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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 11 January 2018 – 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** the 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.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of 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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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 table shows the total GDP and population of Argentina, 2012 to 2015.

(You should use the last row for your calculations.)

Indicator	2012	2013	2014	2015
Total GDP (US$ million)	548 934	554 155	529 726	583 168
Population (million)	42.1	42.5	43.0	43.4
GDP per capita (US$)				

(a) Which one of the following can be deduced from the data?

GDP per capita

(1)

A decreased between 2012 and 2013

B was lowest in 2012

C was highest in 2015

D decreased between 2014 and 2015

Answer ☐

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(b) Explanation

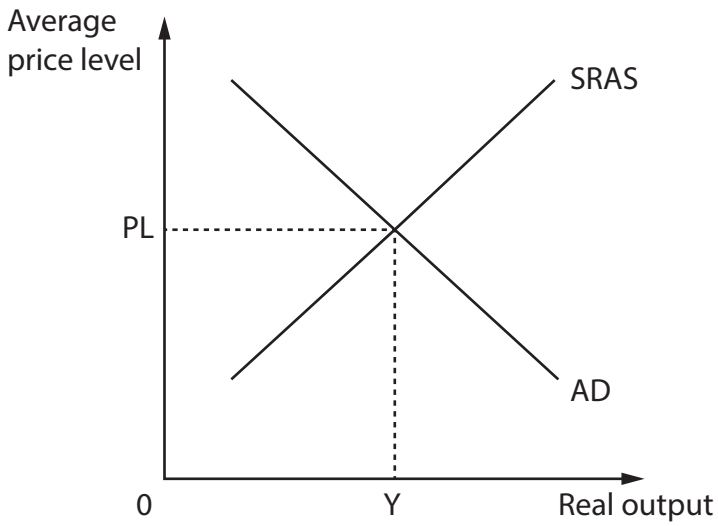
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(Total for Question 1 = 4 marks)

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2 The aggregate demand (AD) and short-run aggregate supply (SRAS) diagram shows the United Kingdom (UK) economy in equilibrium at real output Y and average price level PL.



(a) Between June and October 2016, there was a 19% depreciation of the UK pound against the US dollar. Ceteris paribus, which one of the following is the most likely consequence?

(1)

A Shift of the AD curve to the left and the SRAS curve to the right

B Shift of the AD curve to the right and the SRAS curve to the left

C Shift of both the AD curve and the SRAS curve to the right

D Shift of both the AD curve and the SRAS curve to the left

Answer ☐

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(b) Explanation

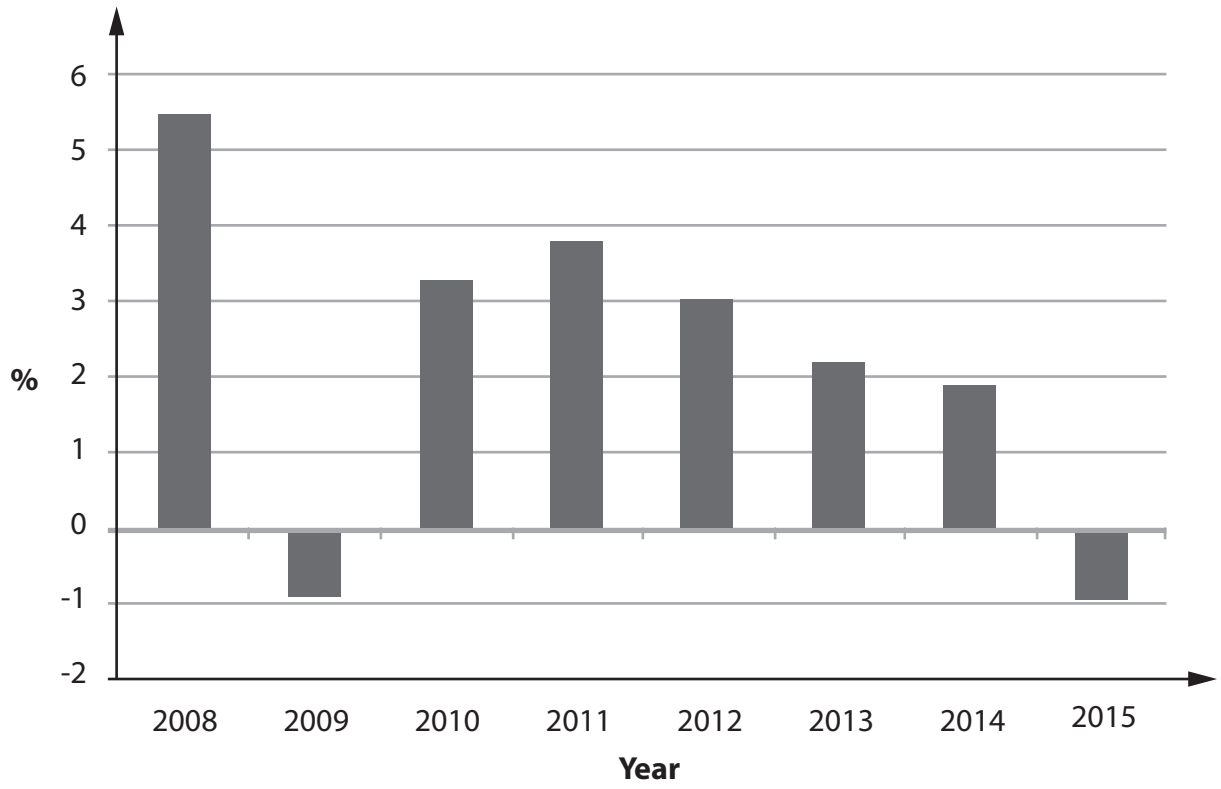
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3 The chart shows the average percentage change in consumer prices, as measured by the consumer price index (CPI), for Thailand between 2008 and 2015.



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

(a) From this chart, it can be deduced that

(1)

A there was deflation between 2011 and 2014

B there was disinflation between 2010 and 2011

C average consumer prices were higher in 2014 than in 2012

D average consumer prices were lower in 2015 than in 2008

Answer ☐

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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 In the first six months of 2016, Germany's tax revenues exceeded government expenditure by €18.5 billion.

(a) From this data, it can be deduced that, in this period, there was

(1)

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

B a balanced budget in the German economy

C an increase in the value of exports and a fall in the value of imports

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

Answer ☐

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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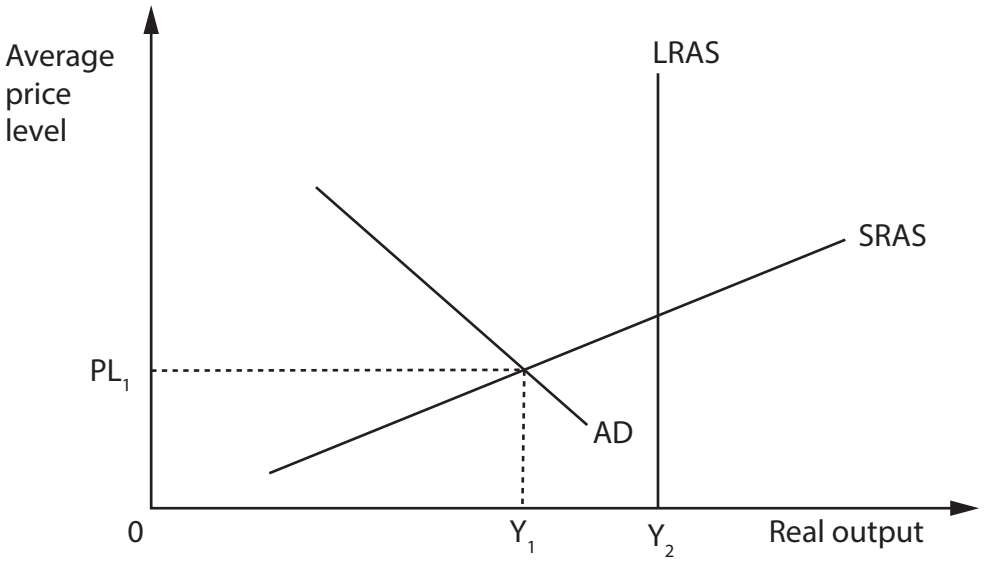
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QUESTION 5 BEGINS ON THE NEXT PAGE.

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5



The aggregate demand and aggregate supply diagram shows an economy in equilibrium at output Y_1 and price level PL_1.

(a) From this diagram, it can be deduced that there is

(1)

A a negative output gap

B deflation in the economy

C a positive output gap

D no unemployment in the economy

Answer

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(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 It is estimated that more than 20% of part-time workers in the European Union (EU) are employed for fewer hours than they would be willing to work.

(a) This suggests that, in the EU, there is

(1)

A a positive output gap

B a high rate of unemployment

C declining productivity

D a high level of underemployment

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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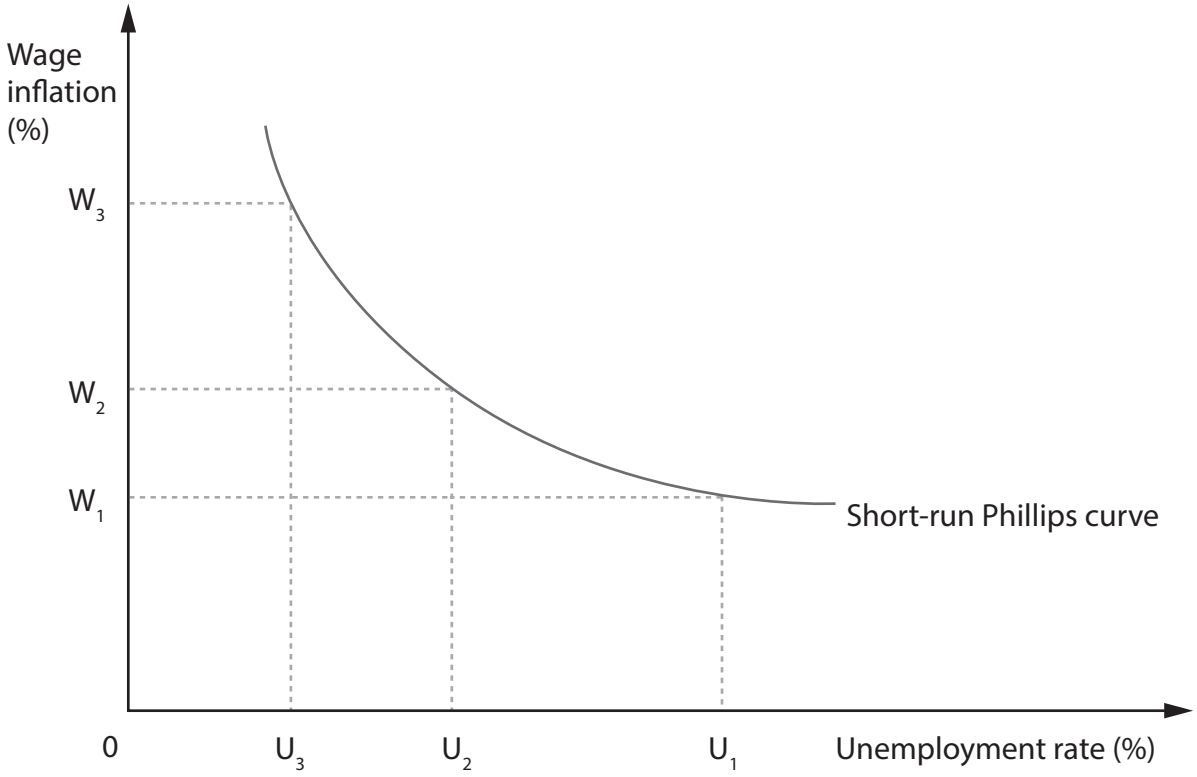
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QUESTION 7 BEGINS ON THE NEXT PAGE.

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7 The diagram shows the short-run Phillips curve for an economy.



(a) Which one of the following conflicts between macroeconomic objectives can the diagram be used to represent?

(1)

A Inflation and equilibrium on the current account of the balance of payments

B Economic growth and environmental sustainability

C Low inflation rate and full employment

D Balanced budgets and short-run growth

Answer

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) It has been estimated that the marginal propensity to consume (MPC) for an economy is 0.8. After a $2 billion increase in business investment, ceteris paribus, which one of the following shows the increase in GDP for this economy?

(1)

A $2 billion

B $2.25 billion

C $8 billion

D $10 billion

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.

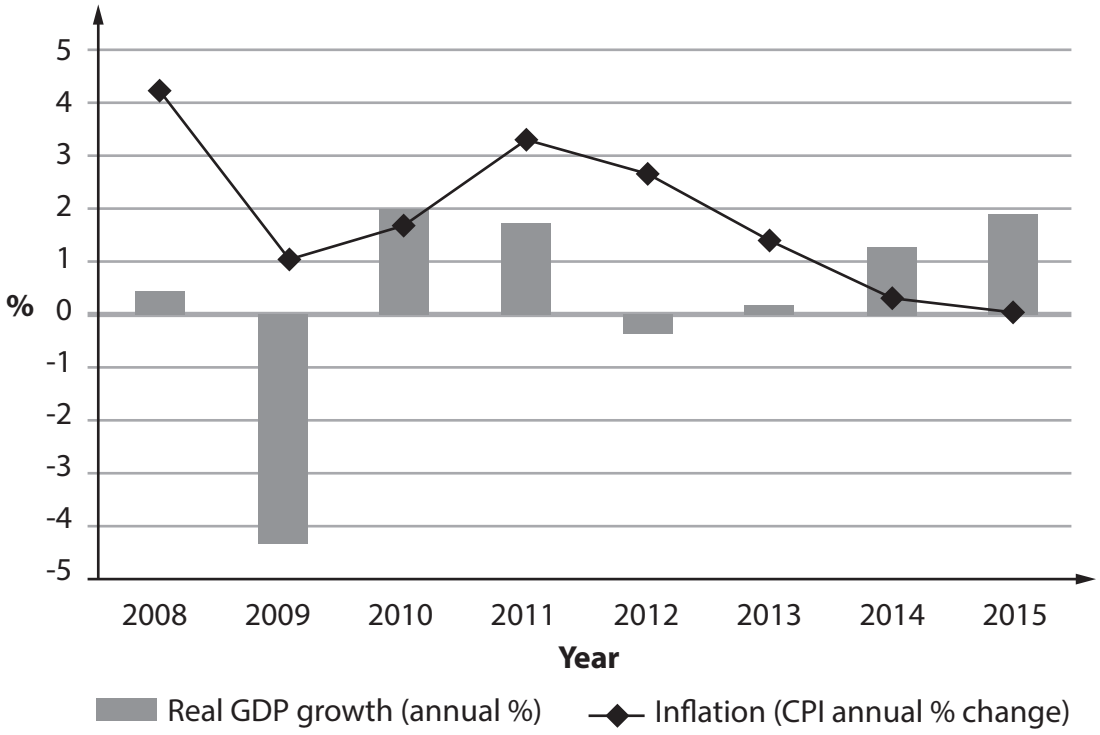
You are advised to spend 55 minutes on this question.

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

Question 10 starts on page 32.

9 The European Union (EU)

Figure 1 Annual percentage change in real GDP and the rate of inflation, 2008–2015



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

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Figure 2 Unemployment rate in selected member states in August 2016 (seasonally adjusted)

Country	Unemployment rate
Spain	20%
Italy	11%
France	11%
Sweden	7%
Germany	4%

(Source: https://www.statista.com/statistics/268830/unemployment-rate-in-eu-countries/)

Extract 1 Stimulating economic growth

The rise in unemployment and fears of recession have undermined confidence and economic stability. Without a clear plan for recovery of employment and growth it is unlikely that tax revenues will recover, budget deficits will decline, or the financial sector will strengthen. A revival of economic growth seems essential to reverse the cycle of low business and consumer confidence.

Supply-side policies are required to improve long-run growth prospects. Demand-side policies are needed to increase growth in the short-run. These policies must be put in place quickly. They must target particular regions: in Southern Europe, to improve labour productivity and competitiveness of the export sectors; in Northern Europe, to reduce unemployment and underemployment to help create a more dynamic service sector.

(Source: adapted from http://www.imf.org/external/pubs/ft/sdn/2012/sdn1207.pdf)

Extract 2 Unemployment

Europe is in a jobs crisis. Eight years on from the financial crash of 2008, unemployment remains the biggest threat to the economies of the EU.

October 2016 labour market data show that the average unemployment rate fell to 10%, its lowest level since September 2011. However, the headline number hides a growing divide between the strongest and weakest economies. German unemployment fell to just 4%. As Europe's largest economy, Germany has created 33 000 jobs a month on average between 2010 and 2016. In Greece, unemployment rates have been around 25% since 2014.

Italy's unemployment rate remained unchanged at 11% at the end of December 2015, despite labour market reforms. However, it is not just countries in Southern Europe that are experiencing labour market problems. Finland's unemployment rate increased to 9.2% at the end of 2015, the country's highest unemployment rate since the pre-euro days of 1998.

(Source: adapted from http://www.telegraph.co.uk/finance/economics/12136090/Mapped-Europe-divided-how-the-jobless-disease-is-splitting-the-continent-apart.html)

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(a) With reference to Extract 1, explain what is meant by the term 'demand-side policies'.

(4)

(b) With reference to the information provided and your own knowledge, assess the view that there is always a conflict between the macroeconomic objectives of balanced budgets and short-run economic growth.

(10)

(c) With reference to the information provided, explain the impact of low business confidence on economic growth.

(6)

(d) With reference to the information provided and your own knowledge, assess the likely costs of high unemployment in the EU.

(14)

(e) Evaluate the likely effects of supply-side policies on economic growth in the EU.

(14)

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(10)

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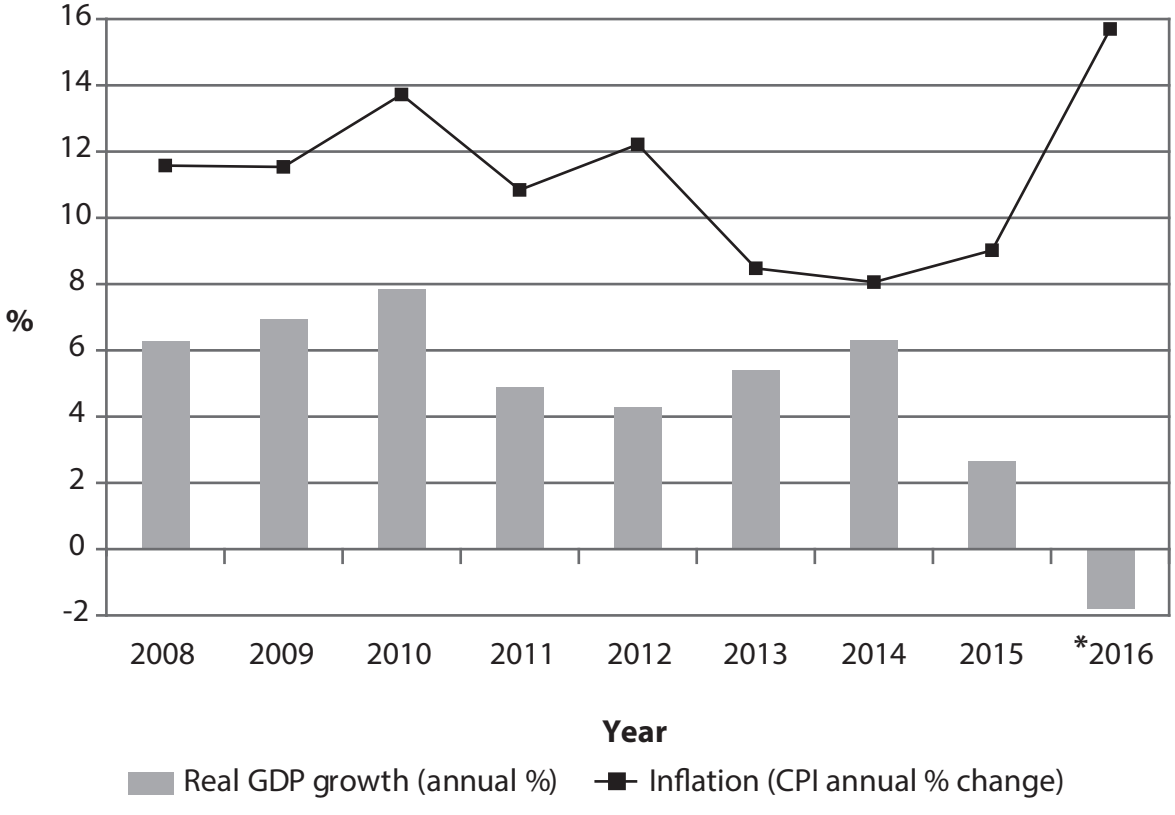
QUESTION 10 BEGINS ON THE NEXT PAGE.

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

10 The economy of Nigeria

Figure 1 Annual percentage change in real GDP and the rate of inflation, 2008–2016



*2016 forecast data

(Source: http://data.worldbank.org/country/nigeria and www.focus-economics.com and www.imf.org)

Figure 2 Economic indicators, 2015

Indicator		
Human Development Index (HDI)	**Ranking**	**Value**
	152	0.51
Population	182 million	
GNI (US$ 2015 exchange rate)	$465 billion	
Current account balance (% of GDP)	-3.8	
GDP (US$ 2015 exchange rate)	$481 billion	

(Source: http://data.worldbank.org/country/nigeria and http://hdr.undp.org/en/composite/HDI)

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Extract 1 A planned fiscal stimulus

Nigeria's Ministry of Budget and National Planning says it has designed a fiscal stimulus strategy that will help the economy out of the recession which started in the second quarter of 2016.

The emphasis of the plan, published in September 2016, was on the need for the country to spend its way out of recession through an injection of increased government spending. The Ministry stated that the major factor responsible for the recession was the decline in oil revenues and the over-dependence of the economy on this single commodity. Negative growth was thought to be the outcome of a failure to diversify the economy. The collapse in the oil price has also led to reduced confidence, leading to declining foreign direct investment from $9.7 billion by the end of the second quarter 2014, to $0.64 billion at the end of the second quarter of 2016.

(Source: adapted from http://thenewsnigeria.com.ng/2016/09/fg-plans-fiscal-stimulus-strategy-to-inject-15bn-in-ailing-economy/)

Extract 2 Industrial diversification

The President of Nigeria opened the Nigerian Economic Summit in October 2016 by stating that there was a need to diversify the economy. This would reduce Nigeria's reliance on oil exports and food imports. He also stated that Nigeria needs to make its own textiles and create the right environment for young people to be able to innovate and create jobs through the use of technology.

The theme of the summit was 'Made in Nigeria'. The President said his administration would continue to encourage more local production of goods and services and added that the Government's most important objective was to transform the economy from import dependence to an export-led economy.

(Source: adapted from http://www.nigerianobservernews.com/2016/10/we-must-diversify-our-economy-to-boost-local-production-president-buhari-insists/)

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(a) With reference to Figure 2, calculate the current account of the balance of payments in 2015.

(4)

(b) With reference to the information provided, assess the economic effects of Nigeria's reliance on oil exports for economic growth.

(10)

(c) Evaluate the likely impact of a 'fiscal stimulus' (Extract 1, lines 2 and 3) on the Government's macroeconomic objectives other than economic growth.

(14)

(d) With reference to Figure 2, explain how the components of the HDI are measured.

(6)

(e) To what extent might Government policies be successful in transforming the Nigerian economy from 'import dependence to an export-led economy' (Extract 2, line 10).

(14)

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(4)

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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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