

AS ECONOMICS

Paper 2 The National Economy in a Global Context

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

CONTEXT 1: ECONOMIC GROWTH

Questions 21 to 26

- **Extract A:** Real GDP growth, annual percentage change, various economies, 2015–2019
- **Extract B:** The global economy goes into recession
- **Extract C:** Can we look forward to a decade of prosperity and opportunity?

CONTEXT 2: GOVERNMENT SPENDING AND TAXATION

Questions 27 to 32

- **Extract D:** Composition of UK government spending, 1997–98 to 2018–19
- **Extract E:** Government spending to the rescue
- **Extract F:** How should the money be spent?

Context 1

Total for this context: 50 marks

ECONOMIC GROWTH**Extract A: Real GDP growth, annual percentage change, various economies, 2015–2019**

Year	UK (%)	Germany (%)	US (%)	China (%)	World (%)
2015	2.4	1.7	2.9	6.9	3.5
2016	1.9	2.2	1.6	6.8	3.4
2017	1.9	2.5	2.4	6.9	3.9
2018	1.4	1.5	2.9	6.7	3.6
2019	1.4	0.6	2.3	6.1	2.9

Source: International Monetary Fund, World Economic Outlook, April 2020

Extract B: The global economy goes into recession

Even before the world economy was hit by the pandemic in 2020, the greatest economic shock for centuries, there were signs that economies were in the midst of a global slowdown. This had made price stability easier to achieve but growth rates were disappointing. 1

Output had been adversely affected by the rising tensions in global trade. The US had placed import taxes on various goods from a number of countries including China, Canada and those in the EU, leading to a fall in exports from those countries. In addition, structural changes to industries, such as the movement away from petrol and diesel cars and the rise of artificial intelligence technology had resulted in some job losses. In the UK, political uncertainty surrounding Brexit had been cited as a major cause of disappointing growth and low levels of investment. These factors, amongst others, damaged business confidence, and many firms were reluctant to invest in new capacity. 5 10

Yet all this seems insignificant compared with what was to follow. When consumption abruptly fell and production in some industries completely stopped, economies contracted severely. For example, in the three months to May 2020, UK output shrank by a staggering 19.1% compared to the previous three months. When a report by the International Monetary Fund in June 2020 forecast that annual world output would contract by 4.9% during 2020, by 10.2% in the UK and the Euro area, and 8% in the US, people began to wonder if the recession would ever end. According to the report, even China was expected to have real GDP growth of only 1%. 15

Source: News reports, July 2020

Extract C: Can we look forward to a decade of prosperity and opportunity?

Faced with such uncertainty and gloomy expectations, it was almost impossible to remember the time when the Prime Minister, Boris Johnson, had promised to make the 2020s a “decade of prosperity and opportunity”. If this is to be achieved, it will be essential to find ways to boost both short-run and long-run growth, but firstly confidence and optimism must be restored. 1

In March 2020, the Bank of England’s Monetary Policy Committee announced a second emergency cut in bank rate to 0.1%. Designed to reduce the costs of existing and new borrowing, it was hoped that this would maintain spending in the economy. Monetary policy was also used to increase the supply of money and credit. The Chancellor of the Exchequer, Rishi Sunak, also announced further unprecedented increases in government spending and reductions in various taxes. On a global level, it was hoped that exports would slowly start to recover. The measures that have been taken and the anticipated revival of the world economy should support demand-side growth. 5 10

What about supply-side growth? The Chancellor announced a range of supply-side plans. For example, more than £600 billion is to be spent on infrastructure such as roads, rail and broadband by the middle of 2025; and an extra £900 million on research into nuclear fusion, space and electric vehicles. An increase in the funds available for education and training should help to improve factor mobility and ensure the labour force has the skills the economy needs. The current, low rates of direct taxation help to create incentives to work, save and invest, but in the future, taxes may have to rise to pay for the increase in government spending. 15

Source: News reports, July 2020

Turn over for Context 1 questions

Turn over ►

Context 1: – Questions 21 to 26

- | | |
|---|---|
| 2 | 1 |
|---|---|

 Define 'price stability' **Extract B** (line 3). **[3 marks]**
- | | |
|---|---|
| 2 | 2 |
|---|---|

 If UK GDP was equal to £2073 billion in 2017, use **Extract A** to calculate, to the **nearest billion**, the value of UK GDP in 2018. **[4 marks]**
- | | |
|---|---|
| 2 | 3 |
|---|---|

 Use **Extract A** to identify **two** significant points of comparison between the growth rates of the UK and Germany over the period shown. **[4 marks]**
- | | |
|---|---|
| 2 | 4 |
|---|---|

Extract C (lines 16–17) states: 'An increase in the funds available for education and training should help to improve factor mobility'.

Draw an AD/AS diagram to show the long-run impact of improved factor mobility on the price level and national income. **[4 marks]**
- | | |
|---|---|
| 2 | 5 |
|---|---|

Extract B (line 2) states: '...there were signs that economies were in the midst of a global slowdown'.

Explain how a global slowdown can affect employment in the UK. **[10 marks]**
- | | |
|---|---|
| 2 | 6 |
|---|---|

Extract C (lines 2–4) states: '...the Prime Minister, Boris Johnson, had promised to make the 2020s a “decade of prosperity and opportunity”. If this is to be achieved, it will be essential to find ways to boost both short-run and long-run growth'.

Use the extracts and your knowledge of economics to evaluate different policies that can be used to increase the long-run rate of growth of the UK economy. **[25 marks]**

There are no extracts printed on this page

Turn over for Context 2

Turn over ►

Context 2

Total for this context: 50 marks

GOVERNMENT SPENDING AND TAXATION

Extract D: Composition of UK government spending, 1997–98 to 2018–19

Year	Social security (%)		Health (%)	Education (%)	Debt interest (%)	Other (%)
	Old-age related (%)	Other social security (%)				
1997–98	14	23	14	12	9	27
2007–08	15	19	18	14	5	29
2018–19	17	18	20	13	5	27

Notes: Examples of 'old-age related' spending include pensions and personal care; examples of 'other social security' spending include sickness and housing benefits. Figures may not add up to 100% due to rounding.

Source: Resolution Foundation: The Shape of Things to Come, November 2019

Extract E: Government spending to the rescue

In 2019, a report by an independent think tank, the Resolution Foundation, concluded that a decade of austerity in public finances had led to an 'unprecedented pause' in government spending growth between 2010–11 and 2018–19. Consequently, with services such as the health service, social care and the police force facing funding challenges, the report suggested that significant increases in spending would be required to help improve the wellbeing of the UK population. Indeed, whilst government spending as a proportion of GDP was 46.3% in 2009–10, it has been decreasing since, and in 2018–19 stood at 39.3% of GDP.

However, no one could have predicted the size of the increase in government spending which was required to rescue the UK economy from the pandemic which caused the largest economic shock in its history. By July 2020, emergency spending had surged by £190 billion. As a result, it was predicted that spending as a proportion of GDP would exceed 50% for the financial year, higher than the peak seen during the financial crisis. The rise in spending, at a time when tax revenues were falling, led to a very large increase in the budget deficit. It is expected that government borrowing will reach £350 billion for the year 2020–21.

Government spending acts as an injection into the circular flow of income, and increases the level of activity in the economy. This should bring positive multiplier effects, and help to stimulate private sector investment, which helps to absorb spare capacity in the economy. This is crucial given that unemployment has started to rise. Although the unemployment rate remained very low at 3.9%, employment fell by 649 000 between March and June 2020. Given the nature of the economic crisis, many more job losses are expected.

Source: News reports, July 2020

Extract F: How should the money be spent?

As part of fiscal policy, government spending can be used to allocate resources to different regions and sectors of the economy and consequently, change the pattern of economic activity. For example, in his Summer Statement, the Chancellor of the Exchequer, Rishi Sunak, announced a £2 billion subsidy scheme to encourage householders to make energy-saving improvements, and £1.6 billion of support to help the arts industry. He also launched a £2 billion scheme to create jobs for young people and pledged to provide 30 000 new traineeships, which should help reduce the impact of occupational and geographical immobility.

Taxation also has a role to play in affecting the pattern of activity. Corporation tax can be altered to help create incentives to innovate. Indirect taxation can be used to influence consumers' behaviour. Examples of this include the so-called 'sugar tax' which was introduced to help deal with the growing obesity crisis, and the temporary reduction in VAT designed to support the hospitality industry.

However, significant increases in government spending, no matter how vital to the economy, will have to be accompanied by increases in taxation and/or even more government borrowing now and in the future. In addition, higher spending runs the risk of greater inflationary pressure. It will be important to ensure that the increases in spending are used appropriately and are worthwhile.

Source: News reports, July 2020

Turn over for Context 2 questions

Turn over ►

Context 2: – Questions 27 to 32

- 2 7** Define ‘unemployment rate’ **Extract E** (line 18). **[3 marks]**
- 2 8** If the government allocated £275 billion to social security spending in 2018–19, use **Extract D** to calculate, to the **nearest billion**, the total amount of government spending in 2018–19. **[4 marks]**
- 2 9** Use **Extract D** to identify **two** significant points of comparison regarding the composition of government spending between 1997–98 and 2018–19. **[4 marks]**
- 3 0** **Extract E** (line 15) states: ‘Government spending acts as an injection into the circular flow of income’.
- Draw an AD/AS diagram to show the effect of an increase in injections on the price level and national income. **[4 marks]**
- 3 1** **Extract F** (lines 1–2 and 8) states: ‘As part of fiscal policy, government spending can be used to allocate resources to different regions and sectors of the economy and consequently, change the pattern of economic activity...Taxation also has a role to play in affecting the pattern of activity’.
- Explain ways in which a government can use fiscal policy to affect the **pattern** of economic activity. **[10 marks]**
- 3 2** **Extract E** (lines 4–6) states: ‘...the report suggested that significant increases in spending would be required to help improve the wellbeing of the UK population’.
- Use the extracts and your knowledge of economics to assess the view that a long-term, significant increase in government spending would be beneficial for the UK economy. **[25 marks]**

END OF QUESTIONS**Copyright information**

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Please write clearly in block capitals.

Centre number

Candidate number

Surname _____

Forename(s) _____

Candidate signature _____

I declare this is my own work.

AS ECONOMICS

Paper 2 The National Economy in a Global Context

Time allowed: 1 hour 30 minutes

Materials

For this paper you must have:

- the Insert
- 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 Insert 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.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 70.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	



J U N 2 2 7 1 3 5 2 0 1

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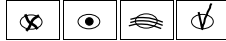
Section AAnswer **all** questions in this section.Only **one** answer per question is allowed.

For each question 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.

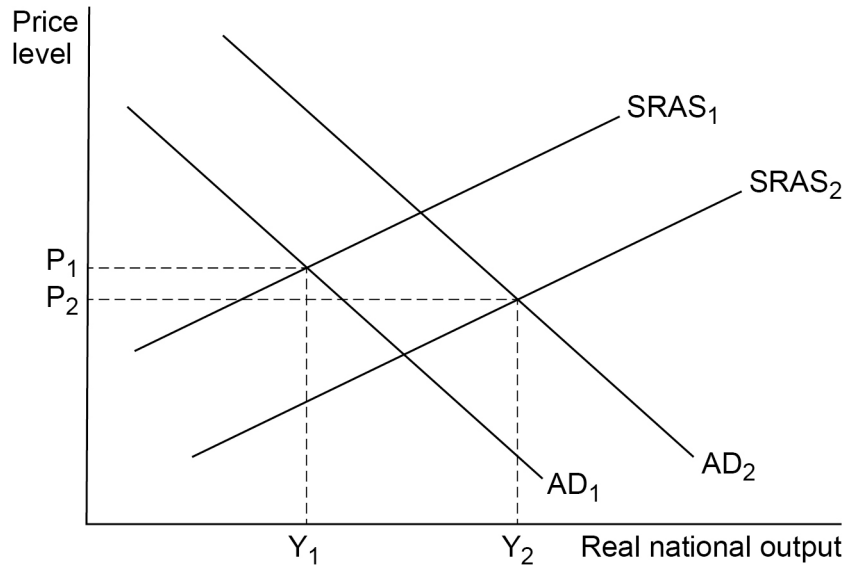
**0 1**

Which one of the following is most likely to be an objective of government economic policy?

A A low level of employment**B** A lower price level**C** An equal distribution of income**D** An increase in productive potential**[1 mark]**

0 2

Figure 1 shows the aggregate demand (AD) and short-run aggregate supply (SRAS) curves for an economy.

Figure 1

Which one of the following combinations of events is most likely to cause the curves to shift from AD_1 to AD_2 and from $SRAS_1$ to $SRAS_2$?

- A** A higher rate of savings and faster labour productivity growth
- B** Faster economic growth abroad and lower world commodity prices
- C** Higher money wages and more household consumption
- D** Lower interest rates and a higher rate of indirect taxes

[1 mark]

0 3

The main reason that economic statistics are often expressed as index numbers is to

- A** allow easier comparison of data.
- B** calculate cost of living data.
- C** convert nominal data to real data.
- D** even out fluctuations in raw data.

[1 mark]**Turn over ►**

0 4

Unemployment rose in an economy despite overall economic growth. This is most likely to be explained by an increase in

A cyclical unemployment.

B job vacancies.

C structural unemployment.

D the school leaving age.

[1 mark]

0 5

An economy experiences an increasing negative output gap. Which one of the following combinations of outcomes most accurately describes the likely effects of this?

	Imports	Inflationary pressure	Unemployment	
A	Falling	Falling	Rising	<input type="radio"/>
B	Falling	Rising	Falling	<input type="radio"/>
C	Rising	Falling	Rising	<input type="radio"/>
D	Rising	Rising	Falling	<input type="radio"/>

[1 mark]

0 6

A deflationary policy is designed to

A avoid deflation.

B increase aggregate demand.

C lead to deflation.

D reduce aggregate demand.

[1 mark]



0 7

Index numbers for real GDP per head for Country X and Country Y, are shown in **Table 1**.

Table 1

Year	Country X	Country Y
2016	100	100
2017	102	104
2018	101	103
2019	105	107

From **Table 1** it can be concluded that real GDP per head

A grew at the same rate between 2018 and 2019 in both countries.

B grew every year throughout the period in both countries.

C rose faster in Country X between 2017 and 2019.

D was higher in Country Y than in Country X from 2017 to 2019.

[1 mark]

0 8

Nominal GDP for an economy fell from £318 billion to £310 billion. Average prices also fell over the same period. It can be concluded that

A deflation resulted in a recession.

B output fell, but by less than £8billion.

C real GDP was lower at the end of the period.

D real incomes may have risen or fallen.

[1 mark]

Turn over for the next question

Turn over ►



0 9

An economy has a positive output gap and the government decides to increase interest rates. Which one of the following outcomes is most likely to result from the higher interest rates?

	Investment	Output gap	Savings	
A	Decrease	Decrease	Increase	<input type="radio"/>
B	Decrease	Increase	Decrease	<input type="radio"/>
C	Increase	Decrease	Decrease	<input type="radio"/>
D	Increase	Increase	Increase	<input type="radio"/>

[1 mark]

1 0

Faster growth in national income caused investment in an economy to increase. This means that the increase in investment resulted from

- A** an increase in spare capacity.
- B** lower interest rates.
- C** the action of the accelerator.
- D** the action of the multiplier.

[1 mark]

1 1

An indirect tax is a tax levied on

- A** firms' profits.
- B** income.
- C** savings.
- D** spending.

[1 mark]



1 2

The Bank of England decides to raise interest rates to bring inflation back to its target rate. This policy is less likely to be effective if at the same time

A firms' profits and investment fall.

B income tax rates are reduced.

C labour productivity grows more quickly.

D other countries reduce their demand for UK exports.

[1 mark]

Turn over for the next question

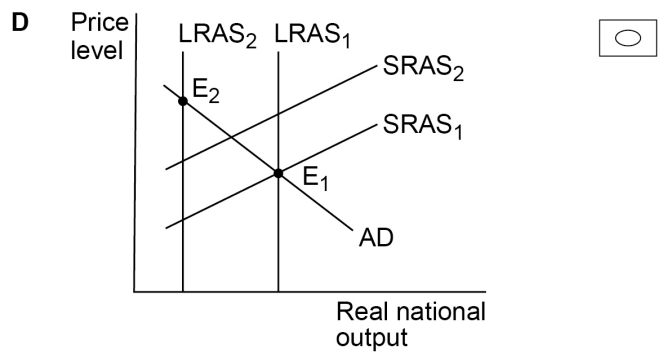
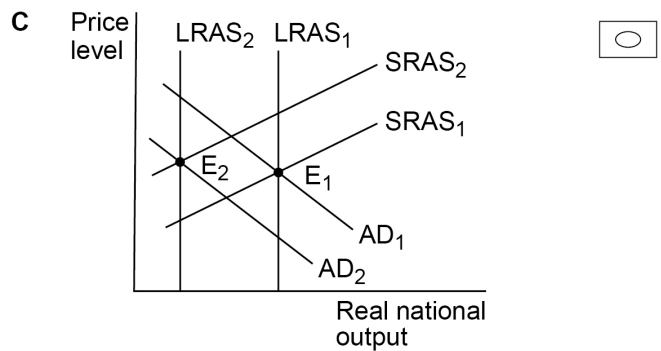
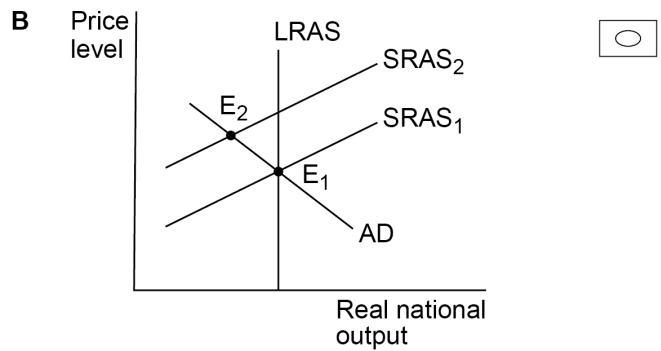
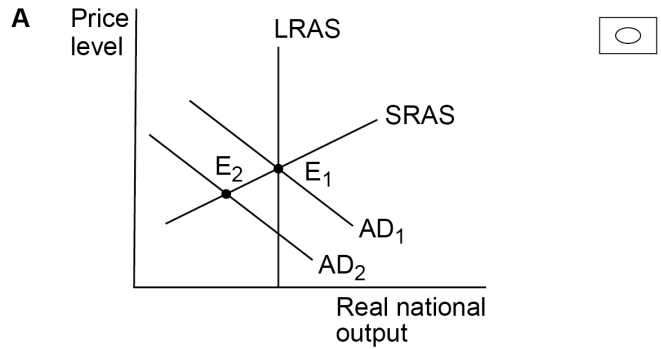
Turn over ►

1 3

A small island economy suffers extensive damage from a hurricane. The following diagrams show aggregate demand (AD), short-run aggregate supply (SRAS) and long-run aggregate supply (LRAS) for the economy. Equilibrium before the hurricane is at E_1 .

Which one of the following diagrams shows the most likely position of E_2 , the equilibrium reached after the hurricane?

[1 mark]



1 4

Which one of the following is an example of expansionary fiscal policy?
A reduction in the

A budget deficit.

B budget surplus.

C trade deficit.

D trade surplus.

[1 mark]

1 5

Table 2 shows the components of aggregate demand in an economy which is in equilibrium.

Table 2

	£ billion
Consumer expenditure	1000
Investment	200
Government expenditure	350
Exports	150
Imports	200

If imports increase to £230 billion and the multiplier is 1.5, then the new level of national income would be

A £1155 billion

B £1455 billion

C £1545 billion

D £1845 billion

[1 mark]

Turn over for the next question

Turn over ►



1 6

A government cuts the rate of corporation tax from 30% to 15%.
This policy is most likely intended to

A decrease the level of savings.

B improve labour mobility.

C reduce investment from overseas companies.

D stimulate supply-side improvements.

[1 mark]**1 7**

An economy has a deficit on the current account of its balance of payments.
Which one of the following sets of circumstances is most likely to cause the deficit
to increase?

A A depreciating exchange rate and lower unemployment

B Better supply-side policies and lower interest rates

C Expansionary fiscal policy and a stronger exchange rate

D Increased labour productivity and lower interest rates

[1 mark]**1 8**

An economy experiencing a high rate of short-run economic growth is likely to have an
increase in

A firms' spare capacity.

B job vacancies.

C spending on unemployment benefits.

D the real value of money.

[1 mark]

1 9

In the short run, an increase in government borrowing is most likely to result in lower

A consumer expenditure.

B government expenditure.

C national debt.

D unemployment.

[1 mark]**2 0**

A government wanting to use monetary policy to reduce deflation could decrease the

A exchange rate.

B minimum wage.

C money supply.

D rate of indirect tax.

[1 mark]**20****END OF SECTION A****Turn over ►**

Section B

Look at the Insert 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 23 to 32 of this answer booklet.

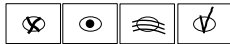
There is a total of 50 marks for either context.

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

ECONOMIC GROWTH

Use the Insert 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 'price stability' **Extract B** (line 3).

[3 marks]



2	2
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If UK GDP was equal to £2073 billion in 2017, use **Extract A** to calculate, to the **nearest billion**, the value of UK GDP in 2018.

[4 marks]

Turn over for the next question

Turn over ►



2 3

Use **Extract A** to identify **two** significant points of comparison between the growth rates of the UK and Germany over the period shown.

[4 marks]

Comparison 1 _____

Extra space _____

Comparison 2 _____

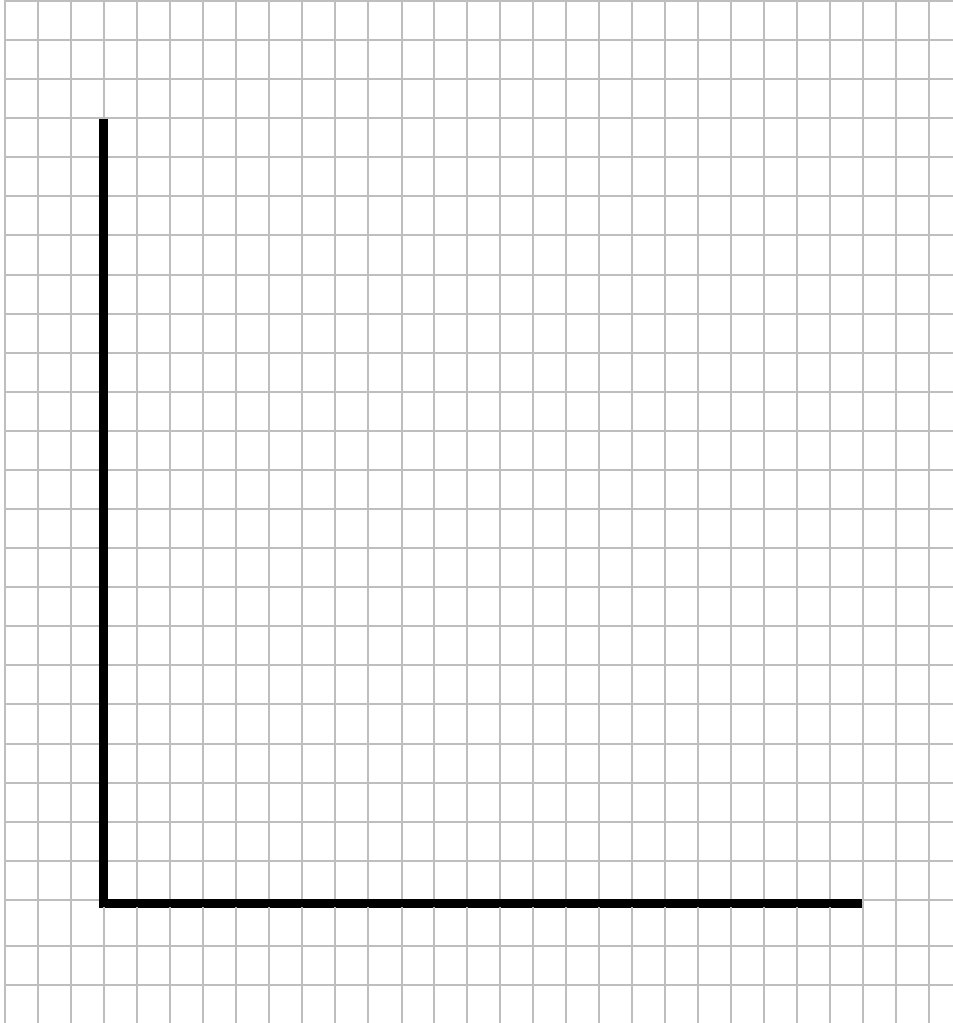
Extra space _____



2 4

Extract C (lines 16–17) states: ‘An increase in the funds available for education and training should help to improve factor mobility’.

Draw an AD/AS diagram to show the long-run impact of improved factor mobility on the price level and national income.

[4 marks]

Turn over for the next question

Turn over ►

2 6

Extract C (lines 2–4) states: ‘...the Prime Minister, Boris Johnson, had promised to make the 2020s a “decade of prosperity and opportunity”. If this is to be achieved, it will be essential to find ways to boost both short-run and long-run growth’.

Use the extracts and your knowledge of economics to evaluate different policies that can be used to increase the long-run rate of growth of the UK economy.

[25 marks]



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Turn over ►



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[This area contains horizontal lines for writing.]

50



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

OR

Context 2

Total for this context: 50 marks

GOVERNMENT SPENDING AND TAXATION

Use the Insert 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 'unemployment rate' **Extract E** (line 18).

[3 marks]

2 8 If the government allocated £275 billion to social security spending in 2018–19, use **Extract D** to calculate, to the **nearest billion**, the total amount of government spending in 2018–19.

[4 marks]

Turn over ►



2 9

Use **Extract D** to identify **two** significant points of comparison regarding the composition of government spending between 1997–98 and 2018–19.

[4 marks]

Comparison 1 _____

Extra space _____

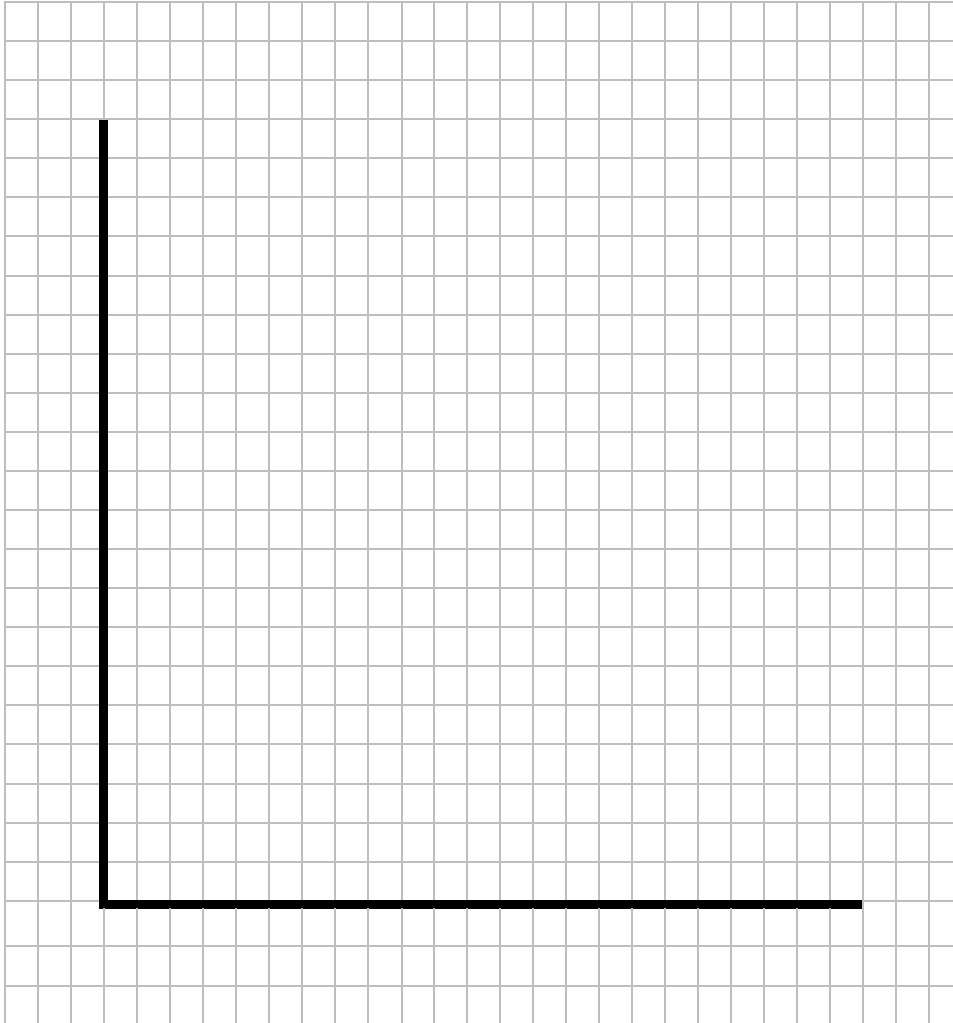
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3 0

Extract E (line 15) states: 'Government spending acts as an injection into the circular flow of income'.

Draw an AD/AS diagram to show the effect of an increase in injections on the price level and national income.

[4 marks]

Turn over for the next question

Turn over ►

3 1

Extract F (lines 1–2 and 8) states: ‘As part of fiscal policy, government spending can be used to allocate resources to different regions and sectors of the economy and consequently, change the pattern of economic activity...Taxation also has a role to play in affecting the pattern of activity’.

Explain ways in which a government can use fiscal policy to affect the **pattern** of economic activity.

[10 marks]



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2 9

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ANSWER IN THE SPACES PROVIDED**



