AQA

A-level

ECONOMICS

Paper 2 National and International Economy

Time allowed: 2 hours

Materials

For this paper you must have:
- an AQA 12-page Answer Book
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front cover of your Answer Book. The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

IB/M/Jun21/E8

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

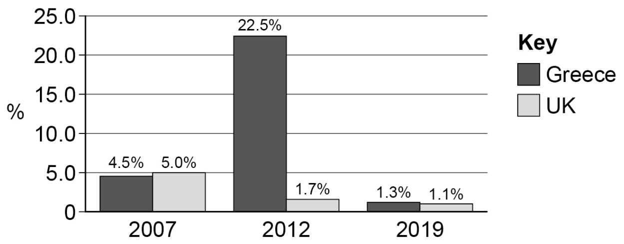
Context 1 **Total for this context: 40 marks**

National debt and government spending

Study **Extracts A**, **B and C** and then answer **all** parts of Context 1 which follow.

Extract A

Figure 1: Annual average yields on long-term bonds, Greece and the UK, selected years, 2007 to 2019



Source: Official statistics, 2020

Figure 2: Selected statistics for Greece and the UK, 2012

	Greece	UK
GDP ($bn)	245.7	2662.1
GDP per capita ($)	22 242	41 791
National debt ($bn)	391	2243
Population (millions)	11.1	63.7

Source: ONS, Eurostat, World Bank 2020

Extract B: Government debt: a Greek tragedy

In 2018, after years of tough government spending cuts (austerity), the Greek government emerged from its third and final international financial rescue package, although economists warned that the country still had a “long way to go”. The European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) have loaned Greece a total of €289bn (£240bn) since 2010.

The EU and IMF insisted that, in return for help, economic reforms were necessary to reduce Greece’s structural budget deficit. For many Greeks, especially the young, the years of economic hardship were severe. Higher taxes and reduced salaries and pensions led to riots on the streets. The government spending cuts also severely damaged private-sector jobs. In 2012–13, the unemployment rate peaked at 27.5%, but for those under 25 it was 58%. Eight years after austerity began, GDP was 25% below its 2010 level.

How did Greece find itself in this position in the first place? In 2007–08, the global financial crisis caused a worldwide recession. Many countries had huge government debts, but Greece was the worst affected with an unsustainable budget deficit following years of high government spending. In 2010, the country revealed the size of its huge budget deficit which led bond yields to soar and to a sovereign debt crisis. International lenders labelled Greek debt as ‘junk’ and the Greek Government was unable to borrow on financial markets. Greece was forced to ask for financial help.

But what now? In 2019, the Greek economy grew by 1.9%. It had a budget surplus (excluding interest payments on its debt) and the unemployment rate had fallen below 20%. However, the pandemic has harmed the Greek economy and the Greek government’s budget is again in deficit.

Source: News reports, 2020

Extract C: The end of government cutbacks in the UK?

In 2019, the UK government's debt repayment burden was at its lowest level in years and it was able to borrow at record low interest rates. Before the pandemic altered every governments' fiscal plans, the UK government said they would rip up years of self-imposed budgetary constraints and increase spending to improve living standards. For years, austerity had led to under-funded public services and a low level of investment in the nation's infrastructure.

The Chancellor of the Exchequer announced a planned increase in government expenditure of 4.1% in 2020, equivalent to £13.8bn, in a move designed to signal an end to austerity. This would have been the largest increase in 15 years.

The Chancellor said he was in a position to announce an increase in government spending after the annual budget deficit had fallen to 1.1% of GDP, well below the 2% target set by the Treasury. Under his plans, no government department would experience a real-terms reduction in its budget in 2020, and the Chancellor said this protection "is what I mean by the end of austerity". Announcing the spending review in the House of Commons, he said the cost of government borrowing had fallen to historic lows, giving the government further room to increase its expenditure.

However, faced with an ageing population and significant poverty and inequality, the structural budget deficit is likely to increase over the next 30 years. Some argue that the UK should increase taxes rather than add to the national debt. Ongoing funding is needed to maintain and improve public services, such as healthcare, and to rebuild the UK's social safety net by increasing spending on welfare to support the poor and vulnerable.

Source: News reports, 2020

0 1 Using the data in **Extract A** (Figure 1), calculate the mean annual yield on long-term bonds in Greece over the years shown. Give your answer to **one** decimal place.

[2 marks]

0 2 Explain how the data in **Extract A** (Figures 1 and 2) show that in 2012 Greece was more likely to have a problem with its national debt than the UK.

[4 marks]

0 3 **Extract B** (line 9) states: 'The government spending cuts also severely damaged private-sector jobs.'

With the help of a diagram, explain how a reduction in government spending could increase unemployment in the private sector.

[9 marks]

0 4 **Extract C** (lines 17–18) states: 'Some argue that the UK should increase taxes rather than add to the national debt.'

Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country's national debt is damaging for its economy.

[25 marks]

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

OR

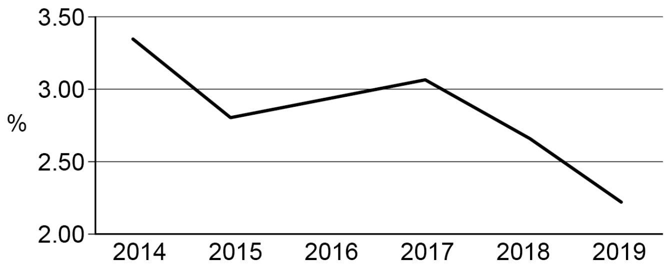
Context 2 **Total for this context: 40 marks**

South Korea's economy

Study **Extracts D**, **E** and **F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: Annual real GDP growth rates (%) for South Korea, 2014–2019



Source: Worldbank, 2020

Figure 4: Consumer price index (CPI) for South Korea, 2014–2019 (June 2015 = 100)

Date	CPI index
31 Dec 2014	99.10
31 Dec 2015	100.22
31 Dec 2016	101.56
31 Dec 2017	102.99
31 Dec 2018	104.35
31 Dec 2019	105.12

Source: Official statistics, 2020

Extract E: South Korea: a model for development?

The Republic of Korea (South Korea) holds the number one spot in the recently released 2019 Bloomberg Innovation Index. This index scores economies using factors such as research and development (R&D) spending and the number of large high-tech companies. South Korea gained top scores worldwide for manufacturing value-added, as well as a measure that includes enrolment in higher education and the proportion of science and engineering graduates.

South Korea's transformation from one of the poorest countries in the world in the 1950s to a major industrial power and member of the Organisation for Economic Co-operation and Development (OECD) was exceptionally rapid, reflecting effective economic policies. South Korea's sound fiscal and monetary policy decisions, as well as high levels of investment in human and physical capital and a commitment to free trade, led to rapid growth. Per capita income increased from 6% of the OECD average in 1970 to 89% in 2017. Rapid development has been export-led, with large business groups, known as 'chaebols', making South Korea the world's sixth-largest exporter.

Investment in R&D has been an important driver of economic growth and industrial progress. It is a key factor that has contributed to the technological competitiveness and productivity of many developing countries. Some economists also point to the vital role the government played in helping to create the conditions needed for sustained economic growth. However, it is the private sector, working in conjunction with the government, which is key to South Korea's success. Samsung, Hyundai, Kia and LG are just some of the successful companies which sell to a worldwide market and drive innovation.

Source: News reports, 2019

Extract F: Is South Korea's miracle economic performance over?

Although growth in South Korea is forecast to be around 3% in 2019, this is far below its average rate of 7.3%, and the country finds itself with a negative output gap. Recently, exports declined for a tenth consecutive month and in September the consumer price index fell 0.4% from a year earlier. Some are wondering if South Korea's miracle economic performance is over.

Trade ministry data showed exports in September plunged 11.7% from a year earlier. Economists said the data reinforced the view that the slump in South Korea's trade-reliant economy would continue beyond this year, requiring the Bank of Korea to cut interest rates further. The central bank cut its base rate of interest from 1.75% to 1.50% in July 2019, the first cut in three years, as falling global demand and increasing trade tensions damaged macroeconomic performance. However, the South Korean government and central bank issued statements, saying that Asia's fourth-largest economy would not fall into a long period of deflation.

South Korea is one of the world's top ten exporters and its trade problems have been made worse by a number of recent events. Overseas shipments by South Korea are heavily dependent on sales of computer chips and electronic goods, which have been suffering from a fall in chip prices. South Korea also became involved in a trade war with Japan which was referred to the World Trade Organisation (WTO). Slowing growth in China, the world's second-largest economy and South Korea's top market for exports, also damaged trade.

Source: News reports, 2019

0 5 Using the data in **Extract D** (Figure 4), calculate South Korea's rate of inflation for the year ended 31 December 2019. Give your answer to **two** decimal places.

[2 marks]

0 6 Explain how the data in **Extract D** (Figures 3 and 4) show why the South Korean central bank may have been considering a further cut in its base rate of interest.

[4 marks]

0 7 **Extract E** (line 14) states: 'Investment in R&D has been an important driver of economic growth and industrial progress.'

With the help of a diagram, explain how investment in research and development (R&D) can help to increase the long-run growth rate of an economy.

[9 marks]

0 8 **Extract F** (lines 7–8) states: 'Economists said the data reinforced the view that the slump in South Korea's trade-reliant economy would continue beyond this year'.

Using the data in the extracts and your knowledge of economics, evaluate policies which could be used to boost South Korea's exports and increase its trade surplus.

[25 marks]

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

Since 1992, the UK has had a floating exchange rate, and between August and December 2019, the pound sterling rose by around 10%. In the recent past, several nations, such as Japan, Switzerland and China, have actively intervened to influence the value of their currencies.

0 9 Explain how a government or central bank can intervene to prevent the value of its currency rising.

[15 marks]

1 0 Evaluate the possible impact on the cost of living **and** the standard of living in the UK of a sustained rise in the value of the pound sterling against other currencies, such as the euro and the US dollar.

[25 marks]

OR

Essay 2

The savings ratio is the proportion of national income that is saved. The UK savings ratio reached 10.6% in 2015 but fell to 3.9% in 2017. This indicates rising consumption and a fall in savings across the economy. Economists debate whether or not this change in consumption and savings is beneficial.

1 1 Explain the main causes of rising consumption in an economy.

[15 marks]

1 2 To what extent do you agree that a fall in savings is beneficial for the UK economy? Justify your answer.

[25 marks]

OR

Essay 3

Commercial banks provide financial services for both individuals and businesses. In 2007–08, the financial crisis led many to argue for tighter regulation of the banks to prevent problems in financial markets affecting the real economy. However, financial markets are not the only source of cyclical instability. Governments can use a variety of policies to try to create a more stable economy.

1 3 Explain the role of commercial banks in the economy.

[15 marks]

1 4 Assess policies which can be used to reduce cyclical instability in the UK.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page