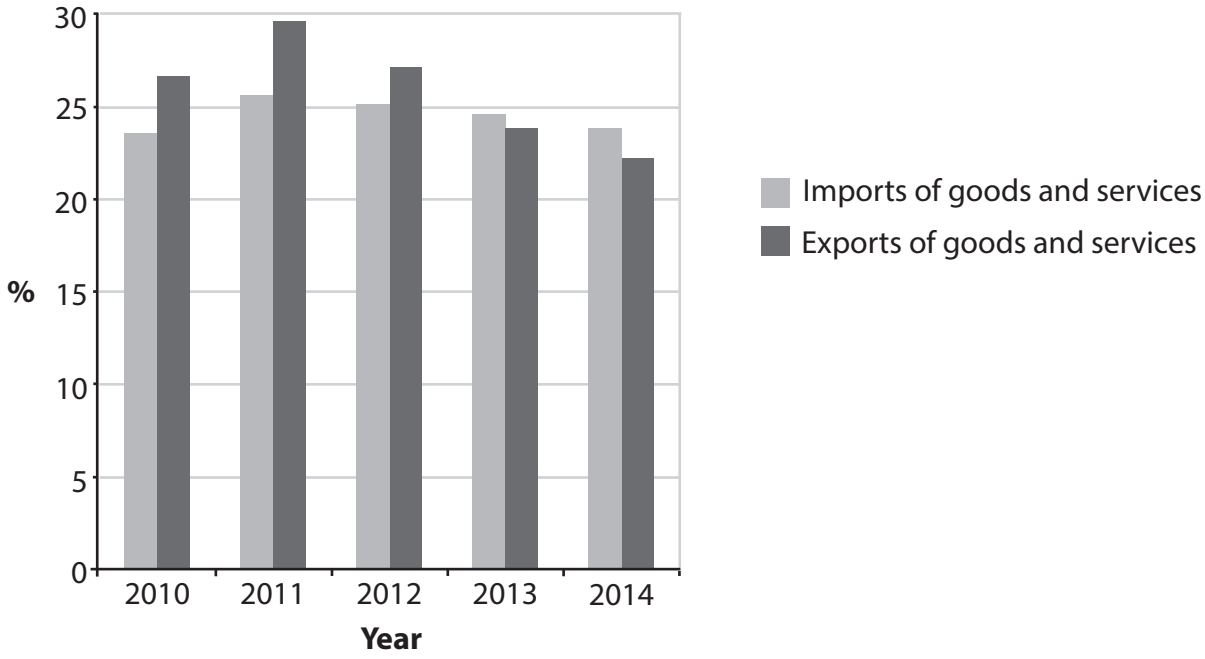
(Source: http://www.worldbank.org/en/country/peru)

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Figure 2 Value of imports and exports as % of GDP, 2010–2014



(Source: http://www.worldbank.org/en/country/peru)

Extract 1 Tax cuts in Peru

The Government of Peru has proposed a number of tax reforms designed to revive the economy. The proposals include a reduction in the tax rate on business profits from 30% in 2014 to 26% in 2019. In addition, the Government plans to cut the rate of income tax for low earners from 15% to 8%.

Peru's Minister of Economy and Finance explains that the country's tax rates are higher than the regional average. Commenting on the proposed cuts he said: "We want to put more money in the pockets of the people", to increase domestic demand. 5

(Source: http://www.tax-news.com/news/Peru_Government_Proposes_Tax_Cuts_To_Boost_Economy____66478.html)

Extract 2 Brazil, Peru, China plan trans-South American railway

In 2015 Brazil, Peru and China discussed an agreement to create a new railway that would cross South America. The train line would link Brazil's Atlantic coastline with the Pacific Ocean in Peru. One of the likely benefits is an increase in commodity exports, principally soya beans and iron ore.

Reports estimate this railway would cost at least US$10 billion, and the Brazilian Government hopes Chinese businesses will bid for sections of the project. 5

China surpassed the United States as Peru's biggest trade partner in 2011. Peru supplies mainly raw materials to Chinese industries, including copper, zinc and lead, as well as the crop maca.

(Source: Adapted from http://www.aa.com.tr/en/economy/508969--brazil-peru-china-plan-trans-south-american-railway)

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(a) With reference to Figure 2, explain how the data shown affect the balance of payments on current account.

(4)

(b) With reference to the information provided and your own knowledge, analyse **two** reasons why Peru's rate of economic growth decreased between 2013 and 2014.

(6)

(c) With reference to Figure 1, assess the potential conflict between the objectives of economic growth and a low rate of inflation.

(10)

(d) Assess the likely economic impact of the planned railway investment on the economy of Peru. Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)

(e) With reference to the information provided and your own knowledge, evaluate the use of fiscal policy to increase the rate of economic growth in Peru.

(14)

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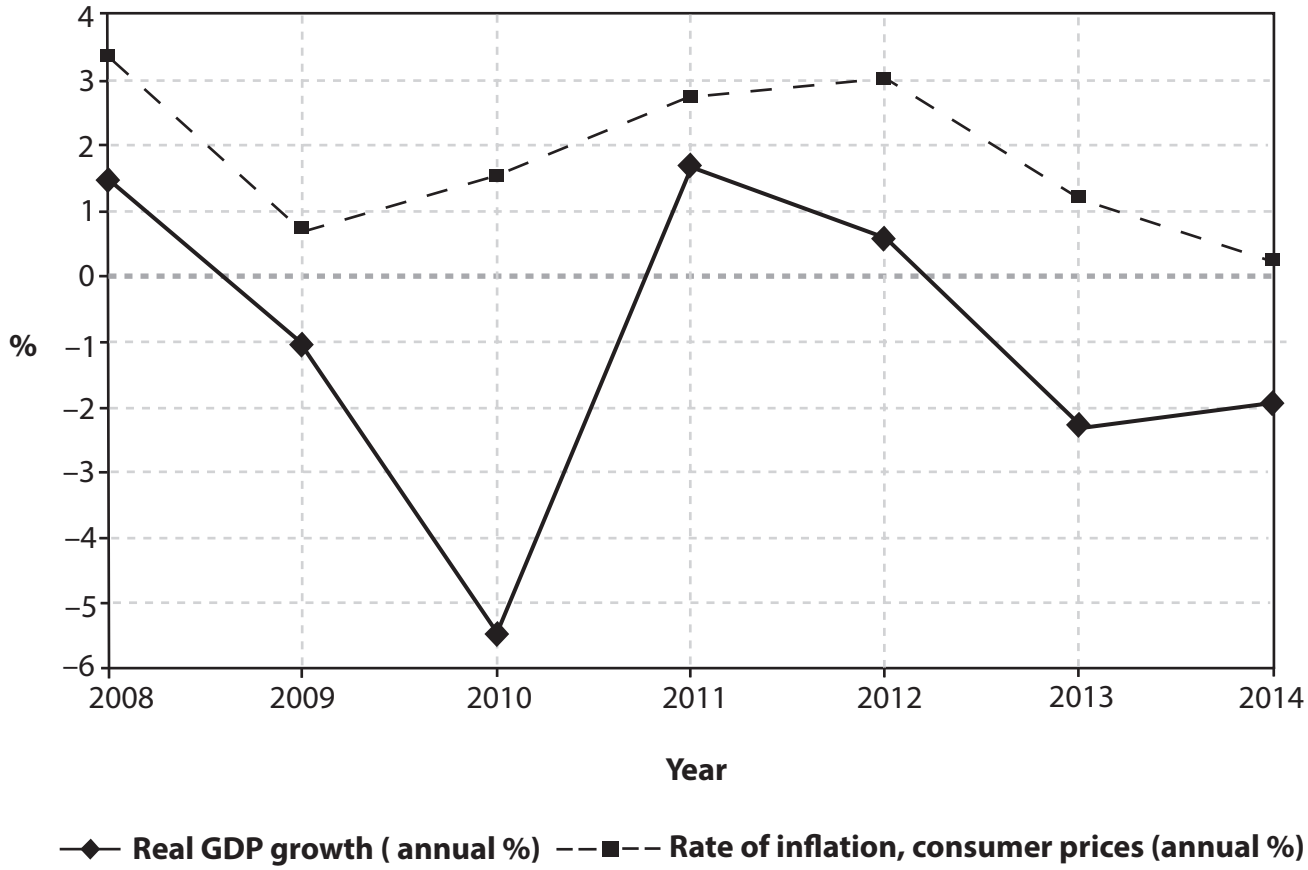
QUESTION 10 BEGINS ON THE NEXT PAGE.

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

10 The economy of Italy

Figure 1 Inflation and real economic growth, 2008–2014

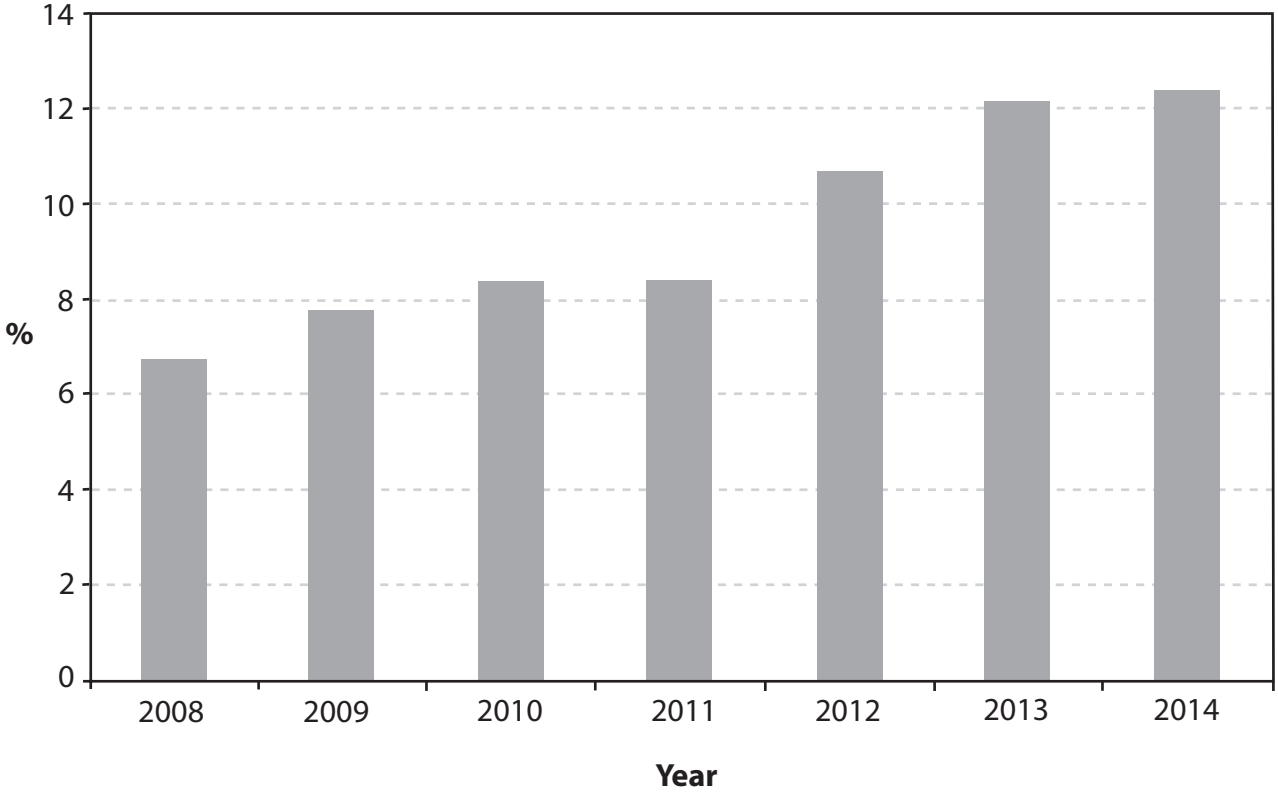


(Source: http://www.worldbank.org/en/country/italy)

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Figure 2 ILO measure of unemployment, 2008–2014



(Source: http://www.worldbank.org/en/country/italy)

Extract 1 Fiscal policy in Italy

In April 2015, the Prime Minister stated that €10 billion worth of government spending cuts would take effect in 2016, bringing total savings for 2014–2016 to €28 billion. However, that is €6 billion short of the original three-year plan set in a March 2014 report.

It is now expected that the Italian economy will grow by 0.7% in 2015 and 1.4% in 2016 after two years of recession. 5

Italy's government spending was 50.5% of GDP in 2013, just above the eurozone average of 49.5%.

(Source: adapted from http://www.ft.com/cms/s/0/42996b44-e120-11e4-8b1a-00144feab7de.html#axzz3a7Z9UXwX)

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Extract 2 The labour market in Italy

In February 2015, Italy's Government approved a change in employment policy.

The measures aim to close a large gap between Italy's younger workers who are typically on short-term contracts with little entitlement to welfare benefits, and the protected older workers, who usually enjoy both job security and the certainty of an adequate pension.

The reform removes a range of temporary contracts, replacing them with one that gives new employees progressively greater employment rights until, after three years, they become entitled to a permanent job.

However, the reform ends the right to re-employment of workers judged to have been unfairly dismissed. Compensation payments will be given instead. This reform also creates a new benefit for the involuntarily unemployed: a monthly payment of up to €1 300 which starts to reduce after four months.

Italy's average rate of unemployment is 12.9%, but for those aged between 15 and 29 it is 42%. It is hoped that the reform will raise productivity, cut unemployment and encourage investment, particularly from abroad. More privatisation and further deregulation of product markets are also planned.

(Source: adapted from http://www.economist.com/news/europe/21645256-bold-move-free-up-employment-marching-different-tune)

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(a) With reference to Figure 1, explain what is meant by a recession.

(4)

(b) With reference to Extract 2 and your own knowledge, analyse **two** likely reasons why the rate of youth unemployment is higher than the average rate of unemployment.

(6)

(c) With reference to the information provided and your own knowledge, assess the likely impact of a high rate of youth unemployment on Italy's economy.

(10)

(d) Assess the likely economic effects of a reduction in spending by the Italian Government. Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)

(e) With reference to the information provided and your own knowledge, evaluate the use of supply-side policies to reduce unemployment in Italy.

(14)

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(Total for Question 10 = 48 marks)

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

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