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Centre number

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Candidate number

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Surname

Forename(s)

Candidate signature

AS ECONOMICS

Paper 2 The national economy in a global context

Monday 23 May 2016

Morning

Time allowed: 1 hour 30 minutes

Materials

For this paper you must have:

- the source booklet
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Section A**.
- Answer **either** Context 1 **or** Context 2 in **Section B**.
- You will need to refer to the source booklet provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- There are 70 marks available on this paper.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.





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Section AAnswer **all** questions in this sectionOnly **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

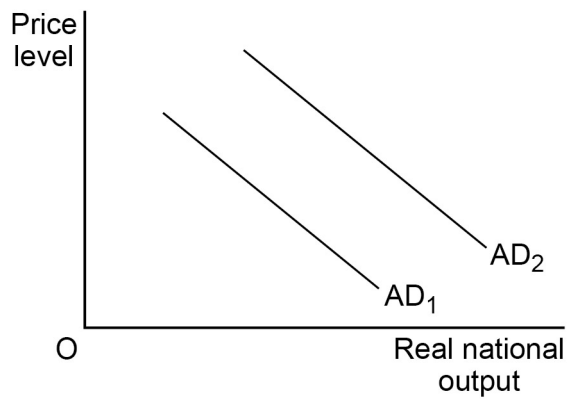
CORRECT METHOD WRONG METHODS If you want to change your answer you must cross out your original answer as shown. If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. **0 1**

Changes in real GDP are used to measure

A inflation.**B** the level of employment.**C** economic growth.**D** the distribution of income.**[1 mark]**

0 2

The diagram below shows two aggregate demand curves (AD) for an economy.



All other things being equal, the most likely cause of the shift from AD₁ to AD₂ is an increase in

- A exports.
- B the rate of inflation.
- C interest rates.
- D the budget deficit.

[1 mark]

0 3

All other things being equal, the long-run aggregate supply curve of an economy is likely to shift to the right if there is an increase in

- A factor mobility.
- B raw material prices.
- C indirect taxation.
- D wage rates.

[1 mark]

Turn over for the next question



0 4

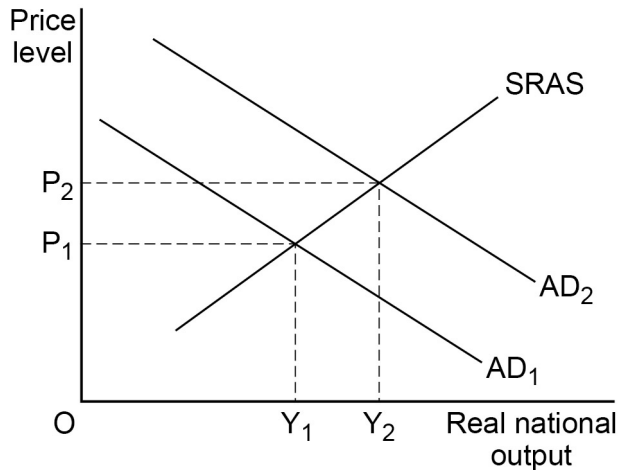
A country has a slow rate of growth of productivity and rising cyclical unemployment. All other things being equal, which measures are most likely to increase the rate of growth of productivity and reduce cyclical unemployment?

- A** Increased investment and increased saving
- B** More government spending on training and a higher exchange rate
- C** Decreased benefit payments and a lower budget deficit
- D** Lower taxation on firms and lower interest rates

[1 mark]

0 5

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



All other things being equal, which one of the following is the most likely cause of the movement of the economy from equilibrium at Y_1 to equilibrium at Y_2 ?

- A** A decrease in imports
- B** An increase in savings
- C** A decrease in the money supply
- D** An increase in productivity

[1 mark]



0 6

The table below shows how the index of GDP and the index of population changed in an economy between 2011 and 2015.

	GDP (2013 = 100)	Population (2013 = 100)
2011	92	97
2012	96	99
2013	100	100
2014	101	102
2015	103	103

Which one of the following can be inferred from the data?

- A** Population was higher than GDP in 2011
- B** Between 2011 and 2013, GDP grew by 8% whereas population grew by 3%
- C** There was no growth in GDP per capita between 2013 and 2015
- D** Money GDP increased by more than real GDP between 2011 and 2015

[1 mark]

0 7

As a consequence of a severe global recession, an economy has experienced a demand-side shock and is now growing below its trend rate.

All other things being equal, which one of the following combinations, **A**, **B**, **C** or **D**, is now most likely to exist in this economy?

	Rate of unemployment %	Rate of inflation %
A	Falling	Increasing
B	Falling	Falling
C	Increasing	Falling
D	Increasing	Increasing

[1 mark]



0 8

In which one of the following situations could the UK be said to be experiencing a negative output gap?

- A** Output per worker is lower in the UK than in the USA
- B** Real GDP in the UK is less than the economy's productive potential
- C** UK firms do not have sufficient productive capacity to satisfy customer demand
- D** The skills possessed by UK workers do not match those which are required by UK employers

[1 mark]**0 9**

Structural unemployment is most likely to occur because of

- A** labour being temporarily unemployed when moving between jobs.
- B** fluctuations in the level of aggregate demand.
- C** the seasonal nature of certain occupations.
- D** long-term changes in the pattern of demand for the products of particular industries.

[1 mark]**1 0**

An economy is in macroeconomic equilibrium, producing at its normal capacity level of output. Without long-run economic growth, a persistent increase in aggregate demand is likely to lead to an increase in the level of

- A** real GDP.
- B** employment.
- C** productivity.
- D** prices.

[1 mark]

1 1

Which one of the following combinations, **A**, **B**, **C** or **D**, is most likely to occur in the recovery phase of the economic cycle?

	Growth of GDP	Inflation rate	Unemployment	Investment	
A	Decrease	Increase	Increase	Decrease	<input type="radio"/>
B	Increase	Decrease	Decrease	Increase	<input type="radio"/>
C	Increase	Increase	Decrease	Increase	<input type="radio"/>
D	Increase	Decrease	Increase	Decrease	<input type="radio"/>

[1 mark]

1 2

The table below shows different sets of changes taking place in an economy.

All other things being equal, which one of the following combinations, **A**, **B**, **C** or **D**, is most likely to have the effect of shifting the short-run aggregate supply curve for the economy to the left?

	Exchange rate	Taxes on business profits	
A	Falling	Rising	<input type="radio"/>
B	Rising	Falling	<input type="radio"/>
C	Falling	Falling	<input type="radio"/>
D	Rising	Rising	<input type="radio"/>

[1 mark]

1 3

The current account of the balance of payments is in surplus. However, there are deficits on the balance of trade in goods and the balance of trade in services.

It can be concluded that

- A** the trade figures must be inaccurate.
- B** the primary income (income flows) balance must be positive.
- C** the combined primary and secondary income (income flows and transfers) balance must be positive.
- D** the value of services exported must exceed the value of goods imported.

[1 mark]



1 4

Which one of the following is an example of contractionary fiscal policy?

- A** Decreasing the supply of credit
- B** Increasing spending on welfare benefits
- C** Reducing progressive taxation
- D** Increasing the size of the budget surplus

[1 mark]**1 5**

All other things being equal, an increase in the exchange rate of the pound against other currencies due to a rise in interest rates is most likely to cause an increase in the UK's

- A** surplus on the current account of the balance of payments.
- B** price of imported goods.
- C** level of unemployment.
- D** rate of economic growth.

[1 mark]**1 6**

A budget deficit is most likely to occur when

- A** the value of imports exceeds the value of exports.
- B** government spending exceeds tax revenue.
- C** the volume of imports exceeds the volume of exports.
- D** direct and indirect taxes are reduced.

[1 mark]

1 7

The table below shows the annual percentage change in real GDP for an economy between 2013 and 2016. The long-run trend rate of growth for this economy is estimated to be 2.8%.

Year	Change in real GDP (%)
2013	2.4
2014	3.5
2015	2.8
2016	3.9

Which one of the following statements is most likely to be correct?

- A** In 2013, the economy's negative output gap increased.
- B** In 2014, the amount of spare capacity in the economy increased.
- C** In 2015, the amount of spare capacity in the economy decreased.
- D** In 2016, the economy's positive output gap decreased.

[1 mark]

1 8

Which one of the following statements relating to the use of supply-side policy is correct?

- A** Supply-side improvements in the economy can only be brought about by government policy.
- B** Supply-side policies are intended to increase the long-run trend rate of economic growth.
- C** Supply-side policies are designed to reduce the size of a negative output gap.
- D** Supply-side policies ensure increased capacity utilisation in the economy.

[1 mark]

Turn over for the next question



1 9

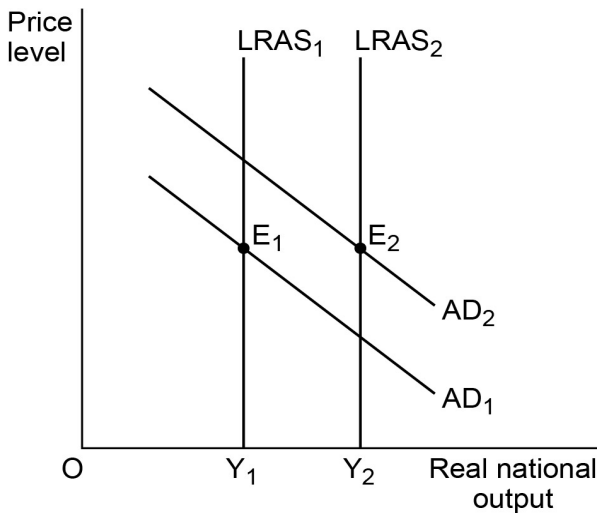
In the circular flow of income model, which one of the following equations is correct?

- A Income = Output = Expenditure
- B Income = Output = Injections
- C Output = Expenditure = Withdrawals
- D Expenditure = Income = Injections = Withdrawals.

[1 mark]

2 0

The diagram below shows two aggregate demand curves (AD) and two long-run aggregate supply curves (LRAS) for an economy. The economy's initial equilibrium point is at E_1 .



All other things being equal, which one of the following combinations of macroeconomic policies, **A**, **B**, **C** or **D**, is most likely to have moved the economy to its new equilibrium point at E_2 ?

	Monetary policy	Fiscal policy	
A	Increase in interest rates	Increase in Value Added Tax (VAT)	<input type="radio"/>
B	Reduction in interest rates	Reduction in direct taxes	<input type="radio"/>
C	Increase in interest rates	Reduction in Value Added Tax (VAT)	<input type="radio"/>
D	Reduction in interest rates	Increase in direct taxes	<input type="radio"/>

[1 mark]

QUESTION 20 IS THE LAST QUESTION IN SECTION A



Section B

Look at the source booklet and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

OR

Questions 27 to 32 on pages 21 to 31 of this answer booklet.

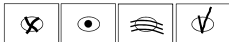
There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context 0 1

Context 0 2

WRONG METHODS



CORRECT METHOD



EITHER

Context 1

Total for this Context: 50 marks

FALLING WORLD COMMODITY PRICES GIVE THE UK ECONOMY A BOOST

Use the source booklet provided to study **questions 21 to 26** and **Extracts A, B and C**, and then answer the questions in the spaces which follow.

2 1

Define 'expansionary monetary policy' **Extract C** (line 11).

[3 marks]

Extra space _____



2 2

Use **Extract A** to calculate, to two decimal places, the percentage change in the price of energy between September 2014 and March 2015.

[4 marks]

2 3

Use **Extract A** to identify **two** significant points of comparison between the index of world energy prices and the index of world food prices over the period shown.

[4 marks]

Comparison 1 _____

Extra space _____

Comparison 2 _____

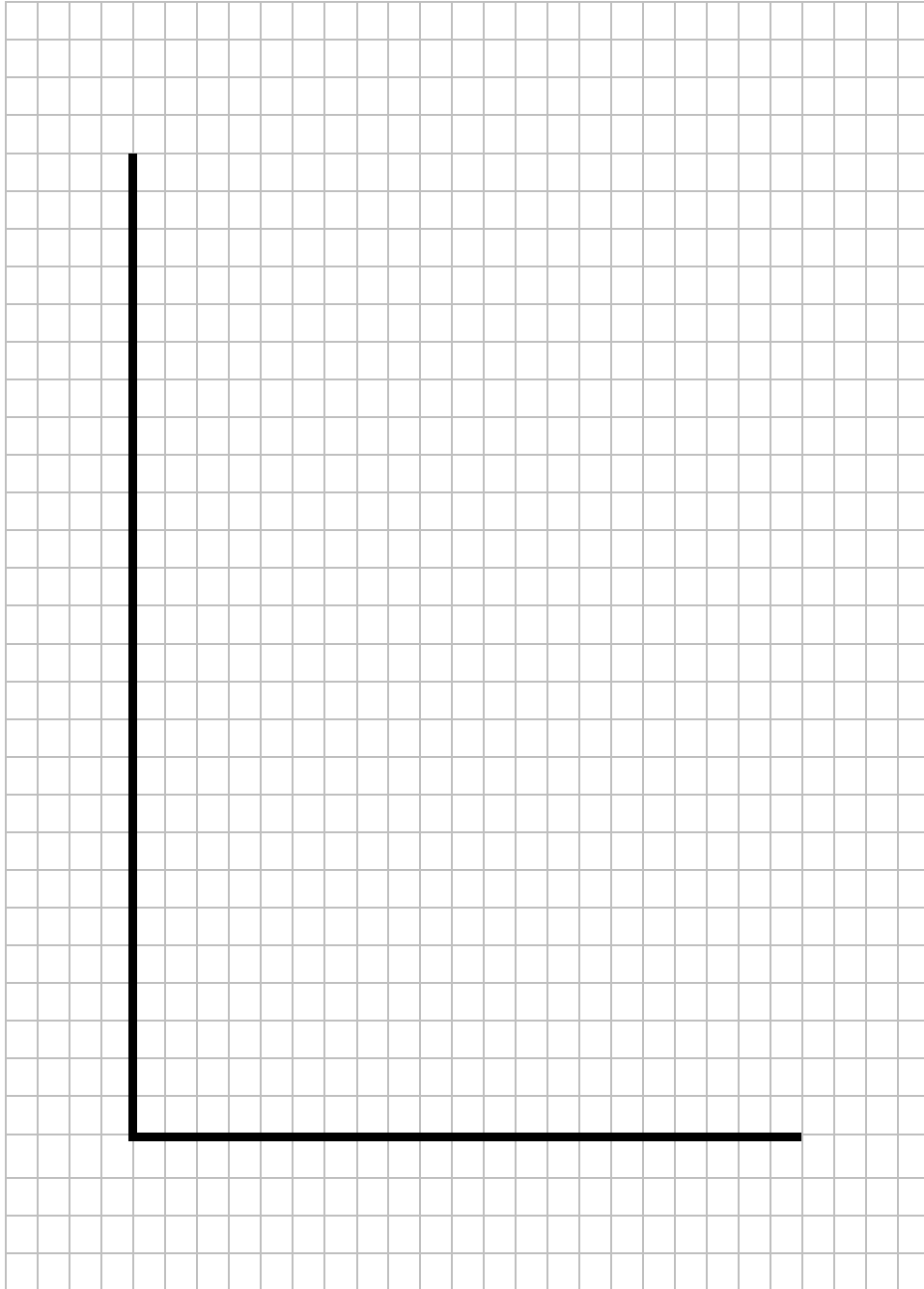
Extra space _____



2	4
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Use the data in **Extract A** to draw a bar chart to show the index of world energy prices between September 2014 and March 2015.

[4 marks]



Turn over for the next question



2	5
---	---

Extract B (lines 6 to 8) states ‘The weakness in global energy prices and food prices combined with the recent appreciation in the pound sterling exchange rate help to explain the recent fall in inflation in the UK.’

Explain why a rise in the pound sterling exchange rate is likely to affect the rate of inflation in the UK.

[10 marks]



2 6

Extract C (lines 4 to 7) states ‘Lower commodity prices have also been good for most businesses... However, not everyone benefits.’

Use the data in the extracts and your knowledge of economics to assess the likely impact of the fall in world commodity prices on the performance of the UK economy.

[25 marks]



Extra space _____



Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this Context: 50 marks

HOW HAS IMMIGRATION AFFECTED THE PERFORMANCE OF THE UK ECONOMY?

Use the source booklet provided to study **questions 27 to 32** and **Extracts D, E and F**, and then answer the questions in the spaces which follow.

2 7

Define 'labour productivity' **Extract F** (line 7).

[3 marks]

Extra space

2 8

In 2006, the UK population was estimated to be 60 827 100 people. Use **Extract D** to calculate, to two decimal places, the percentage change in the size of the UK population between 2006 and 2013.

[4 marks]



2 9

Use **Extract D** to identify **two** significant points of comparison between the natural increase in the UK population and net migration into the UK.

[4 marks]

Comparison 1 _____

Extra space _____

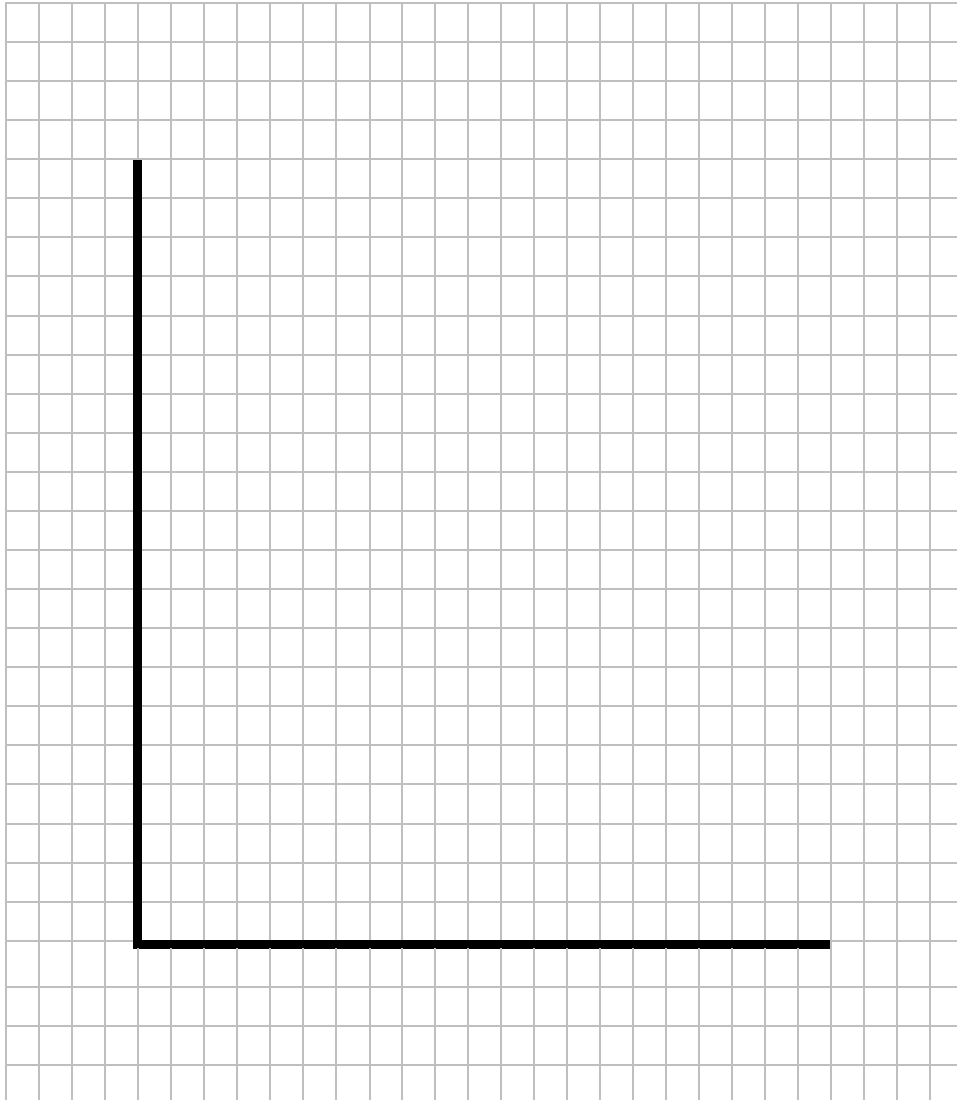
Comparison 2 _____

Extra space _____



3 0

Use the data in **Extract D** to draw a bar chart to show net migration into the UK for each of the years between 2007 and 2013.

[4 marks]

Turn over for the next question



3	1
---	---

Extract E (lines 1 to 3) states ‘European migrants who arrived in the UK since 2000 have made a net contribution of more than £20bn to UK public finances.’

Explain how immigration from the rest of Europe affects the UK government's budget deficit.

[10 marks]



3 2

Extract F (lines 1 to 2) states 'Immigration is very important for the UK economy; it is estimated that foreign-born people comprise around 15% of the UK labour force.'

Use the data in the extracts and your economic knowledge to discuss the ways in which immigration affects the performance of the UK economy.

[25 marks]



There are no questions printed on this page

**DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED**

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AS ECONOMICS

Paper 2 The national economy in a global context

Source booklet

DO NOT WRITE ANY ANSWERS IN THIS SOURCE BOOKLET. YOU MUST ANSWER THE QUESTIONS IN THE ANSWER BOOKLET PROVIDED.

CONTEXT 1: FALLING WORLD COMMODITY PRICES GIVE THE UK ECONOMY A BOOST

Questions 21 to 26

- **Extract A:** Indices of world energy and world food prices, 2010 = 100
- **Extract B:** UK inflation at zero percent
- **Extract C:** Low commodity prices are good for us... or are they?

CONTEXT 2: HOW HAS IMMIGRATION AFFECTED THE PERFORMANCE OF THE UK ECONOMY?

Questions 27 to 32

- **Extract D:** Changes in the UK population in thousands, 2007 to 2013
- **Extract E:** Has immigration from the EU reduced the UK budget deficit?
- **Extract F:** Is immigration good for the UK economy?

Context 1**Total for this Context: 50 marks****FALLING WORLD COMMODITY PRICES GIVE THE UK ECONOMY A BOOST****Extract A: Indices of world energy and world food prices, 2010 = 100**

		Index of world energy prices	Index of world food prices
2014	September	116.62	101.26
	October	106.20	100.68
	November	96.38	103.03
	December	78.55	101.45
2015	January	63.06	98.87
	February	70.46	96.58
	March	68.32	94.10

Source: official statistics, April 2015

Extract B: UK inflation at zero percent

The annual change in consumer prices was zero percent in March 2015. This is the second month in a row that the cost of living is broadly the same as it was a year earlier. Some economists are predicting that the CPI inflation rate will fall further in the coming months. However, few believe that the UK is at risk of suffering a period of sustained deflation as experienced by Japan during the past 25 years.

1

5

The weakness in global energy prices and food prices combined with the recent appreciation in the pound sterling exchange rate help to explain the recent fall in inflation in the UK. The recent price war between the supermarkets has benefited consumers but it cannot be assumed that such intense competition will be maintained. The price of petrol in the UK has already started to increase again in response to the recent recovery in the world market price of oil.

10

Source: news reports, April 2015

Extract C: Low commodity prices are good for us... or are they?

Falling energy and food prices have benefited UK households, leading to a rise in their real incomes. Average earnings growth remains low at around 2% but, with inflation even lower, many people are now starting to feel better off. Rising real incomes should help to boost consumer confidence, encouraging households to spend more. Lower commodity prices have also been good for most businesses; the average price that manufacturers are paying for raw materials and fuel has fallen by 13% during the past year. However, not everyone benefits. Firms involved in the extraction of oil and gas from the North Sea have been hit hard by reduced revenues as a result of falling world oil and gas prices.

Low or non-existent inflation means that the Bank of England does not need to raise interest rates for a while and some economists are predicting that, as long as inflation remains below the government's 2% target, the current expansionary monetary policy will be maintained. This should help to sustain the growth in business investment and in house building. Borrowers will benefit but savers will lose out once again.

Low commodity prices will affect the UK balance of payments on current account which was close to a record deficit of nearly 6% of nominal GDP in 2014. Whilst the amount spent on importing energy and raw materials is likely to fall, the effect on the competitiveness of UK manufacturing is less certain. The impact on the markets in which we sell our exports is also hard to predict.

Source: news reports, April 2015

Turn over for Context 1 questions

Context 1 – Questions 21 to 26**2 1**Define 'expansionary monetary policy' **Extract C** (line 11).**[3 marks]****2 2**Use **Extract A** to calculate, to two decimal places, the percentage change in the price of energy between September 2014 and March 2015.**[4 marks]****2 3**Use **Extract A** to identify **two** significant points of comparison between the index of world energy prices and the index of world food prices over the period shown.**[4 marks]****2 4**Use the data in **Extract A** to draw a bar chart to show the index of world energy prices between September 2014 and March 2015.**[4 marks]****2 5****Extract B** (lines 6 to 8) states 'The weakness in global energy prices and food prices combined with the recent appreciation in the pound sterling exchange rate help to explain the recent fall in inflation in the UK.'

Explain why a rise in the pound sterling exchange rate is likely to affect the rate of inflation in the UK.

[10 marks]**2 6****Extract C** (lines 4 to 7) states 'Lower commodity prices have also been good for most businesses... However, not everyone benefits.'

Use the data in the extracts and your knowledge of economics to assess the likely impact of the fall in world commodity prices on the performance of the UK economy.

[25 marks]

There are no questions printed on this page

Turn over for Context 2

Context 2**Total for this Context: 50 marks****HOW HAS IMMIGRATION AFFECTED THE PERFORMANCE OF THE UK ECONOMY?****Extract D: Changes in the UK population in thousands, 2007 to 2013**

Year	Natural increase in the population ¹	Net migration ²	Population change
2007	187.1	304.9	492.0
2008	220.6	284.1	504.7
2009	216.7	220.1	436.8
2010	243.3	255.6	498.9
2011	255.2	270.5	525.7
2012	254.4	165.5	419.9
2013	212.1	188.5	400.6

Source: ONS, UK Population Bulletin, June 2014

Note 1: The natural increase in the population is the difference between the number of live births and the number of deaths during the year. The natural increase is positive when the number of births exceeds the number of deaths.

Note 2: Net migration is the difference between immigration (people moving to the UK for more than one year) and emigration (people leaving the UK for more than one year).

Extract E: Has immigration from the EU reduced the UK budget deficit?

A report produced by University College London has estimated that European migrants who arrived in the UK since 2000 have made a net contribution of more than £20bn to UK public finances. Migrants from the 10 countries that joined the European Union (EU) in 2004 contributed almost £5bn more to taxes in the years between 2004 and 2011 than the value of the public services they consumed. Those who arrived in the UK since 2000 were 43% less likely than British people to receive state benefits and 7% less likely to live in subsidised social housing. Migrants from the EU are also better educated with a substantially higher proportion of them having a degree than people born in the UK. Also, a higher percentage of EU migrants living in the UK are in employment than UK citizens. 1 5

However, critics have claimed that the report is too narrowly focused and does not adequately consider the pressure that immigration has placed on public services such as schools, hospitals, roads and housing. They also point out that many of the migrants are young and hence less likely to claim off the state but in later years, if they remain in the UK, they will become more dependent on welfare and other public services. 10

Source: news reports, accessed April 2015

Extract F: Is immigration good for the UK economy?

Immigration is very important for the UK economy; it is estimated that foreign-born people comprise around 15% of the UK labour force. Migrants add to the total productive capacity of the economy but there is limited evidence to support the view that immigration increases real GDP per head. The long-run effects of immigration are hard to determine but recent research conducted by the NIESR (National Institute for Economic and Social Research) concluded that there is a significant and positive correlation between immigration and labour productivity. 1 5

It is often asserted that because immigration increases the supply of labour, it increases unemployment amongst UK workers and drives down wages. There is some evidence to suggest that large-scale immigration, particularly when the economy is in recession, may increase unemployment in the short run, but in the long run there is no noticeable effect. However, although the impact on average wages is small, low-wage workers tend to lose out while higher-paid workers gain. 10

It is often forgotten that migrant workers also increase aggregate demand. Not only does consumption increase but, in the long run, immigration leads to more investment. This increases the demand for labour, raising wages and employment. 15

Source: news reports, April 2014

Turn over for Context 2 questions

Context 2 – Questions 27 to 32**2 7**Define 'labour productivity' **Extract F** (line 7).**[3 marks]****2 8**

In 2006, the UK population was estimated to be 60 827 100 people.
Use **Extract D** to calculate, to two decimal places, the percentage change in the size of the UK population between 2006 and 2013.

[4 marks]**2 9**

Use **Extract D** to identify **two** significant points of comparison between the natural increase in the UK population and net migration into the UK.

[4 marks]**3 0**

Use the data in **Extract D** to draw a bar chart to show net migration into the UK for each of the years between 2007 and 2013.

[4 marks]**3 1**

Extract E (lines 1 to 3) states 'European migrants who arrived in the UK since 2000 have made a net contribution of more than £20bn to UK public finances.'

Explain how immigration from the rest of Europe affects the UK government's budget deficit.

[10 marks]**3 2**

Extract F (lines 1 to 2) states 'Immigration is very important for the UK economy; it is estimated that foreign-born people comprise around 15% of the UK labour force.'

Use the data in the extracts and your economic knowledge to discuss the ways in which immigration affects the performance of the UK economy.

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