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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

Wednesday 21 May 2014 – 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.*
- 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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P 4 4 5 6 3 R A 0 1 3 6

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SECTION A

Answer ALL questions in this section.

You are advised to 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 Malaysia's GNP increased from MYR127 billion in 2009 to MYR185 billion in 2012.

GNP can best be defined as the annual

(1)

A profit earned by Malaysian firms

B value of total output produced within Malaysia

C value of total output produced by Malaysian owned factors of production

D value of total exports from Malaysia minus the value of total imports into Malaysia

Answer ☐

Explanation

(3)

(Total for Question 1 = 4 marks)

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2 In 2010, Brazil's GDP growth rate was 7.5%. In 2012 it fell to 0.9%.

The most likely cause of this fall in Brazil's GDP growth rate was

(1)

A a fall in Brazilian exports

B increased spending by Brazilian consumers

C increased Brazilian government spending on transport infrastructure

D a fall in Brazilian imports

Answer ☐

Explanation

(3)

(Total for Question 2 = 4 marks)

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3 In August 2013 Bulgaria's consumer price index indicated that the average price level had fallen by 0.7% compared with the previous year.

Which **one** of the following is most likely to account for this change in average prices?

(1)

A A depreciation of the Bulgarian currency

B A decrease in the price of foodstuffs in Bulgaria

C A reduction in direct taxation in Bulgaria

D An increase in consumption in Bulgaria

Answer ☐

Explanation

(3)

(Total for Question 3 = 4 marks)

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4 Which **one** of the following is most likely to cause an outward (rightward) shift in an economy's long run aggregate supply (LRAS) curve?

(1)

A Government policies to promote competition

B A fall in the quantity of imports of goods and services

C A rise in unemployment

D An increase in indirect taxation

Answer ☐

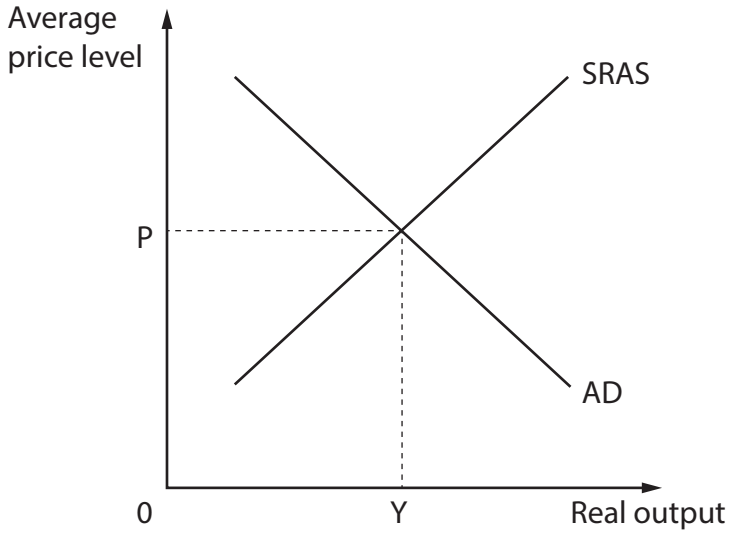
Explanation

(3)

(Total for Question 4 = 4 marks)

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5



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

Which of the following is likely to happen to the position of the curves following a 23% depreciation of the Indian currency from May to September 2013?

(1)

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

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

C No shift of the AD **or** SRAS curves

D Both AD **and** SRAS curves shift to the left

Answer

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Explanation

(3)

(Total for Question 5 = 4 marks)

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6 Spain is a member of the eurozone. In the third quarter of 2013, the unemployment rate in Spain rose to almost 30%.

The most likely effect of this increase in the unemployment rate is

(1)

A an increase in wages in the Spanish economy

B an appreciation in the value of the euro

C an increase in the rate of inflation in Spain

D a reduction in tax receipts

Answer ☐

Explanation

(3)

(Total for Question 6 = 4 marks)

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7 In January 2009, the Bank of England set up an Asset Purchase Facility (APF) to buy high-quality assets from commercial banks, financed by the issue of Treasury bills.

The main aim of this policy, known as Quantitative Easing, was to

(1)

A reduce the rate of inflation

B cause an appreciation in the value of the UK pound

C increase the money supply

D reduce real output

Answer ☐

Explanation

(3)

(Total for Question 7 = 4 marks)

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8 The table below shows the Human Development Index (HDI) and GNI per capita for two developed countries Ireland and Sweden in 2012.

Country	HDI	GNI per capita (current US$)
Sweden	0.913	55 245
Ireland	0.916	45 836

Which one of the following may be deduced from the data?

(1)

A Ireland had lower levels of human development than Sweden

B Ireland had higher standards of education or health than Sweden

C Sweden had a higher level of energy consumption per capita than Ireland

D Sweden's population had less access to clean water than Ireland's population

Answer ☐

Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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SECTION B 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 section.

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

Question 10 starts on page 24.

9 The New Zealand Economy

Extract 1 New Zealand inflation September 2013

The official interest rate in New Zealand has been left at 2.5%, a record low. However, Graeme Wheeler, the Reserve Bank of New Zealand (RBNZ) Governor said "With the inflation pressures that have the potential to build up, given the capacity constraints in the economy, we will need to raise interest rates. Exactly when that will start will be determined by many factors. At this point we don't expect that to start this year."

"The extent and timing of the rise in interest rates will depend largely on the degree to which the momentum in the housing market and construction sector spills over into broader demand and inflation pressures," Wheeler said.

Wheeler is hoping that new limits on riskier mortgages will reduce demand for property. This will give him scope to leave interest rates unchanged for as long as possible to avoid increasing demand for the New Zealand dollar. New Zealand's currency has gained 1.6% over the past three months. The exchange rate's gains are damaging industries such as manufacturing and tourism.

The RBNZ maintained its inflation forecast for 2014 at 1.9%. Inflation is not expected to reach the mid-point of the 1% to 3% inflation target until the second quarter of 2015. Consumer prices rose 0.7% in the year ended 30 June 2013. "Inflation is expected to rise toward the mid-point of the target band as growth strengthens over the coming year," Wheeler said.

The New Zealand economy is being boosted by an estimated NZ$40 billion (US$32 billion) rebuild of the South Island city of Christchurch, following a series of earthquakes in 2010–11 that damaged roads, homes and commercial property. The RBNZ has left the official interest rate unchanged since March 2011, to allow the economy to recover from the earthquakes and to revive confidence after Europe's financial crisis cut global demand. Exporters have also suffered from near-zero interest rates in the USA and Europe, which have helped to boost the New Zealand dollar.

(Source: adapted from www.bloomberg.com/news/2013-09-11/rbnz-signals-2014-interest-rate-increase-as-inflation-picks-up)

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Figure 1 New Zealand economic indicators

Indicator	2007	2008	2009	2010	2011	2012
GDP growth (annual %)	3.4	–1.9	0.9	0.2	1.1	3.0
Median household income growth (annual %)	5.0	0.4	–1.7	1.9	1.8	4.8
Inflation, consumer prices (annual %)	2.4	4.0	2.1	2.3	4.4	0.9
Imports of goods and services (US$ billion)	39.0	43.1	32.5	39.5	47.4	35.7
Current account balance (US$ billion)	11.0	–11.5	–3.1	–4.6	7.0	–2.1

(Source: adapted from data.worldbank.org/country/new-zealand)

(a) With reference to Extract 1, explain **one** reason why the RBNZ has an inflation target.

(4)

(b) Using an appropriate aggregate demand and aggregate supply diagram, illustrate and explain what is meant by the term "capacity constraints". (Extract 1, line 3)

(6)

(c) With reference to Figure 1, Extract 1 and your own knowledge, assess **two** factors that influence New Zealand's balance of payments on current account.

(10)

(d) With reference to the information provided and your own knowledge, discuss the factors that might lead to an increase in the rate of inflation in New Zealand by 2015.

(14)

(e) Evaluate the use of interest rate changes to control inflation in New Zealand.

(14)

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(14)

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(Total for Question 9 = 48 marks)

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

10 The Australian Economy

Extract 1 Australia's trade performance in 2011

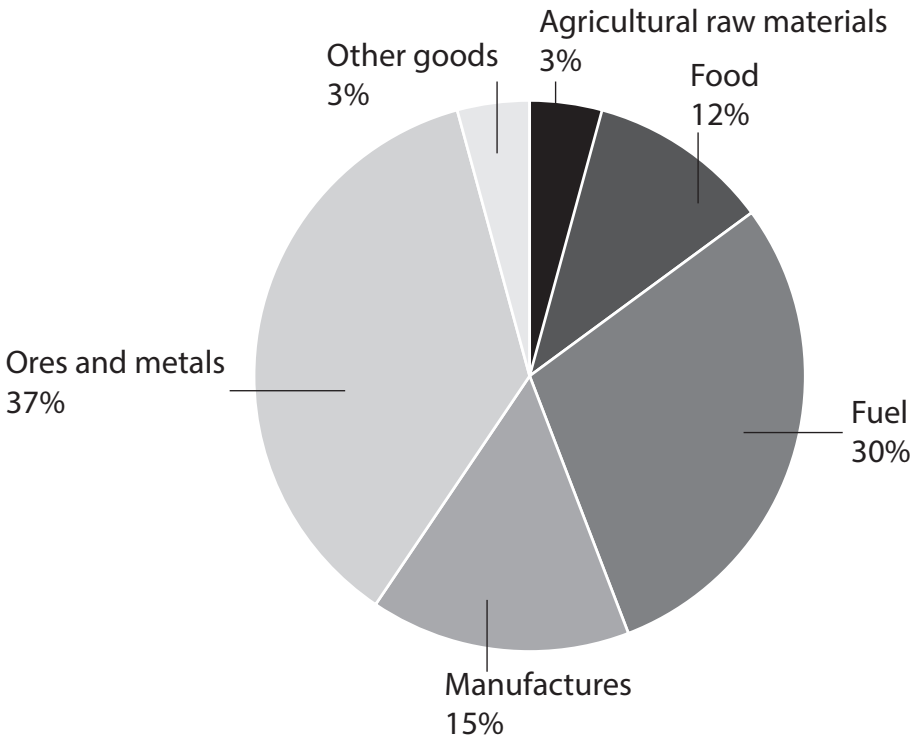
Australia's trade in goods and services reached a new high in 2011. The value of total international trade grew by 9.9% between 2010 and 2011.

The value of Australia's exports grew by 10.2% in 2011. This was driven by strong demand and high prices received for Australia's metal ores, minerals and coal.

Australia's manufacturing exports also performed well in 2011, growing by 3%, despite the challenges posed by the continuing strength of the Australian dollar. 5

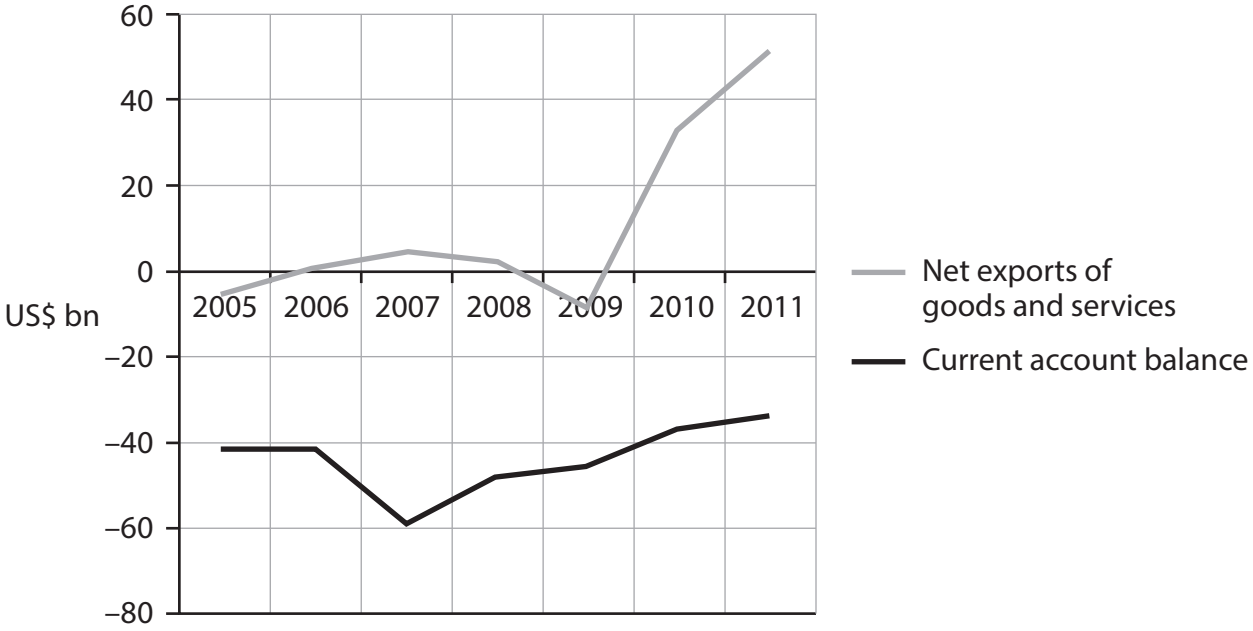
This trade performance continued to affect Australia's balance of payments by reducing the current account deficit, which also includes investment flows and current transfers.

Figure 1 Types of Australian visible exports 2011



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Figure 2 Australia's net exports and current account balance (US$ bn)



(Source: adapted from data.worldbank.org/country/australia)

Extract 2 Australia's economic performance in 2013

Whilst other countries fell into the global recession, Australia maintained strong economic growth. Australia's government finances are in a better position than those of the US government. During the global recession, the government implemented one of the strongest Keynesian stimulus packages in the world by increasing government spending. In many other countries, the stimulus was too small and arrived too late, after jobs and confidence were already lost.

Australia's economy is confronting new global challenges. Commodity prices are falling and growth is slowing in many key export markets. Australia is already facing declining mining investment. Pressure is on the Australian government to balance its budget. Assuming standard multipliers, cutting government spending by AUS$70 billion from an economy the size of Australia's over a four-year period could reduce GDP growth by around two percentage points and cost up to 90 000 jobs.

Instead of focusing on budget cuts, Australia should seize the opportunity offered by low global interest rates to make wise public investments in education, infrastructure and technology. Such investment by the government will deliver a high rate of return, stimulate private investment and allow businesses to prosper.

(Source: adapted from www.smh.com.au/comment/australia-you-dont-know-how-good-youve-got-it-20130901-2sytb)

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(a) With reference to the information provided, explain what is meant by a 'current account deficit'. (Extract 1, line 8)

(4)

(b) Examine how low interest rates may 'stimulate private investment and allow businesses to prosper'. (Extract 2, line 16)

(10)

(c) With reference to the information provided and your own knowledge, discuss how changes in commodity prices may affect the Australian economy.

(14)

(d) 'Growth is slowing in many key export markets.' (Extract 2, line 8)

Explain how this could affect the unemployment rate in Australia.

(6)

(e) Evaluate the likely impact of 'cutting government spending by AUS$70 billion' (Extract 2, lines 10–11) on the Australian economy.

(14)

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(14)

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(Total for Question 10 = 48 marks)

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