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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

Monday 22 May 2017 – Morning
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 Which one of the following is an example of a fiscal policy measure that aims to reduce the rate of inflation?

(a) An increase in

(1)

A interest rates

B income tax rates

C asset purchases by the central bank

D government spending on pensions

Answer ☐

(b) Explanation

(3)

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(Total for Question 1 = 4 marks)

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2 In the United Kingdom, between the first quarter of 2010 and the final quarter of 2012, per capita nominal income increased by 2.0% and per capita real income decreased by 2.4%.

(a) From this information it can be deduced that, over this period, the

(1)

A rate of inflation was higher than the increase in nominal income

B economy experienced deflation

C rate of inflation was lower than the increase in nominal income

D level of real consumer spending increased

Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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3 Between 2011 and 2014 investment in Ukraine decreased from 22% to 14% of real GDP.

(a) Which one of the following is the most likely cause of this decrease in investment?

(1)

A Decrease in the rate of corporation tax

B Increase in consumer spending

C Decrease in interest rates

D Decrease in business confidence

Answer ☐

(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 The table shows the balance of payments on current account as a percentage of GDP for Canada between 2011 and 2014.

Year	Balance of payments on current account (% of GDP)
2011	–2.6
2012	–3.2
2013	–2.9
2014	–2.0

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

(a) From the data it can be deduced that in each year the balance of payments on current account led to

(1)

A a net injection into the circular flow of income

B a net withdrawal from the circular flow of income

C an increase in aggregate demand

D an increase in aggregate supply

Answer ☐

(b) Explanation

(3)

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(Total for Question 4 = 4 marks)

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5 The table shows total GDP and population between 2009 and 2013 for Australia. (You should use the last column for your calculations.)

Year	Total GDP (US$ billion)	Population (Million)	GDP per capita (US$)
2009	1 055	21.3	
2010	926	21.7	
2011	1 141	22.0	
2012	1 388	22.3	
2013	1 534	22.7	

(Source: http://www.tradingeconomics.com/australia/indicators)

(a) From the data it can be deduced that GDP per capita

(1)

A increased between 2009 and 2010

B was lowest in 2011

C decreased between 2012 and 2013

D was highest in 2013

Answer ☐

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(b) Explanation

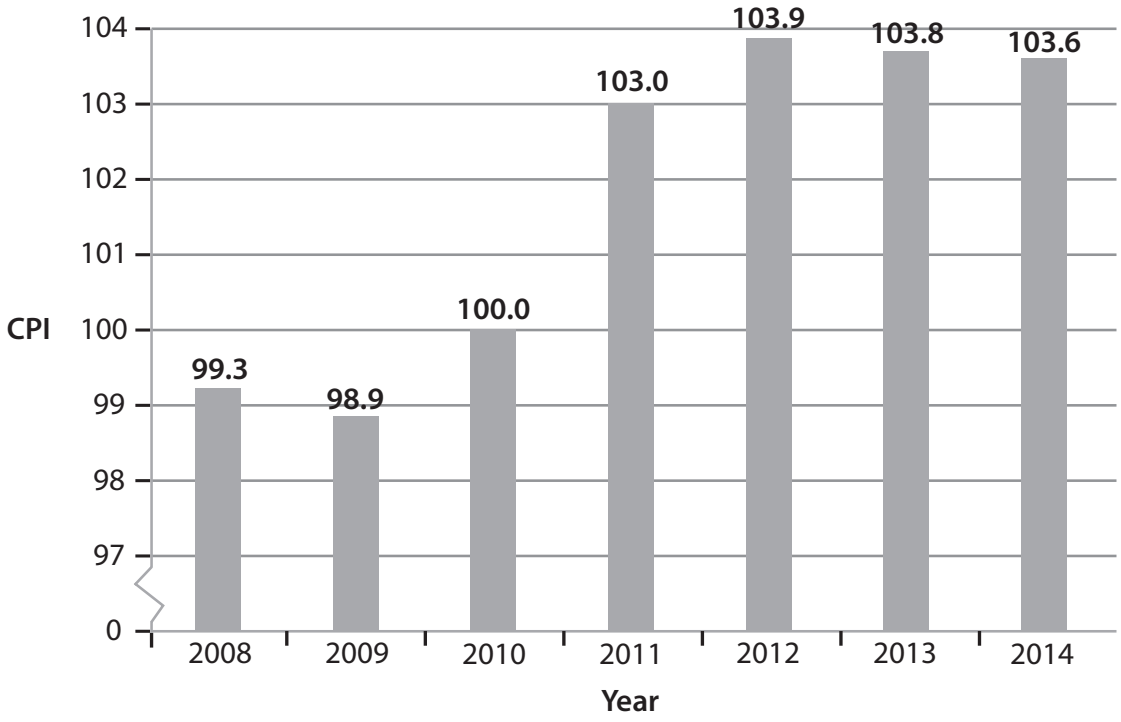
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(Total for Question 5 = 4 marks)

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6 The chart shows the Consumer Price Index (CPI) for Sweden between 2008 and 2014 (2010 = 100).



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

(a) From the data it can be deduced that

(1)

A there was inflation in all years

B there was deflation in 2014

C the rate of inflation was higher in 2012 than in 2011

D there was disinflation in 2009

Answer ☐

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(b) Explanation

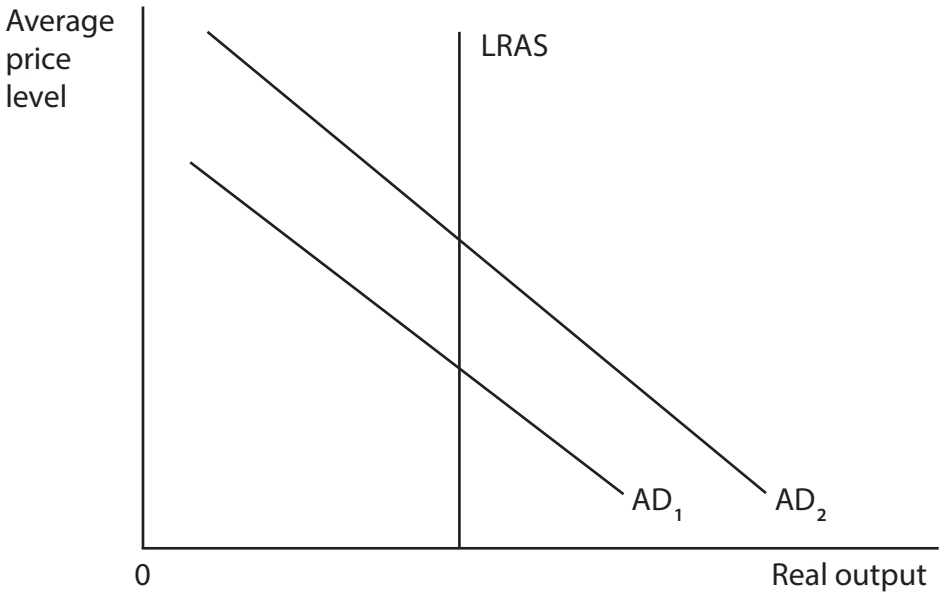
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(Total for Question 6 = 4 marks)

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(a) Which one of the following, ceteris paribus, is most likely to cause the shift in the aggregate demand curve from AD_1 to AD_2, as shown in the diagram?

(1)

A Decrease in imports

B Decrease in investment

C Decrease in government spending

D An advance in production technology

Answer

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 The UK Government is spending £1.5 billion building the 'London Gateway', a new deep water port. The final increase in GDP as a result of this investment is estimated to be £3.2 billion.

(a) In this case the value of the multiplier is expected to be

(1)

A 0.4

B 1.7

C 2.1

D 4.7

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 section.

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

Question 10 starts on page 28.

9 The economy of Mexico

Figure 1 Annual real GDP rate of growth and rate of inflation as measured by the CPI, 2008–2014

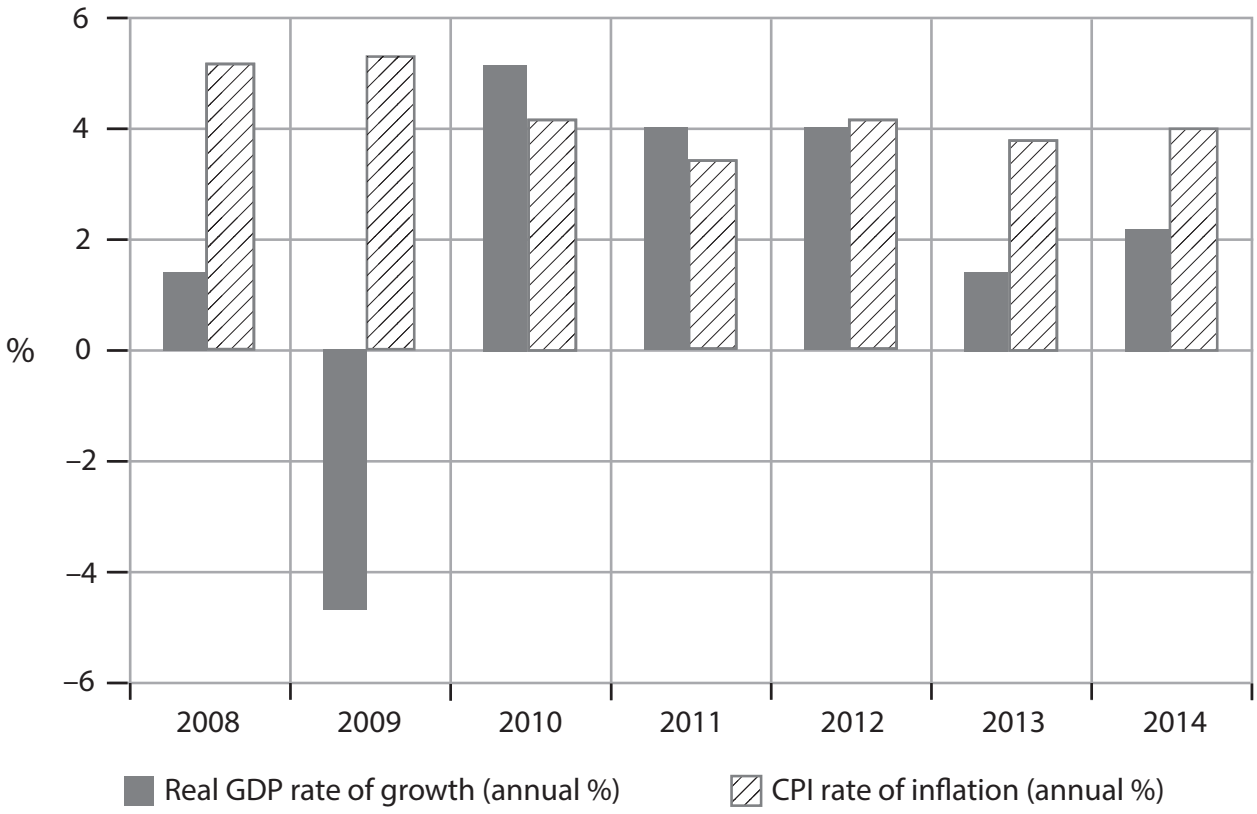


Figure 2 Selected economic data for the Mexican economy, 2008–2014

Indicator	2008	2009	2010	2011	2012	2013	2014
Unemployment, % of total labour force (ILO estimate)	3.5	5.2	5.2	5.3	4.9	4.9	5.0
Imports of goods and services (% of GDP)	30.2	28.8	31.1	32.5	33.8	32.6	33.7
Exports of goods and services (% of GDP)	27.9	27.3	29.9	31.3	32.6	31.7	32.7
Exchange rate: Mexican pesos per one US$ (yearly average)	11.1	13.5	12.6	12.4	13.1	12.7	13.3

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

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Extract 1 Economic growth in 2015

Mexico has been viewed as one of the more successful emerging economies. The Mexican Government deregulated the oil and telecommunications sectors in 2013. This was predicted to boost economic growth. However, in 2015, growth was only 2.3%. One cause of the low growth is the falling world price of oil. Although deregulation may have contributed to lower electricity and telecommunications prices, keeping the rate of inflation low, its impact on growth has not appeared.

The value of the Mexican currency, the peso, has fallen to a record low against the US dollar. World economic uncertainty has boosted the US dollar against many emerging economies currencies. For Mexican exporters, or for American tourists who want low price Mexican holidays, this can be a good thing. In the first five months of 2015, foreign visitors to Mexico rose 7% compared with the same period in 2014.

(Source: adapted from https://www.washingtonpost.com/world/the_americas/mexicos-economy-was-supposed-to-soar-its-starting-to-flop/2015/08/07/ecbf00dc-3ab4-11e5-b759-e3c43f009486_story.html)

Extract 2 Increased consumer spending in Mexico

Shares in *Walmex*, a large Mexican retailer, rose by 30% between January and November 2015. This suggested that, although the Mexican economy grew slowly, consumer spending rose rapidly. Retail sales, boosted by low interest rates, increased by 6.2% in the first three quarters of 2015, after growing less than 1% in 2014 and not at all in 2013.

Relatively strong growth in the USA is increasing income transfers from Mexicans living in the USA. The fall in value of the peso against the dollar, means that these income transfers have more buying power. The weaker peso also increases non-oil exports and domestic firms are more able to compete against foreign suppliers in the Mexican market. The peso's weakness has not pushed up prices. The rate of inflation fell from 4.1% in December 2014 to a record low of 2.5% in August 2015, below the Central Bank's target rate of 3%. Low inflation helped to increase real wages and consumer spending.

(Source: adapted from https://www.economist.com/news/americas/21677984-mood-gloomy-tills-are-ringing-shopping-therapy)

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(a) With reference to Extracts 1 and 2, analyse **two** possible reasons for the increase in consumer spending in Mexico in 2015.

(6)

(b) With reference to the information provided and your own knowledge, assess the impact of increased consumer spending on the Mexican economy. Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)

(c) With reference to Extract 2, briefly explain why the Mexican Central Bank has an inflation target.

(4)

(d) Assess the likely impact of the decrease in the value of the peso against the US dollar on Mexico's balance of payments on current account.

(10)

(e) With reference to the information provided and your own knowledge, evaluate the view that Mexico is successfully avoiding a conflict between macroeconomic objectives.

(14)

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(b) With reference to the information provided and your own knowledge, assess the impact of increased consumer spending on the Mexican economy. Illustrate your answer with an aggregate demand and aggregate supply diagram.

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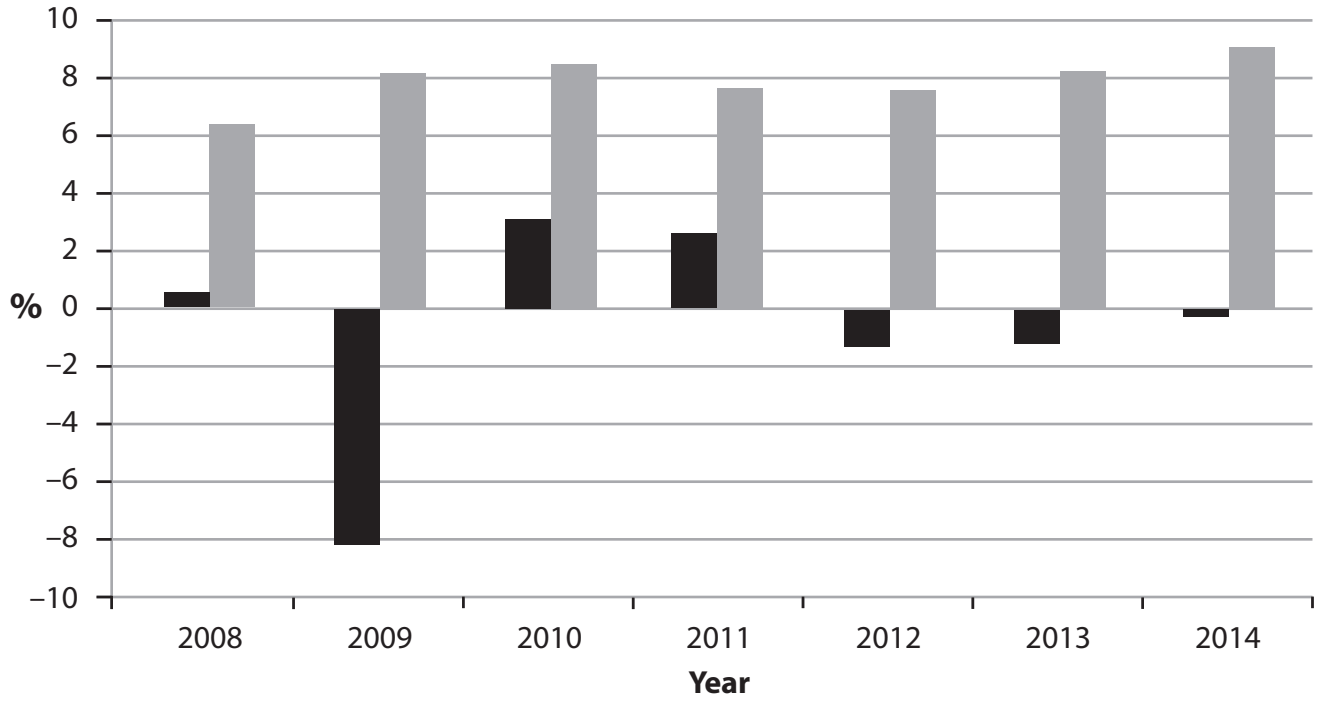
QUESTION 10 BEGINS ON THE NEXT PAGE.

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

10 The economy of Finland

Figure 1 Annual real GDP rate of growth and ILO unemployment rate, 2008–2014



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

Figure 2 Selected economic data for the economy of Finland, 2008–2014

Indicator	2008	2009	2010	2011	2012	2013	2014
Inflation, consumer prices (annual %)	4.1	0.0	1.2	3.4	2.8	1.5	1.0
Current account balance (% of GDP)	3.2	2.7	2.4	–0.6	–1.2	–0.9	–1.8
GNI per capita growth (annual %)	0.1	–7.7	2.6	1.2	–1.8	–2.0	–2.0
HDI	0.88	0.88	0.88	0.88	0.88	0.88	0.88
HDI global ranking	17						24

(Source: http://data.worldbank.org/country/finland and http://hdr.undp.org/en/data)

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Extract 1 Recession in Finland

The economy of Finland contracted by 0.6% in the third quarter of 2015 from the previous quarter, as a three-year recession continues. Real GDP fell by 2.6% in September 2015 compared with a year ago.

The data suggests a worsening economic slowdown that has already prompted Finland's finance minister, to call it "the new sick man of Europe".

One reason for Finland's problems is the weakness of the Russian economy, its biggest trading partner. The Russian economy is deep in recession because of falling oil prices and international trade restrictions.

The decline of Nokia, a large firm registered in Finland, has also had an impact on its economy. Between 1998 and 2007, Nokia contributed approximately 25% to Finland's economic growth and was one of its major exporters.

(Source: adapted from http://www.ft.com/fastft/424901/finland-economy-contracts-further-third-quarter)

Extract 2 Finland's new benefit system

The Government of Finland has proposed a new benefit system which would guarantee every citizen a minimum basic income. This system of a universal, state-funded welfare payment of €800 per month will be provided to everyone. This would replace currently existing social benefits received through the welfare system. Any income earned beyond this basic income will be taxable.

Unemployment has steadily increased in Finland over the past 10 years and the basic income proposal is popular with voters. This proposed new benefit system will free workers from the need to work for a living. Individuals are then free to pursue creative, entrepreneurial or charitable activities.

(Source: adapted from http://inhabitat.com/finland-prepares-universal-basic-income-experiment/)

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(a) With reference to Figure 2, briefly explain how HDI is measured.

(4)

(b) With reference to the information provided, analyse **two** possible causes of the recession in Finland from 2012.

(6)

(c) With reference to the information provided, assess the likely impact of the 'decline of Nokia' (Extract 1, Line 9) on Finland's current account balance, price level and real output. Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)

(d) Assess the likely effects of unemployment on Finland's economy.

(10)

(e) With reference to the information provided and your own knowledge, evaluate the likely effects of the new benefit system on Finland's macroeconomic objectives.

(14)

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(a) With reference to Figure 2, briefly explain how HDI is measured.

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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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