Oxford Cambridge and RSA

Monday 20 May 2024 – Morning

AS Level Economics

H060/02 Macroeconomics

Time allowed: 1 hour 30 minutes

You can use:
- a scientific or graphical calculator
- an HB pencil

Please write clearly in black ink. **Do not write in the barcodes.**

Centre number | | | | | | Candidate number | | | | |

First name(s) _____

Last name _____

INSTRUCTIONS
- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. You can use extra paper if you need to, but you must clearly show your candidate number, the centre number and the question numbers.
- Answer **all** the questions in Sections A and B and **one** question in Section C.

INFORMATION
- The total mark for this paper is **60**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **16** pages.

ADVICE
- Read each question carefully before you start your answer.

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SECTION A

Write your answer to **each** question in the box provided.

1 A government budget deficit occurs when:

A imports exceed exports
B its expenditure is less than its revenue
C its expenditure is more than its revenue
D the national debt is decreasing

Your answer ☐ **[1]**

2 What is **not** an example of a supply side policy?

A Increasing expenditure on education
B Increasing the rate of income tax
C Investing in road infrastructure
D Providing subsidies for research and development

Your answer ☐ **[1]**

3 What would be the **least** effective way to increase long run economic growth?

A Increase government expenditure on welfare payments
B Increase labour productivity
C Increase the level of technology
D Increase the number of women joining the workforce

Your answer ☐ **[1]**

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4 What is the difference between real and nominal values of economic variables?

A The exchange rate
B The inflation rate
C The interest rate
D The tax rate

Your answer ☐ **[1]**

5 Which stage of the economic cycle occurs when actual GDP is above its trend value?

A Boom
B Recession
C Recovery
D Trough

Your answer ☐ **[1]**

6 In 2022, a basket of goods and services cost £1350.
In 2023, the same basket cost £1674.

What is the value of the price index for 2023 based on 2022 being the base year?

A 48
B 81
C 124
D 193

Your answer ☐ **[1]**

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7 What is an example of a contractionary monetary policy?

A Increasing government expenditure by £1bn
B Increasing interest rates by 1%
C Increasing quantitative easing by £100m
D Increasing VAT by 2%

Your answer ☐ **[1]**

8 Which of these is **most** likely to cause an increase in the rate of inflation?

A An increase in labour productivity and a higher price of oil
B An increase in technological advancements and falling employment
C An increase in the budget deficit and falling consumer confidence
D An increase in the minimum wage and a depreciation of the exchange rate

Your answer ☐ **[1]**

9 The table shows the tax paid by an individual at different levels of income.

Annual income (£)	**Tax paid (£)**
15 000	1200
25 000	1700
35 000	2500
50 000	4000

What is the marginal tax rate for an individual whose annual income increases from £25 000 to £35 000?

A 2%
B 5%
C 7%
D 8%

Your answer ☐ **[1]**

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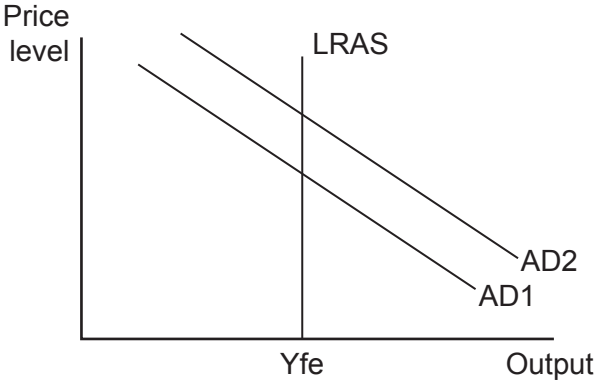
10 Which group will be part of the labour force survey measure of unemployment?

A People claiming job seeker's allowance and not available for work
B People without a job and actively seeking work in the last two weeks and available to start work the next week
C People without a job and actively seeking work in the last four weeks and available to start work in the next two weeks
D People working part-time but seeking other work

Your answer ☐ **[1]**

11 The diagram shows an increase in aggregate demand from AD1 to AD2.



What impact will this have on the economy?

A Increased output only
B Increased unemployment
C Inflation and increased output
D Inflation only

Your answer ☐ **[1]**

12 Which option will **not** improve labour market flexibility?

A Better information about job vacancies
B Increasing the minimum wage
C Limiting the power of trade unions
D Retraining of workers

Your answer ☐ **[1]**

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13 The table shows expected changes in the next year to the main components of aggregate demand.

Component	**Change in value (£m)**
Consumption	+5
Exports	+8
Government expenditure	–7
Imports	+6
Investment	–2
Savings	0
Taxation	0

What impact will this have on the value of aggregate demand?

A Decreases
B Increases
C Stays the same
D Unable to say

Your answer ☐ **[1]**

14 Which factor is assumed to be fixed when constructing a short run aggregate supply curve?

A Exchange rates
B Oil prices
C Technology
D Wage rates

Your answer ☐ **[1]**

15 The table shows the nominal GDP for a country.

Year	**Nominal GDP (£m)**
2021	160 000
2022	220 000

The price index was 110 in 2022 (2021 = 100).

What is the country's real growth rate from 2021 to 2022 (to the nearest whole number)?

A 25%
B 27%
C 38%
D 51%

Your answer ☐ **[1]**

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TURN OVER FOR SECTION B

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SECTION B

UK exports to the European Union fall by 40%

The UK's exports of goods to the European Union (EU) fell by 40.7% in January 2021, according to the Office for National Statistics (ONS), while imports decreased by 28.8%. The figures showed the biggest drop since records began in 1997 and were the first since new trading rules between the UK and the EU came into existence. In contrast, the UK's trade with non-EU countries grew by 1.7% in January.

It is not just tariffs that could threaten exports. The additional risk is that non-tariff barriers – such as checks on meat and poultry – will increase exporters' costs sharply. These costs will have to be passed on in higher prices, reducing exporters' competitiveness. Food exporters especially are now feeling the impact.

The ONS found that in January 2021 GDP in the UK was down 2.9%, compared to the previous month, which was a "notable hit". The economy was 9% smaller than it was before the start of the Covid pandemic. Estimates for November 2020 to January 2021 showed 1.7 million people were unemployed, about 5.1% of the workforce. The unemployment rate was at a near five-year high, having risen by 1.1% over the previous 12 months.

Retailers, restaurants, and hairdressers were all affected by lockdowns during the Covid pandemic. Research found a 28% fall in output from the food services and accommodation sectors between December 2020 and January 2021. This "reflected many cafés and restaurants giving up on offering takeaway and delivery services, while the pandemic was raging". The research also found that households had cut back on non-essential expenditure, sending retail and wholesale output down by 9%. In contrast, UK household savings peaked in the second quarter of 2020, reaching £92 billion compared to £33 billion in the first quarter of 2020, due to the shutdown of businesses and low confidence in the economy.

Manufacturing also saw its first decline since April 2020, with car production falling significantly. However, increases in health services, from vaccine production and increased testing, partially offset the declines in other industries.

Following a trade deal announced in September 2020, nearly all exports to Japan will be tariff free, increasing the demand for UK goods in Japan. UK tariffs on imported Japanese cars will be removed by 2026. The deal is expected to boost trade between the UK and Japan by about £15 billion. Critics of the trade deal said it will boost UK GDP by only 0.07%, a fraction of the trade that could be lost with the EU.

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Fig. 1

UK trade in goods with the EU 2019–2021 (seasonally adjusted)

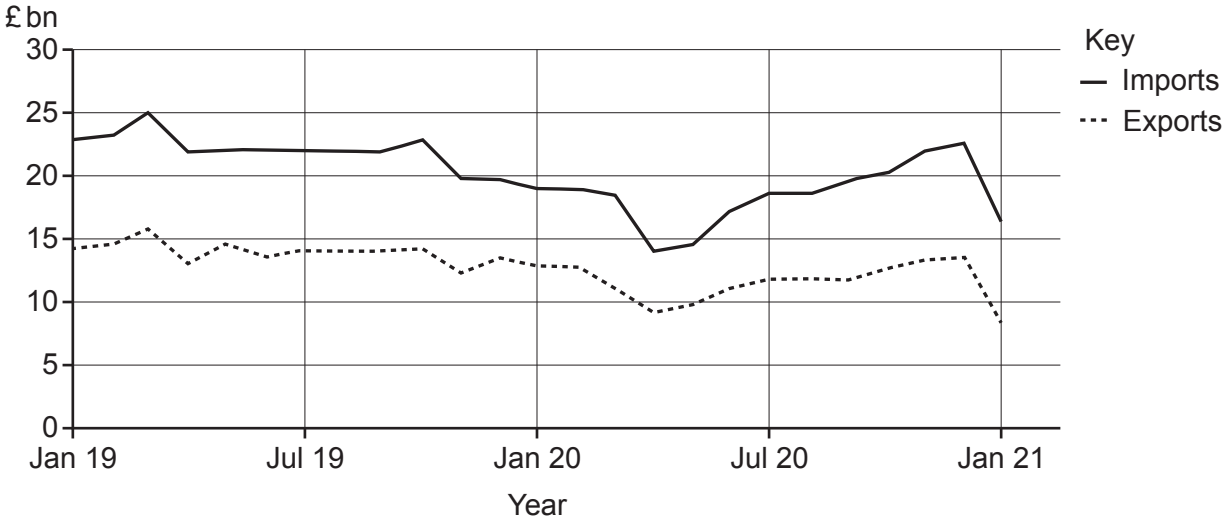
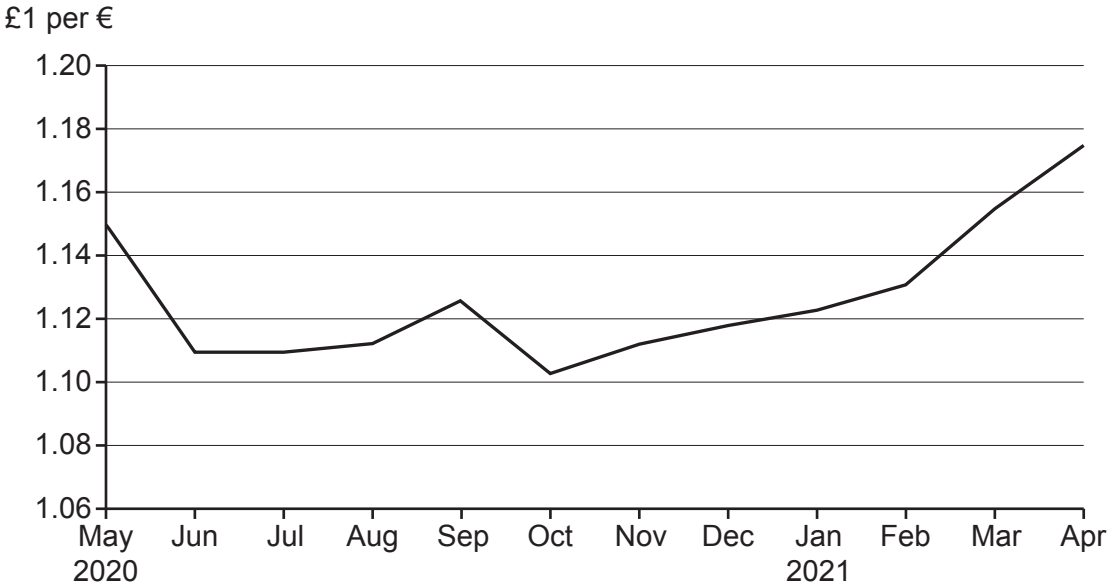


Fig. 2

Sterling to euro exchange rate 2020–2021



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(a) Using **Fig. 1**, describe the UK's balance of trade in goods in January 2021.

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(b)

(i) Using **Fig. 2**, explain what happened to the Sterling to euro exchange rate from May 2020 to October 2020.

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(ii) **Lines 28–29** refer to an expected increase in international trade with Japan.

Explain **one** advantage of international trade for developed countries.

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(c) The trade deal with Japan (**lines 26–30**) may have an impact on the exchange rate between Sterling and the Japanese Yen.

Using a diagram, explain the possible impact on the Sterling to Yen exchange rate of an increase in demand from Japan for UK goods.

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(d) Using information from the **Extract**, explain how the UK's circular flow of income would have been affected during 2020 and 2021.

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(e)* Evaluate the effect the increase in unemployment in November 2020 to January 2021 from the same period the year before, is likely to have had on the UK economy. **[10]**

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TURN OVER FOR SECTION C

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SECTION C

Answer Question 17 **or** Question 18.

17* Germany's public sector spending increased annually by 12.1% in 2020, to €1700 billion. Some of this extra spending was used to offer subsidies to firms to help them keep workers employed.

Evaluate, using an appropriate diagram(s), whether government spending to keep unemployment low will conflict with objectives a government may have for inflation. **[20]**

OR

18* Qatar's GDP in 2020 was $146.4 billion and its Human Development Index (HDI) was 0.86. Over the same period, Slovenia's GDP was $52.9 billion and its HDI was 0.90. Both countries had similar populations of approximately two million people.

Evaluate, using an appropriate diagram(s), the usefulness of GDP as an indicator of development. **[20]**

Question No. .....

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