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Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic Performance and Policy

Thursday 17 May 2018 – 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 answer where relevant. You may annotate and include diagrams in your answers.

1 In August 2016 the Bank of England reduced the base interest rate from 0.5% to 0.25%.

(a) Ceteris paribus, this is likely to lead to a decrease in

(1)

A the rate of economic growth

B aggregate demand

C the rate of unemployment

D aggregate supply

Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 The Kenya Railways Corporation is constructing a new rail link between Mombasa, one of East Africa's biggest ports, and Nairobi, the capital city, at a cost of US$3.8 billion.

(a) Which one of the following is the most likely result of this investment?

(1)

A An increase in aggregate demand and in long-run aggregate supply

B An increase in withdrawals

C A decrease in aggregate demand and 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 Between 2014 and 2015, household consumption in Germany decreased by 14%.

(a) Ceteris paribus, the impact of lower household consumption will be

(1)

A higher imports and higher inflation

B higher growth and higher tax receipts

C lower exports and lower tax receipts

D lower growth and lower inflation

Answer ☐

(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 In March 2016 the European Central Bank increased its asset purchases (quantitative easing) from €60bn to €80bn a month.

(a) The main effect of this change is likely to be

(1)

A a reduction in the rate of inflation

B an increase in the value of the euro

C an increase in the money supply

D a reduction in real output

Answer ☐

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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5 The table shows the Human Development Index (HDI) and Gross National Income (GNI) per capita for Iceland and the USA in 2015.

Country	HDI	GNI per capita (current US$)
Iceland	0.846	50 140
USA	0.760	55 980

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

(1)

A Iceland had lower levels of human development than the USA

B Iceland had higher standards of education or health than the USA

C The USA had a higher level of energy consumption per capita than Iceland

D The USA's population had less access to mobile phones than Iceland's population

Answer ☐

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(b) Explanation

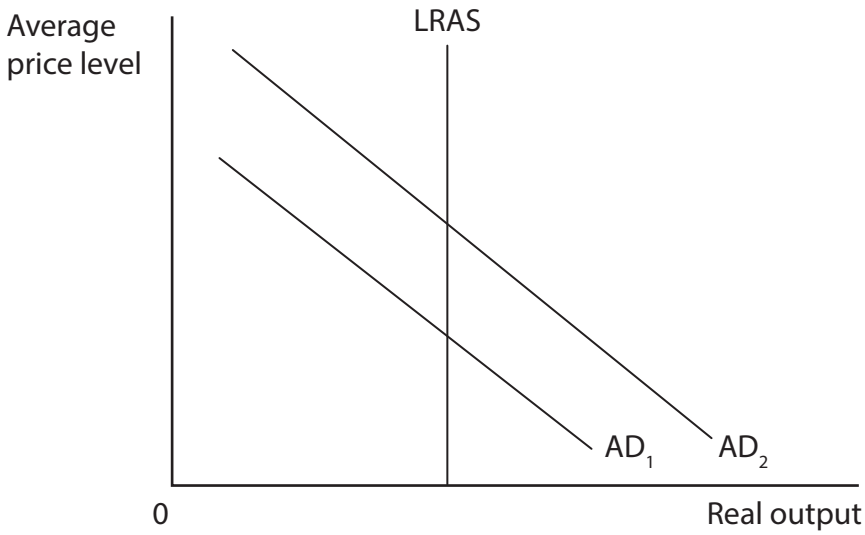
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6



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?

(a) A decrease in

(1)

A the value of imports

B investment

C government spending

D labour productivity

Answer

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(b) Explanation

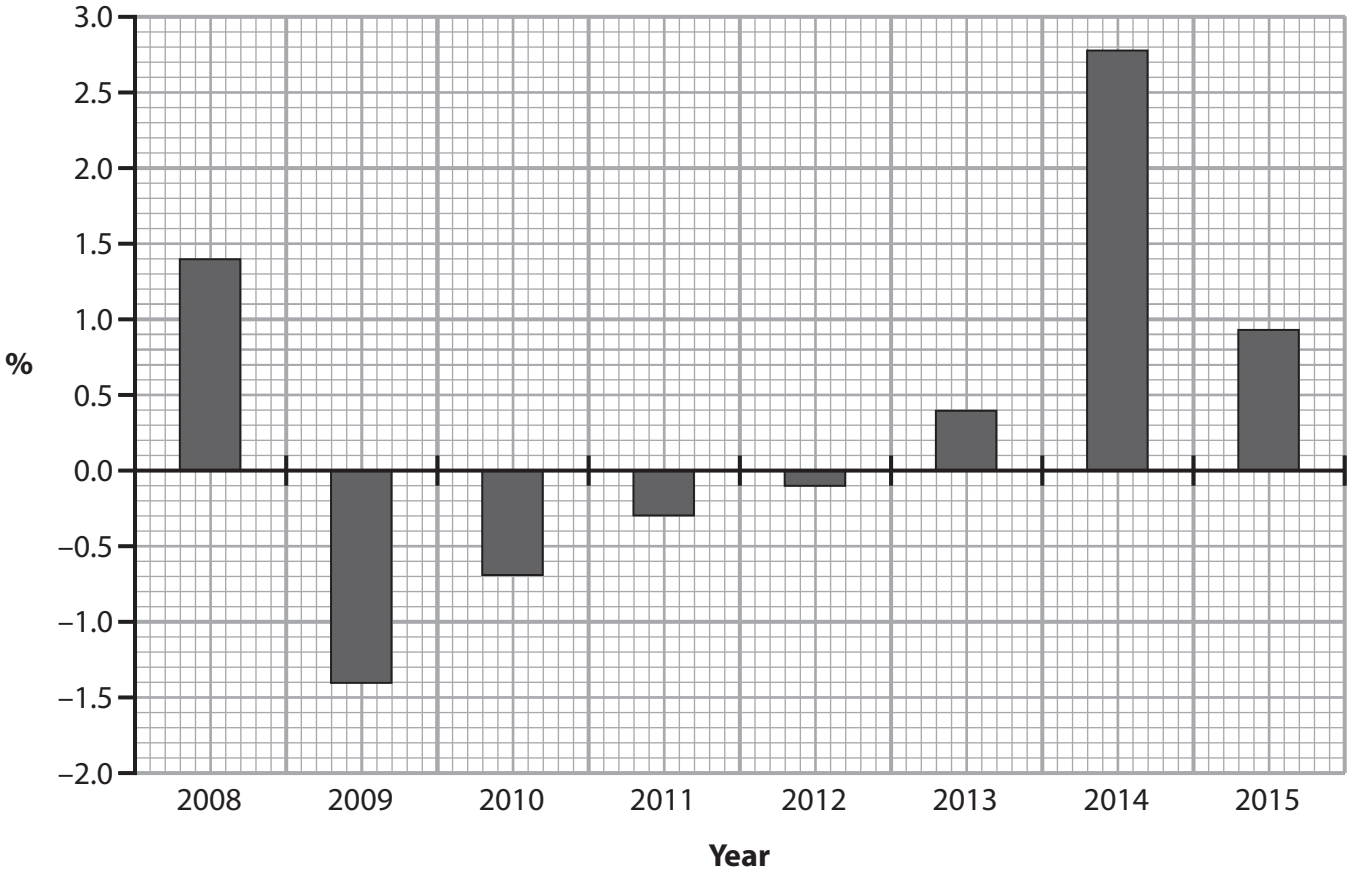
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(Total for Question 6 = 4 marks)

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7 The chart shows the rate of inflation, as measured by the consumer price index (CPI), for Japan, 2008–2015.



(a) From this chart it can be deduced that

(1)

A there was deflation between 2014 and 2015

B there was disinflation between 2013 and 2014

C the average price level was higher in 2011 than in 2009

D the average price level was higher in 2015 than in 2014

Answer ☐

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(b) Explanation

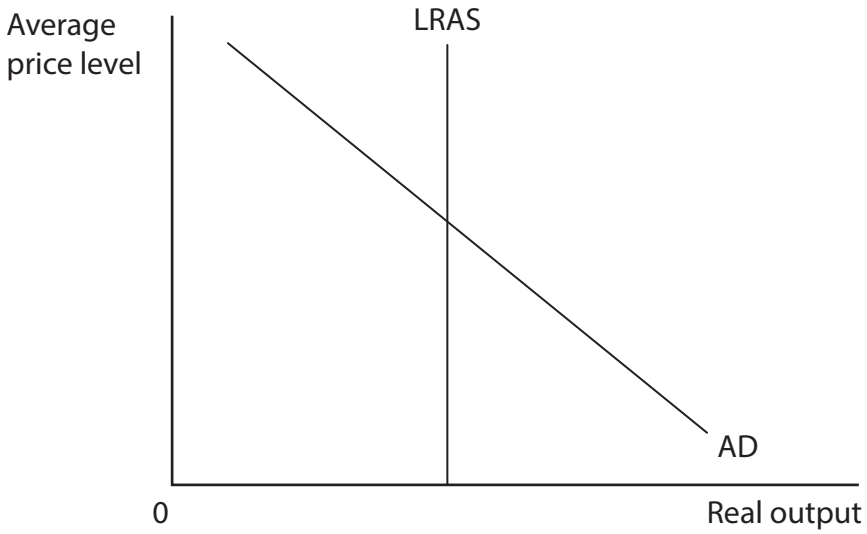
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(Total for Question 7 = 4 marks)

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



(a) What would be the long-run effect of increased regulation of business activity on the economy's average price level and real output?

(1)

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

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.

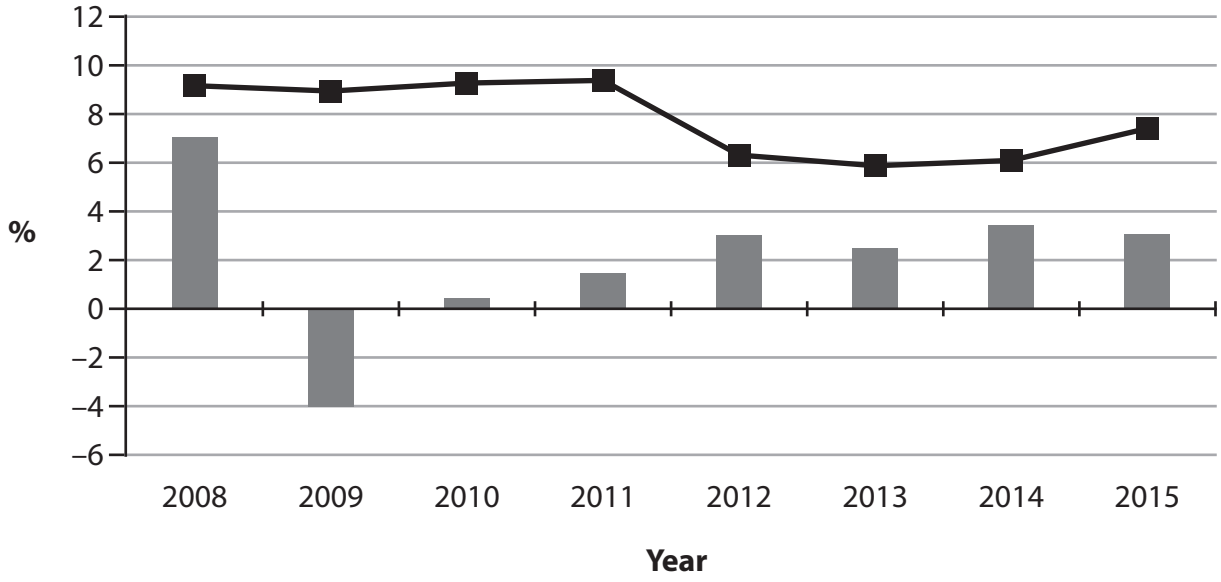
You should spend 55 minutes on this section.

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

Question 10 starts on page 28.

9 The economy of Madagascar

Figure 1 Annual percentage change in real GDP and in the rate of inflation (CPI), 2008-2015



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

Figure 2 Trade in goods

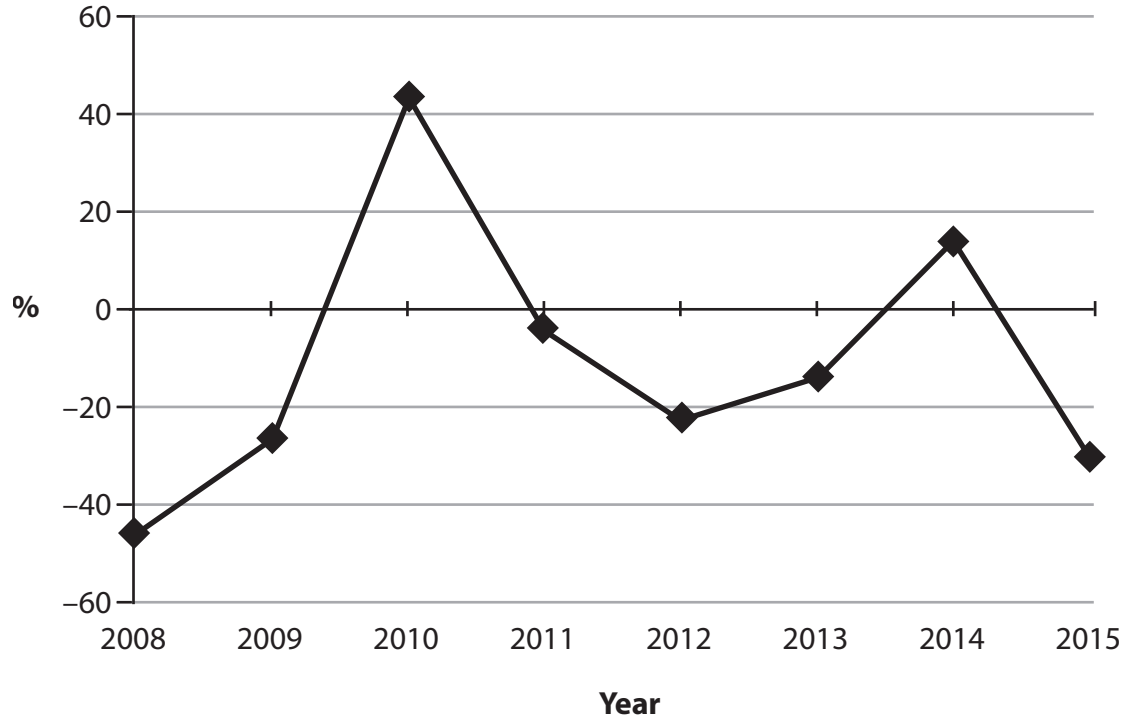
Value of exports (2014)	$2.51bn
of which:	22.7% nickel, 7.7% vanilla
Main export destinations	France, USA, Belgium, Luxembourg, Germany, South Africa
Value of imports (2014)	$3.26bn
of which:	19% petroleum, 4% rice
Main import origins	China, United Arab Emirates, France, India, South Africa

(Source: http://atlas.media.mit.edu/en/profile/country/mdg/)

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Figure 3 Annual percentage change in the real global price of nickel, 2008-2015



(Source: http://databank.worldbank.org/data/reports.aspx?source=global-economic-monitor-(gem)-commodities#)

Extract 1 The wider impact of economic development

Madagascar is an island off the east coast of Africa with 75% of employment in the agricultural sector.

About 80 000 small farms produce Madagascar's vanilla. The majority of these farmers are very poor. Multinational brands source vanilla from Madagascar and this accounts for over 50% of global vanilla exports. Despite this, Madagascar is one of the poorest countries in the world. Vanilla farms use traditional farming methods. Volatile prices and variable profits are the main causes of fluctuating farmer incomes. In addition, farm employment is often short-term.

Madagascar also has a wealth of mineral resources including nickel which is used in the production of stainless steel. In recent years it has attracted foreign investment in mining. New mine developments have affected thousands of people through loss of land, forced movement to other areas, flooding and air pollution.

(Source: adapted from http://www.fairfood.org/wp-content/uploads/2015/02/Overcoming-the-shameful-paradox-in-Madagascars-vanilla-sector-Deep-Roots-FAO.pdf and http://media.waronwant.org/sites/default/files/TheNewColonialism.pdf?_ga=1.148031095.1169714144.1483691582)

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(a) With reference to Figure 2, calculate the balance of trade in goods for Madagascar in 2014.

(4)

(b) With reference to the information provided and your own knowledge, assess the likely impact of changes in the price of petroleum and nickel on the balance of trade of Madagascar.

(10)

(c) With reference to Figure 1, explain **two** likely effects of Madagascar's rate of inflation on consumers.

(6)

(d) With reference to the information provided and your own knowledge, evaluate the likely impact of increased investment in mining on living standards in Madagascar.

(14)

(e) Evaluate policies that the Government of Madagascar could use to increase the country's rate of economic growth.

(14)

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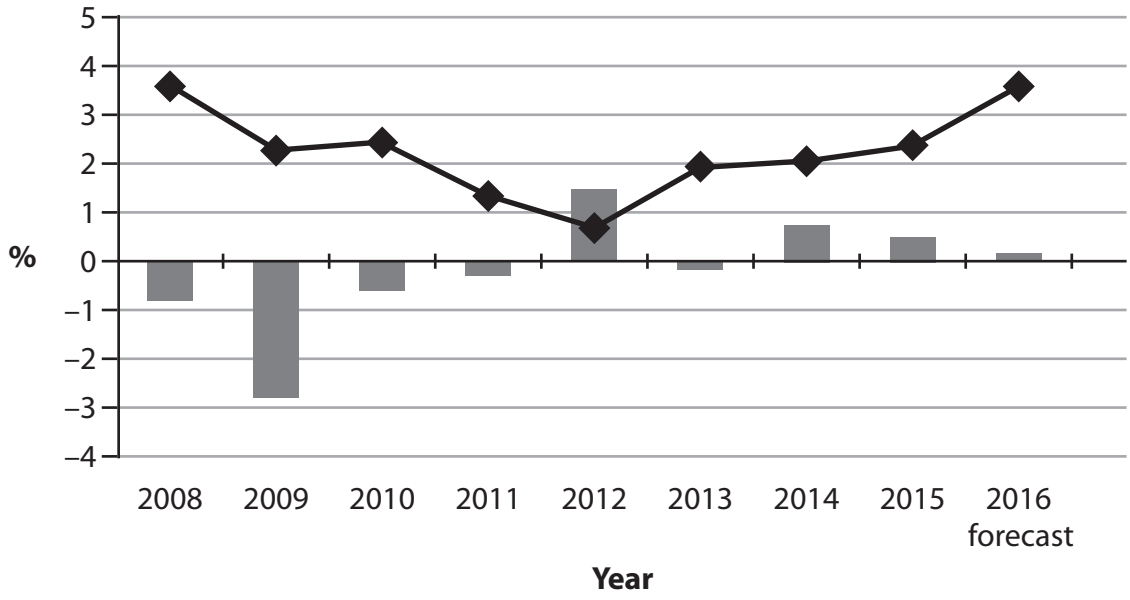
QUESTION 10 BEGINS ON THE NEXT PAGE.

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

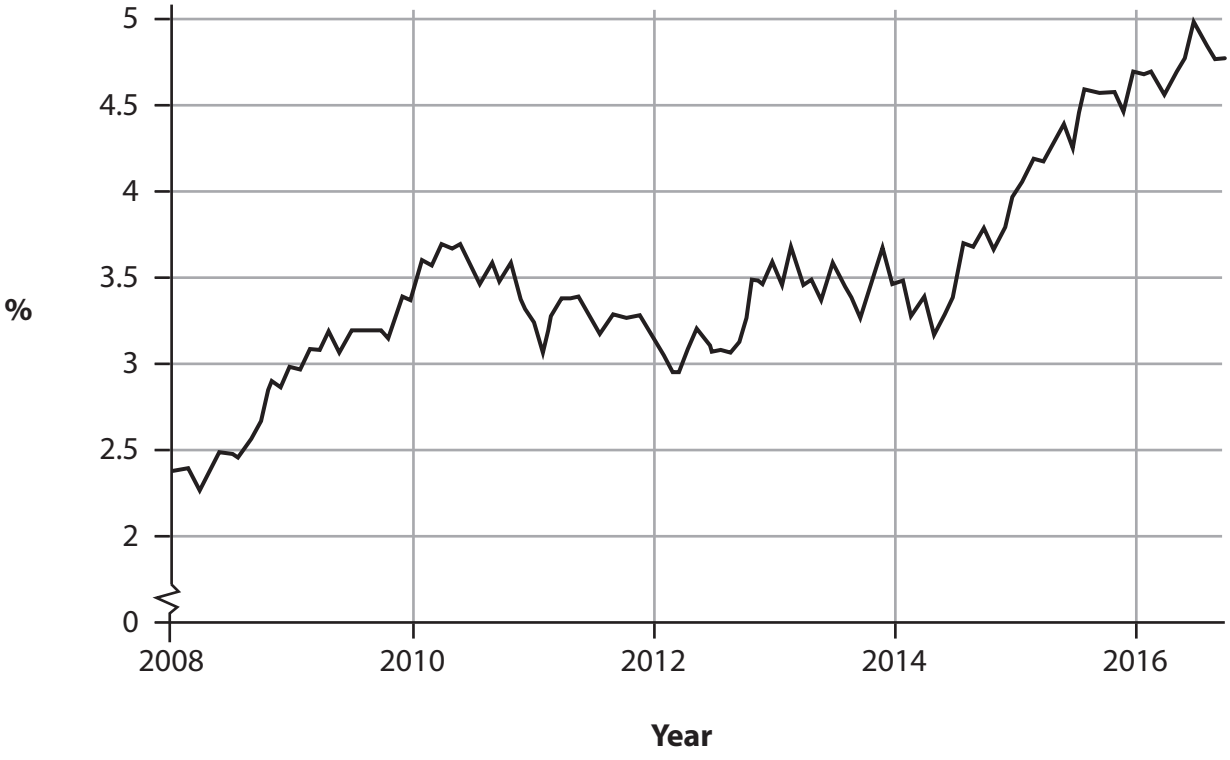
10 The economy of Norway

Figure 1 Annual % change in real GDP per capita and in the rate of inflation (CPI), 2008-2016



(Source: http://data.worldbank.org/country/norway and http://ec.europa.eu/eurostat/web/products-datasets/-/tsdec100)

Figure 2 ILO unemployment rate, 2008-2016



(Source: http://www.tradingeconomics.com/norway/unemployment-rate)

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Extract 1 Income equality

Norway has a tradition of a strong welfare state offering free, universal healthcare, unemployment benefits and childcare. Its education system is in the world's top ten.

There is an emphasis on policies that create both a flexible and secure labour market. The Government's supply-side policies include introducing qualifications designed to help people move into specific jobs. In addition, the unemployed are offered work experience. Both employer organisations and trade unions support this approach. Over 50% of the workforce are members of trade unions, which is a significantly higher proportion than in most other European countries. This is especially important since Norway has no national minimum wage and has the highest cost of living in Europe.

The Norwegian Government uses fiscal policies to reduce income inequality, making it one of the most equal societies in the world. These tax and government spending policies have helped Norway to survive the global financial crisis very well compared to other European countries.

(Source: adapted from https://www.oxfam.org/sites/www.oxfam.org/files/cs-true-cost-austerity-inequality-norway-120913-en.pdf)

Extract 2 Report on Norway's prosperity

Norway has been named as the most prosperous country in the world for the seventh year running, according to a new report. The 2015 Prosperity Index found that Norway ranked highest out of 142 countries based on its performance across eight criteria, including the economy, education and health.

The report praises Norway for its personal freedoms and its health system. However, just using the economic criterion, its ranking has fallen from first place in 2013 to fourth place in 2015. This is because of the way in which unemployment could be under-reported. Norway counts a large number of long-term unemployed as qualifying for either a disability pension or early retirement. This means that Norway's official unemployment level is artificially low.

(Source: adapted from http://www.independent.co.uk/news/world/europe/the-most-prosperous-countries-in-the-world-revealed-but-should-norway-really-be-top-a6718091.html)

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(a) With reference to Figure 1, explain what is meant by the '*annual percentage change in real GDP per capita*'.

(4)

(b) With reference to the information provided and your own knowledge, assess the likely impact of the changes in real GDP per capita on human development in Norway between 2008 and 2016.

(10)

(c) With reference to the information provided, assess the likely effects of rising unemployment on the economy of Norway.

(14)

(d) With reference to Extract 1, explain **two** ways in which supply-side policies may increase the rate of economic growth.

(6)

(e) Evaluate the extent to which the macroeconomic objective of redistribution of income may conflict with other objectives.

(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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