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| Surname | Other names |
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**Pearson Edexcel**
**International Advanced Level**

Centre Number | | | | | |

Candidate Number | | | | |

# Economics

## International Advanced Subsidiary
## Unit 2: Macroeconomic Performance and Policy

Tuesday 19 May 2015 – 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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## 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 below shows the real and nominal GDP growth rates for Indonesia for the years 2008 to 2011.

| Year | Real GDP growth (%) | Nominal GDP growth (%) |
|---|---|---|
| 2008 | 2.0 | 5.0 |
| 2009 | 2.2 | 5.6 |
| 2010 | 1.5 | 4.5 |
| 2011 | 1.6 | 6.5 |

(a) From the data it can be deduced that

**(1)**

**A** the population of Indonesia grew in each year

**B** the inflation rate was above 2% in each year

**C** Indonesia experienced deflation in each year

**D** the GDP per capita increased each year

Answer ☐

(b) Explanation

**(3)**

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**(Total for Question 1 = 4 marks)**

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**2** The UK Government has proposed a high speed rail link between South East England and North West England at an estimated cost of £42.6 billion.

(a) This rail link is **most likely** to lead to

**(1)**

**A** an increase in withdrawals from the circular flow of income

**B** a reduction in the size of the labour force

**C** an increase in long-run aggregate supply

**D** a reduction in aggregate demand

Answer ☐

(b) Explanation

**(3)**

**(Total for Question 2 = 4 marks)**

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**3** The World Bank calculates a 'PPP-adjusted level of GDP' for different countries.

(a) Purchasing Power Parity (PPP) is calculated by comparing the

**(1)**

**A** inflation rates in different countries over a given time period

**B** value of the currency of one country to the US dollar

**C** life expectancy and educational attainment in different countries

**D** price of a basket of comparable goods and services in different countries

Answer ☐

(b) Explanation

**(3)**

**(Total for Question 3 = 4 marks)**

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**4** According to the Cuban Government, 2.84 million tourists visited Cuba in 2012.

(a) The **most likely** consequence of this was

**(1)**

**A** a net withdrawal from the circular flow of income

**B** an injection into the circular flow of income

**C** a reduction in the level of Cuba's national output

**D** an increase in demand deficient unemployment

Answer ☐

(b) Explanation

**(3)**

**(Total for Question 4 = 4 marks)**

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**5** The demand for Chinese and German manufactured goods is increasing in New Zealand.

(a) This is **most likely** to have resulted from

**(1)**

**A** a depreciation of New Zealand's currency

**B** an increase in New Zealand's marginal propensity to save

**C** a deficit in New Zealand's balance of payments on the current account

**D** an increase in New Zealand's marginal propensity to import

Answer ☐

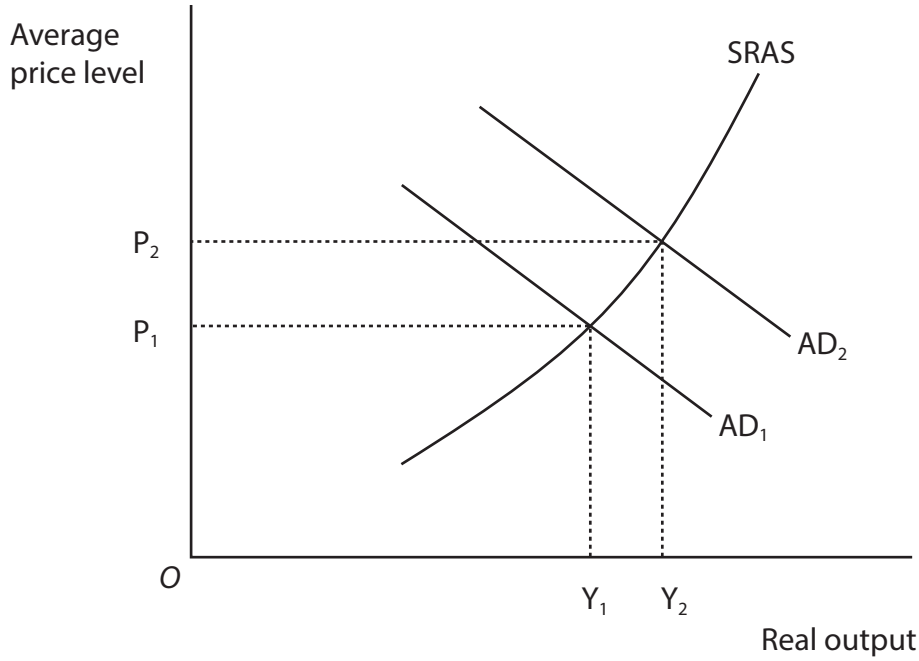
(b) Explanation

**(3)**

**(Total for Question 5 = 4 marks)**

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**6** The diagram shows two aggregate demand (AD) curves and the short-run aggregate supply (SRAS) curve for an economy.




(a) Which **one** of the following is **most likely** to have caused the shift in the aggregate demand curve from $AD_1$ to $AD_2$?

**(1)**

**A** An increase in interest rates and a fall in share prices

**B** A decrease in interest rates and a rise in house prices

**C** An increase in direct taxation and an increase in imports

**D** A decrease in exports and an increase in indirect tax

Answer

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(b) Explanation

**(3)**

**(Total for Question 6 = 4 marks)**

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**7** The multiplier ratio is used to measure the impact of a change in aggregate demand on GDP.

(a) The value of the multiplier will increase when

**(1)**

**A** the propensity to spend extra income on domestic goods and services increases

**B** the propensity to spend extra income on imported goods and services increases

**C** the marginal propensity to save increases

**D** the level of investment increases

Answer ☐

(b) Explanation

**(3)**

**(Total for Question 7 = 4 marks)**

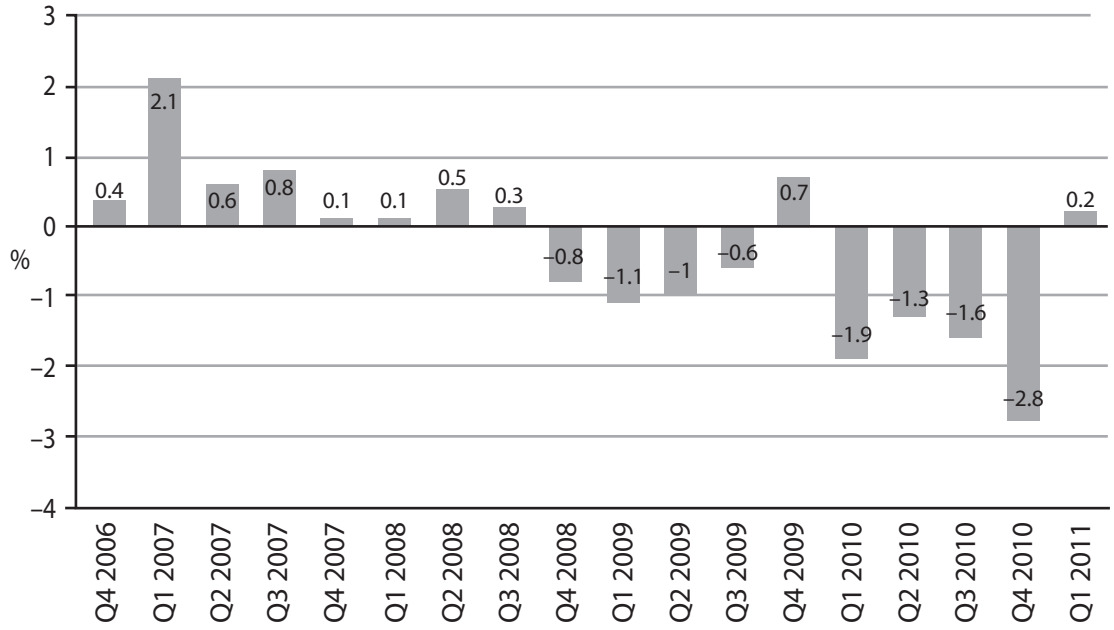
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**QUESTION 8 BEGINS ON THE NEXT PAGE.**

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**8** **Greece real GDP quarterly growth rate (%)**




(Source: http://www.tradingeconomics.com/greece/gdp-growth)

(a) From the data it can be deduced that

**(1)**

**A** the Greek economy was in recession from Q2 2006 to Q4 2006

**B** total output fell between Q2 2008 and Q3 2008

**C** the Greek economy was in recession from Q4 2008 to Q3 2009

**D** total output increased between Q1 2010 and Q2 2010

Answer ☐

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(b) Explanation

**(3)**

**(Total for Question 8 = 4 marks)**

**TOTAL FOR SECTION A = 32 MARKS**

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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 the box ☒ .**

**Question 10 starts on page 28.**

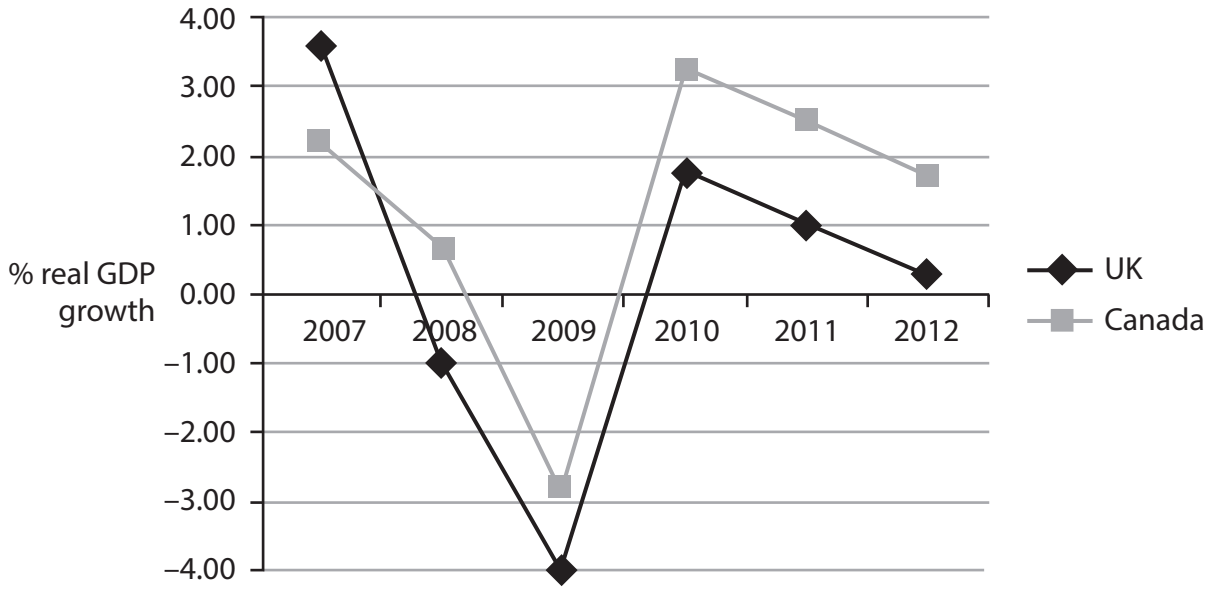
**9 The economies of Canada and the UK**

**Figure 1 Main destinations for exports from Canada and the UK (2012)**

| Canada | Destination of total exports (%) | UK | Destination of total exports (%) |
|---|---|---|---|
| 1 USA | 75.4 | 1 Germany | 11.5 |
| 2 China | 4.3 | 2 USA | 10.6 |
| 3 UK | 4.1 | 3 Netherlands | 8.9 |

(Source: https://www.cia.gov/library/publications/the-world-factbook/fields/2061.html)

**Figure 2 Comparison of % real GDP growth rates of Canada and UK (2007–2012)**

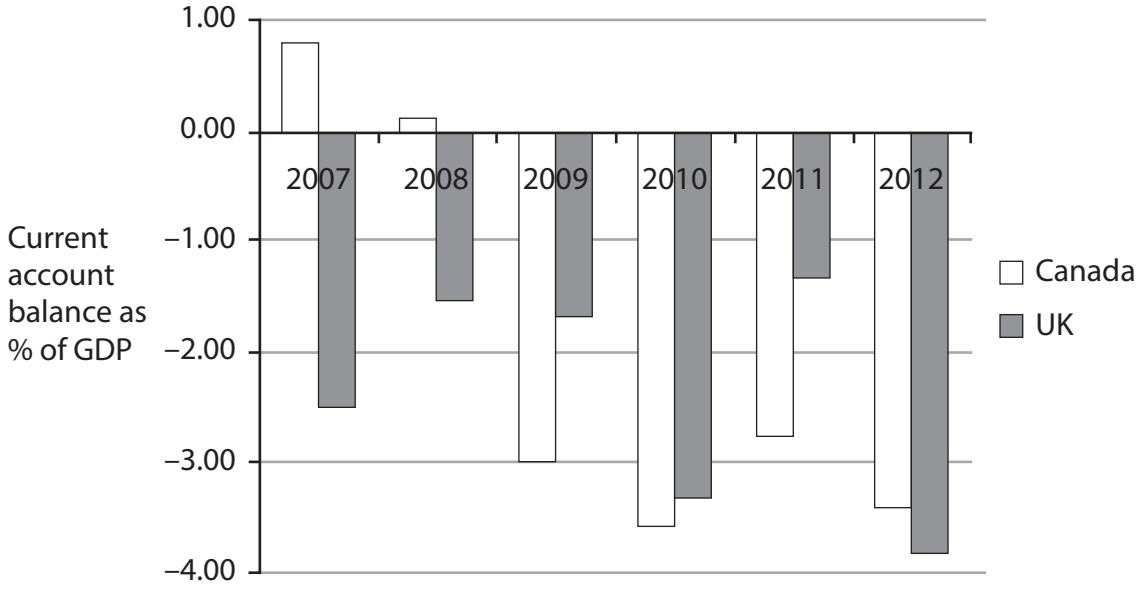


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**Figure 3 Canadian and UK total real GDP in 2007 and 2012 in U.S. dollars (at rate of exchange for each year)**

| Country | Total real GDP 2007 US$ billions | Total real GDP 2012 US$ billions |
|---|---|---|
| UK | 2 825 | 2 435 |
| Canada | 1 424 | 1 821 |

**Figure 4 UK and Canadian balance of trade on current account as percentage of GDP, 2007–2012**




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

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**Extract 1 Canadian investment**

Canadian firms are becoming more pessimistic about the slow pace of the world's economy. A Bank of Canada survey suggests that firms want to see signs of progress before hiring more labour and increasing investment.

The expected rebalancing of the economy away from household spending toward exports and business investment is being delayed by uncertain global conditions. 5

(Source: http://business.financialpost.com/2013/10/11/canadian-businesses-ramp-down-hiring-and-investment-intentions-as-economy-struggles-boc/)

**Extract 2 Investment crisis**

The economic downturn in Europe has hit UK business investment harder than any other component of GDP. Between 2007 and 2011, annual business investment in the European Union (EU) fell by more than €350 billion – twenty times the drop in private consumption, and four times the decline in GDP. In 2011, EU business investment is 15% below the 2007 level. 5

In some counties, the decline was significantly larger than the average fall across the EU. More than 75% of the decrease in investment occurred in Greece, Ireland, Italy, Portugal, Spain and the United Kingdom.

(Source: http://www.mckinsey.com/insights/europe/investing_in_growth)

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(a) With reference to Figure 2, explain what is meant by 'real GDP growth rate'.

**(4)**

(b) With reference to the information provided and your own knowledge, analyse possible reasons why Canada recorded a deficit on its balance of payments on current account after 2008.

**(6)**

(c) With reference to the information provided and your own knowledge, assess the economic effects of a deterioration of the balance of payments on current account.

**(10)**

(d) With reference to the information provided and your own knowledge, assess the likely economic impact of falling business investment in the UK. Illustrate your answer with an aggregate demand and aggregate supply diagram.

**(14)**

(e) Evaluate the use of supply side policies to increase the rate of economic growth in Canada or the UK.

**(14)**

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**(4)**

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**(14)**

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(e) Evaluate the use of supply side policies to increase the rate of economic growth in Canada or the UK.

**(14)**

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**(Total for Question 9 = 48 marks)**

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

## 10 The economy of Brazil

**Figure 1 Brazil's real GDP percentage growth, 2007–2012**

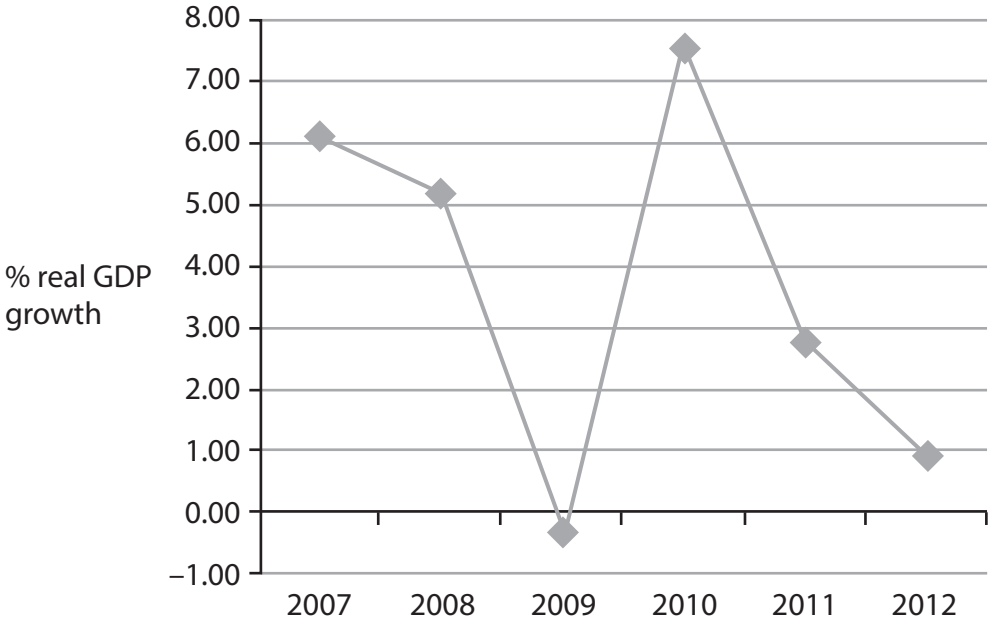
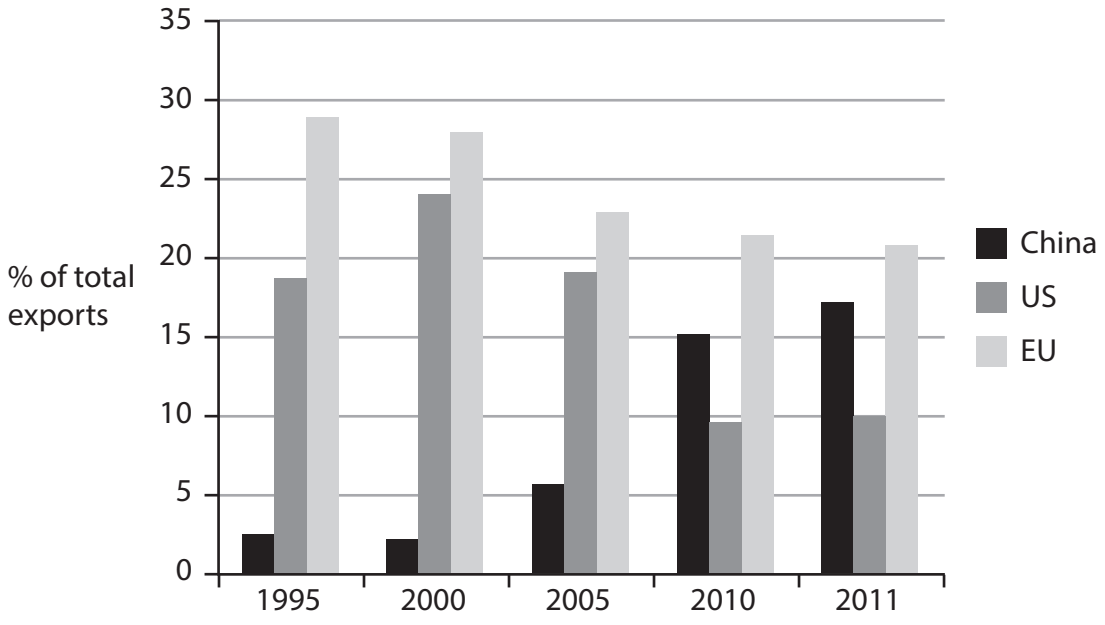



**Figure 2 Brazil's major export markets, 1995–2011**




(Source: http://brazilianbubble.com/china-not-europe-is-the-actual-elephant-in-the-room/)

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**Extract 1 Brazilian economic growth**

With higher incomes and an historically low unemployment rate of 5.4%, Brazil's economy is growing nearly as fast as the USA's and without much monetary or fiscal stimulus.

Brazil had a strong recovery after the 2008–2009 financial crisis, with both growth and investment above the average for emerging economies. This was due to two factors. Firstly, Brazil benefited from the rapid growth rates in China. The Chinese Government spent trillions of dollars on stimulating its economy when the US economy crashed. This greatly increased demand for Brazil's key commodities, namely iron ore and soya beans, which led to substantial price increases. Secondly, Brazil's Central Bank kept interest rates low.

Unfortunately this relatively better performance ended in 2011, and thereafter, Brazil has been performing poorly versus other emerging economies, particularly Mexico.

Since 2011, higher inflation has meant higher prices for the general population, from food to education. For businesses, inflation has made it harder to judge future costs and therefore more difficult to price their goods and services. Further, increasing inflationary pressures have meant that companies have stopped investing.

(Source: http://www.forbes.com/sites/kenrapoza/2013/11/10/is-brazil-a-fail/)

**Extract 2 Brazil's income inequality**

While Brazil's income inequality has reduced slightly over the past 14 years, it remains one of the most unequal countries in the world.

The top 10% of the Brazilian income distribution receives 40% of total income in the country, whereas the bottom 10% of the distribution receives just 0.9%.

21.4% of Brazilians live below the poverty line despite Brazil being the eighth largest economy in the world in terms of GDP (purchasing power parity), with $2 362 billion in 2012.

It is reported that the richest 20% of Brazilians have experienced a decrease in their share of total wealth over ten years to 2009, whereas the poorest 20% have increased their share of wealth from 2.6% to 3.5% during the same period.

(Source: adapted from http://www.globaljournalist.org/stories/2013/07/11/brazils-current-wealth-distribution/ AND http://www.pulsamerica.co.uk/2013/01/06/what-does-2013-hold-in-store-for-poverty-and-social-inequality-in-brazil/)

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(a) Explain the distinction between income and wealth.

**(4)**

(b) With reference to the information provided and your own knowledge, assess the effects of China's demand for commodities on Brazil's economy. Illustrate your answer with an aggregate demand and aggregate supply diagram.

**(14)**

(c) With reference to Extract 1 and your own knowledge, explain **two** reasons why Brazil's rate of economic growth fell in 2011.

**(6)**

(d) With reference to the information provided and your own knowledge, evaluate the use of GDP data to compare living standards in Brazil over time.

**(10)**

(e) Assess the likely costs of rapid economic growth in a country such as Brazil.

**(14)**

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(a) Explain the distinction between income and wealth.

**(4)**

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**(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**