# AQA

# AS
# ECONOMICS

Paper 2   The national economy in a global context

Thursday 16 May 2019      Morning      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.
* 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.

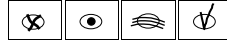| For Examiner's Use | |
|---|---|
| Section | Mark |
| A | |
| B | |
| **TOTAL** | |

## Section A

Answer **all** questions in this section.

Only **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**   When an economy goes into a recession, there is most likely to be a

**A**  growing balance of payments deficit.                    ◯

**B**  positive output gap.                                          ◯

**C**  reduction in real GDP.                                       ◯

**D**  rise in inflation.                                              ◯

**[1 mark]**

---

**0 2**   Economic growth in the US increases from 2% to 5% a year.  This is most likely to represent for the UK a

**A**  negative demand-side shock.                              ◯

**B**  negative supply-side shock.                               ◯

**C**  positive demand-side shock.                               ◯

**D**  positive supply-side shock.                               ◯

**[1 mark]**

**Turn over ►**

| 0 | 3 | Which one of the following is a true statement about the Labour Force Survey (LFS) measure of unemployment? The LFS measure of unemployment includes

**A** part-time workers who would like to work full-time.   ⬭

**B** people who are claiming unemployment benefits.   ⬭

**C** people who would like a job but who are not currently looking for one.   ⬭

**D** students at university searching for a job starting after they have graduated.   ⬭

**[1 mark]**

| 0 | 4 | The table shows income and expenditure on goods and services for four workers for the tax year ending April 2018.

| **Worker** | **Income £** | **Expenditure £** |
|---|---|---|
| Alice | 56 000 | 27 000 |
| Jennie | 17 000 | 19 000 |
| Meshaal | 45 000 | 35 000 |
| Thavid | 100 000 | 21 000 |

The government has set a proportional income tax rate of 25% and a tax on all expenditure of 15%. Which one of the following statements is true?

During the tax year ending April 2018 the

**A** burden of total tax, measured as a percentage of income, was highest for Jennie.   ⬭

**B** gap in income between Meshaal and Thavid remained the same before and after paying income tax.   ⬭

**C** tax on expenditure was not regressive as all four workers faced the same rate of tax.   ⬭

**D** worker who made the greatest contribution to government tax revenue was Alice.   ⬭

**[1 mark]**

**Turn over for the next question**

**Turn over ▶**

**0 5** The government of an economy implements an expansionary fiscal policy, increasing government spending and cutting taxes. In the short run, such a policy is likely to result in a conflict between which of the following macroeconomic objectives?

**A** Increasing economic growth and reducing unemployment.

**B** Preventing deflation and reducing the surplus on the current account of the balance of payments.

**C** Preventing deflation and reducing unemployment.

**D** Reducing the deficit on the current account of the balance of payments and increasing economic growth.

**[1 mark]**

**0 6** The diagram below shows the multiplier effect of an increase in investment that at first causes aggregate demand (AD) to shift from $AD_0$ to $AD_1$ and subsequently to $AD_2$.
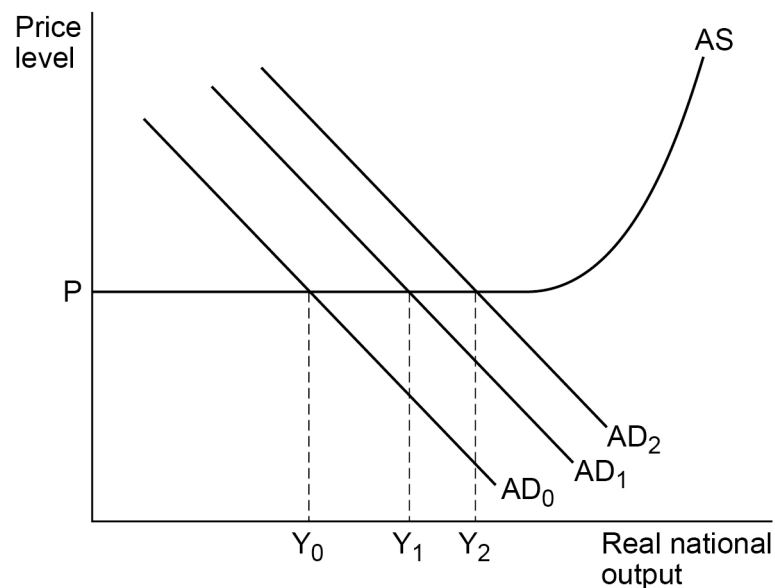


Which one of the following shows the size of the multiplier effect that has occurred?

**A** $Y_0 Y_1$ divided by $Y_0 Y_2$

**B** $Y_0 Y_2$ divided by $Y_0 Y_1$

**C** $Y_0 Y_2$ divided by $Y_1 Y_2$

**D** $Y_1 Y_2$ divided by $Y_0 Y_1$

**[1 mark]**

**0 7** Many firms use profits to finance their capital investment instead of borrowing from banks. For these firms, higher interest rates are most likely to

**A** cause them to change the type of investment made with more investment in buildings. ⬭

**B** cause them to reduce their investment as they can now earn more interest from saving their profits. ⬭

**C** have no impact on the amount of investment undertaken as they pay no interest. ⬭

**D** result in more investment as they can earn more interest on money deposited in banks. ⬭

**[1 mark]**

**0 8** There is a large depreciation in an economy's exchange rate but the value of its exports does not increase. The most likely reason for the absence of an increase in the value of exports is that

**A** consumer confidence in the economy has fallen. ⬭

**B** other countries are in recession. ⬭

**C** the government has implemented contractionary fiscal policy. ⬭

**D** there is an increase in unemployment in the economy. ⬭

**[1 mark]**

**Turn over for the next question**

**Turn over ▶**

**0 9** The table below shows a selection of items from a country's balance of payments on current account.

|  | £ billion |
|---|---|
| Balance of trade in goods | −124 |
| Primary income balance | +40 |
| Secondary income balance | −13 |

If the country has a current account deficit of £84 billion, its balance of trade in services has a

**A** deficit of £13 billion. ⬭

**B** deficit of £40 billion. ⬭

**C** surplus of £13 billion. ⬭

**D** surplus of £40 billion. ⬭

**[1 mark]**

**1 0** Which one of the following statements about supply-side policies and supply-side improvements is true?

**A** Supply-side improvements do not affect the balance of payments on current account ⬭

**B** Supply-side improvements often originate in the private sector ⬭

**C** Supply-side policies have no impact on the budget balance ⬭

**D** Supply-side policies work by leaving incentives unchanged ⬭

**[1 mark]**

**1 1** The following table shows real GDP for a small economy over two years.
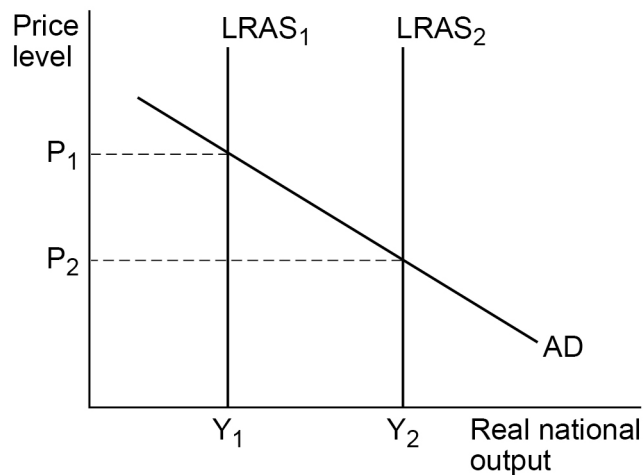
|  | **Real GDP £ billion** |
|---|---|
| **2015** | 31 |
| **2016** | 35 |

If 2016 is the base year, the index number for real GDP in 2015, to the nearest whole number, would be

**A** 89 ⬭

**B** 96 ⬭

**C** 104 ⬭

**D** 113 ⬭

**[1 mark]**

**1 2** In the diagram below, as a result of the government implementing a new industrial policy, the long-run aggregate supply curve shifts from $LRAS_1$ to $LRAS_2$



The shift in LRAS suggests that the industrial policy is most likely to have

**A** caused firms to be more innovative. ⬭

**B** created a positive output gap. ⬭

**C** reduced employment and inflation. ⬭

**D** reduced imports and exports. ⬭

**[1 mark]**

**Turn over ▶**

**1 3** An economy is in macroeconomic equilibrium with total expenditure and total income each equal to £407 billion. This means that the current value of total output will be

**A** £407 billion plus the annual rate of economic growth. ⬭

**B** £814 billion after adjusting for the multiplier effect. ⬭

**C** the same as total expenditure and total income. ⬭

**D** the same as total income after adjusting for inflation. ⬭

**[1 mark]**

**1 4** A government wanting to reduce unemployment in the short run, through the use of fiscal policy, is most likely to

**A** attempt to increase the size of its budget surplus. ⬭

**B** reduce indirect taxes on consumption. ⬭

**C** reduce interest rates to stimulate investment. ⬭

**D** take measures to reduce the size of its budget deficit. ⬭

**[1 mark]**

**1 5** World oil prices rise by 30%. On an AD/AS diagram the main effects are shown by a shift left in

**A** both the aggregate demand curve and the short-run aggregate supply curve. ⬭

**B** the aggregate demand curve as consumers face higher prices for petrol. ⬭

**C** the long-run aggregate supply curve as firms reduce their investment in renewable energy. ⬭

**D** the short-run aggregate supply curve as firms face higher costs. ⬭

**[1 mark]**

**1 6** The Monetary Policy Committee of the Bank of England has to assess inflationary pressures when deciding on the level of Bank Rate. Which one of the following pieces of information is most likely to persuade the Committee to raise Bank Rate?

**A** A fall in the number of job vacancies advertised ⬭

**B** GDP growth at below the trend rate in the previous two quarters ⬭

**C** Statistics showing an increase in bank lending to households ⬭

**D** Surveys showing that many firms have spare capacity ⬭

**[1 mark]**

**1 7** The diagram below shows the aggregate demand curves (AD) and short-run aggregate supply curves (SRAS) for an economy.
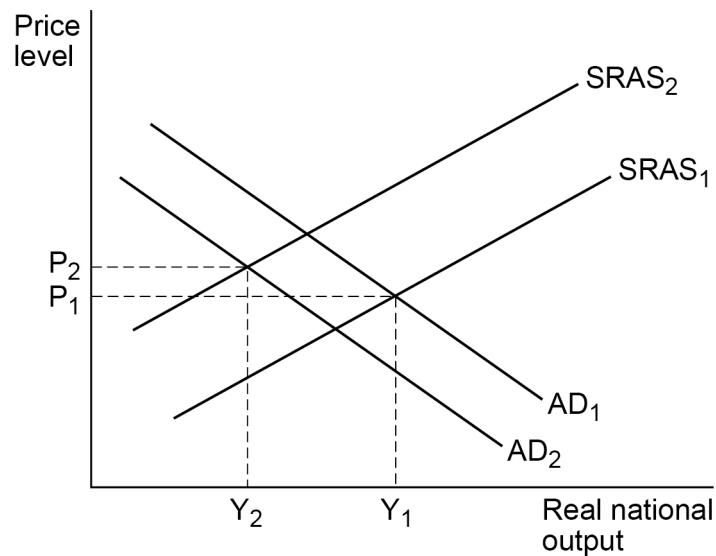


Which one of the following combinations of events is most likely to have caused the shift from $AD_1$ to $AD_2$ and the shift from $SRAS_1$ to $SRAS_2$?

**A** A fall in commodity prices and a fall in savings ⬭

**B** A fall in money wages and an increase in imports ⬭

**C** An increase in the budget deficit and a fall in productivity ⬭

**D** An increase in VAT and an increase in income tax ⬭

**[1 mark]**

**Turn over for the next question**

**Turn over ▶**

**1 8** An economy has a deficit on the current account of the balance of payments.  Which one of the following sets of circumstances is most likely to lead to a reduction in the economy's current account deficit?

|  | **Output gap** | **Inflation in other countries** | **Domestic productivity** | |
|---|---|---|---|---|
| **A** | Negative | Falling | Falling | ⬭ |
| **B** | Negative | Rising | Rising | ⬭ |
| **C** | Positive | Falling | Rising | ⬭ |
| **D** | Positive | Rising | Falling | ⬭ |

**[1 mark]**

**1 9** Which one of the following sets of circumstances is most likely, other things remaining the same, to lead to demand-pull and cost-push inflation in an economy?

**A** A depreciation in the exchange rate, and a reduction in the government's budget surplus ⬭

**B** Labour productivity growth in the economy accelerates, and interest rates fall ⬭

**C** The minimum wage is increased, and business confidence in the economy falls ⬭

**D** World demand for commodities increases, and the economy's trade surplus becomes smaller ⬭

**[1 mark]**

**2 0** The diagram below shows the aggregate demand curve (AD), short-run aggregate supply curve (SRAS), and long-run aggregate supply curve (LRAS) for an economy.
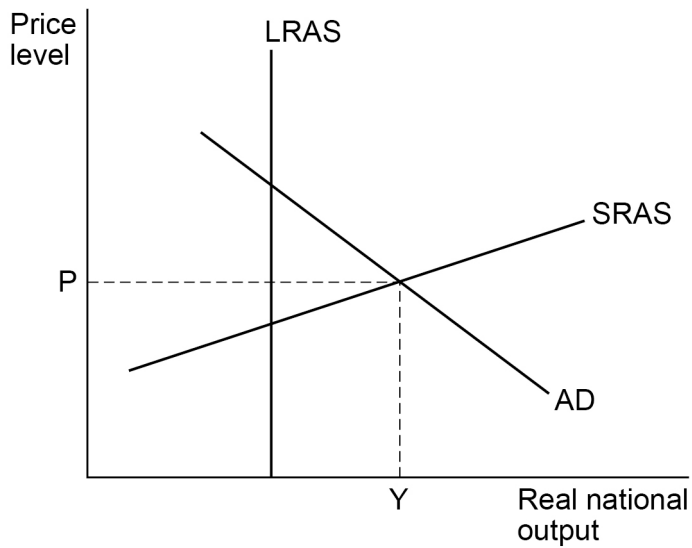


The current level of real GDP is Y. Which one of the following policies is most likely, in the short run, to bring the economy closer to its normal capacity level of output?

**A** An increase in the target rate of inflation

**B** Higher government spending on vocational education

**C** Lower rates of tax on manufacturing businesses

**D** New schemes to encourage more household saving

[1 mark]

**20**

**QUESTION 20 IS THE
LAST QUESTION IN 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** | ⬭
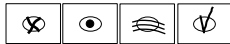
WRONG METHODS  ⊗  ◉  ⬱  ⬧          CORRECT METHOD  ⬤

**EITHER**

**Context 1**                                    **Total for this context: 50 marks**

**ARTIFICIAL INTELLIGENCE**

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 'investment' **Extract C** (line 15).

**[3 marks]**

_____

_____

_____

_____

_____

_____

**2 2** Use **Extract A** to calculate the total number of jobs that could be lost in the health and social work **and** education industries as a result of automation.

**[4 marks]**

_____

_____

_____

_____

_____

_____

_____

_____

**Turn over for the next question**

**Turn over ▶**

**2 3** Use **Extract A** to identify **two** significant points of comparison between employment and the potential for automation in selected UK industries.

**[4 marks]**

Comparison 1 _____

_____

_____

_____

_____

Extra space _____

_____

Comparison 2 _____

_____

_____

_____

Extra space _____

_____

**2 4** Use **Extract A** to construct a bar chart to show employment in the **four** industries with the highest percentage of jobs under threat from automation in 2017.

**[4 marks]**



**Turn over for the next question**

**Turn over ▶**

**2 5** **Extract C** (lines 10–11) states: 'It has announced increased government spending on technological education and training.'

Explain how an increase in government spending could affect the national debt.

**[10 marks]**

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

Extra space _____

_____

_____

_____

**Turn over ►**

**2 6** **Extract B** (lines 9–11) states: 'Inevitably, some types of employment, industries and regions are likely to be affected more than others, and consequently we might expect to see a sharp rise in structural unemployment.'

Use the extracts and your knowledge of economics to evaluate different policies that a government could use to try to prevent a rise in structural unemployment.

**[25 marks]**

**Turn over ►**

Extra space

Extra space

**Turn over ▶**

50

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

**OR**

**Context 2**              **Total for this context: 50 marks**

**UK EXPORTS**

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 'disinflation' **Extract F** (line 12).

**[3 marks]**

_____

_____

_____

_____

_____

_____

**2 8**   Use **Extract D** to calculate the UK's **mean** trade balance with the selected non-EU countries in 2016.

**[4 marks]**

_____

_____

_____

_____

_____

_____

_____

_____

_____

**Turn over ▶**

**2 9** Use **Extract D** to identify **two** significant points of comparison between the geographical breakdown of UK exports and imports.
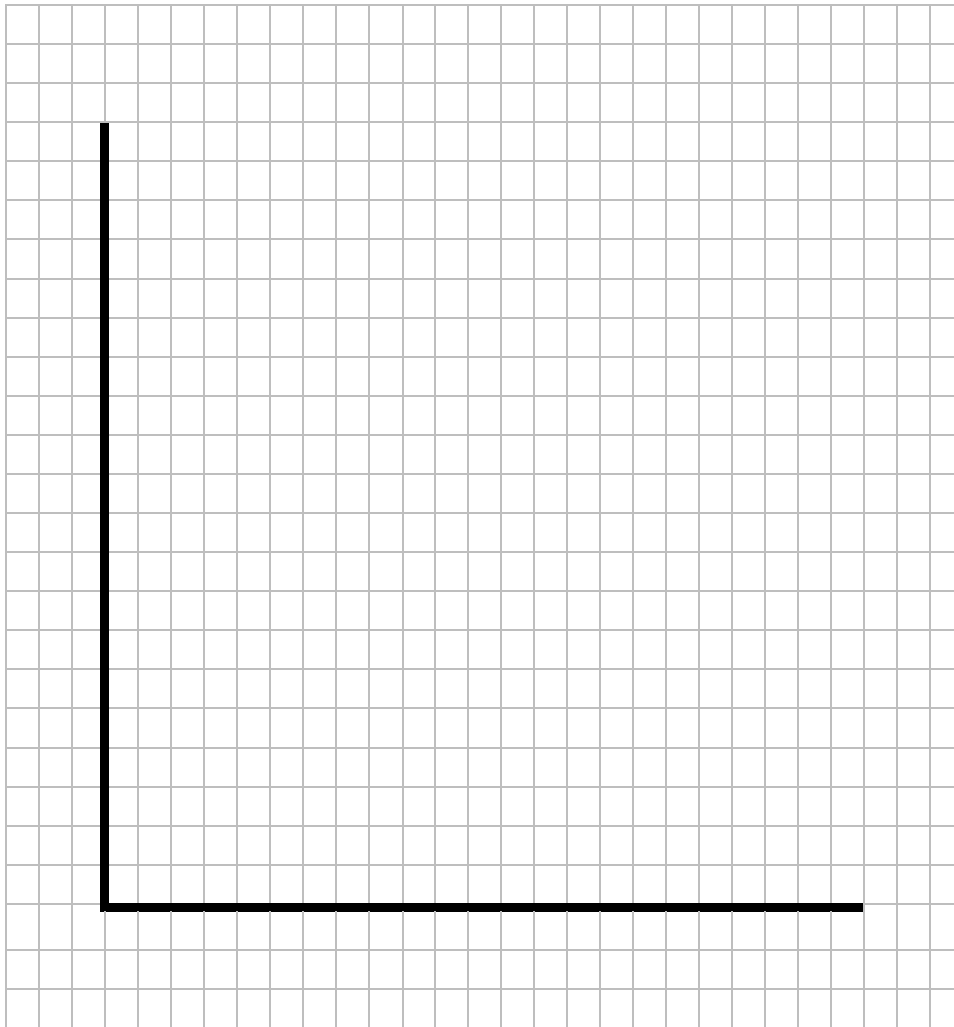
**[4 marks]**

Comparison 1 _____

_____

_____

_____

_____

Extra space _____

_____

Comparison 2 _____

_____

_____

_____

_____

Extra space _____

_____

**3 0** Use **Extract D** to construct a bar chart to show the UK's **four** largest single export markets to non-EU countries.

**[4 marks]**

**Turn over for the next question**

**Turn over ▶**

**3 1** **Extract F** (lines 8–10) states: 'Hopefully, firms will feel encouraged by the increases in demand and output, and, according to the accelerator process, this should have positive effects on investment.'

Explain how the accelerator process is likely to affect economic growth.

**[10 marks]**

Extra space

**Turn over ►**

**3** **2**   **Extract E** (lines 17–19) states: '…it is important that the increase in exports seen towards the end of 2017 is sustained. It is needed to reduce the trade deficit and have other positive impacts on the economy.'

Use the extracts and your knowledge of economics to discuss the significance of an increase in exports for the performance of the UK economy.

**[25 marks]**

Extra space

Extra space

**Turn over ►**

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

**50**

**END OF QUESTIONS**

# AQA

## AS
## ECONOMICS

Paper 2  The national economy in a global context

Insert

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

---

**CONTEXT 1: ARTIFICIAL INTELLIGENCE**

**Questions 21 to 26**

- **Extract A:**   **Industry employment and the potential for automation, selected UK industries, 2017**

- **Extract B:**   **Artificial intelligence: a cause for concern**

- **Extract C:**   **Seizing the opportunities**

**CONTEXT 2:  UK EXPORTS**

**Questions 27 to 32**

- **Extract D:**   **Total UK exports and imports with selected non-EU countries, 2016**

- **Extract E:**   **A world of opportunities**

- **Extract F:**   **But are the benefits likely to be sustained?**

---

7135/2

**Context 1**                                                   **Total for this context: 50 marks**

**ARTIFICIAL  INTELLIGENCE**

**Extract A: Industry employment and the potential for automation, selected UK industries, 2017**

| Industry | Employment (000s) | Percentage of jobs with the potential for automation |
|---|---|---|
| Accommodation and food services | 1 784 | 65 |
| Agriculture, forestry and fishing | 351 | 61 |
| Construction | 2 367 | 45 |
| Education | 3 266 | 27 |
| Health and social work | 4 177 | 35 |
| Information and communication | 1 278 | 23 |
| Manufacturing | 2 943 | 49 |
| Professional, scientific and technical activities | 2 340 | 32 |
| Transport and storage | 1 602 | 58 |
| Wholesale, retail and repair of motor vehicles | 4 195 | 64 |

**Note:** Automation can be described as the use of technology to perform a process or procedure without human assistance.

Source: IPPR report, Managing Automation, 2017, and ONS, UK Labour market, 2017

**Extract B: Artificial intelligence: a cause for concern**

Artificial intelligence (AI) refers to the creation of technology that makes it possible for machines to behave 'intelligently', to learn from experience and perform human-like tasks.  It has the potential to enhance the quality of our lives in many ways, from 'smart' gadgets that act on our spoken instructions, to driverless cars.  Predictably, AI and the use of robots have led to greater automation of tasks.  A report by the Institute for Public Policy Research (IPPR) suggests that up to 44% of jobs in the UK could feasibly be automated which could equate to around 13.7 million job losses.

Whilst the timescale is uncertain, the changes are expected to take place over the next 10 to 20 years.  Inevitably, some types of employment, industries and regions are likely to be affected more than others, and consequently we might expect to see a sharp rise in structural unemployment.  According to the report, jobs in the north-east of England and Northern Ireland are most at risk.  Subsequently, those affected would suffer a huge loss of spending power, and given that many of the job losses are expected to be in low to middle-income occupations, where the workers tend to spend a high proportion of their wage, the impact on the economy is likely to be severe.  There could be a large fall in consumption, and the downwards multiplier and accelerator effects should not be underestimated.

Source: News reports, December 2017

**Extract C: Seizing the opportunities**

Automation might not necessarily be all bad for the economy.  The IPPR report suggests it is likely to transform jobs rather than eliminate them and new jobs will be created.  Greater use of technology has the potential to increase UK productivity by as much as 1.4% each year, which would help to repair the UK's productivity gap and be a welcome boost to economic growth.  In addition, increasing productivity should enable workers to benefit from pay increases without creating inflationary pressure.  However, the gains might not be shared equally, with only those workers who have the opportunity to retrain, or who are capable of using the most advanced machinery, seeing their incomes rise.  This is likely to make it harder for the Government to achieve a more equitable distribution of income.

The Government is committed to embracing automation and overcoming potential obstacles.  It has announced increased government spending on technological education and training.  This will help to deal with skills shortages and the reskilling of unemployed workers.  Funding has also been allocated to improving infrastructure, to try to ensure that the worst affected regions are not left behind.

Investment by firms should also increase.  This is because one of the main determinants of investment is the need to keep up with changes in technology, taking advantage of the benefits of automation, such as increased efficiency and productivity.  These enable firms to maintain a competitive edge.  However, in the current climate of uncertainty, firms may require more encouragement to invest, for example, by the government providing subsidies or tax incentives.

Source: News reports, December 2017

**Turn over for Context 1 questions**

**Turn over ▶**

**Context 1 – Questions 21 to 26**

| 2 | 1 | Define 'investment' **Extract C** (line 15).

**[3 marks]**

| 2 | 2 | Use **Extract A** to calculate the total number of jobs that could be lost in the health and social work **and** education industries as a result of automation.

**[4 marks]**

| 2 | 3 | Use **Extract A** to identify **two** significant points of comparison between employment and the potential for automation in selected UK industries.

**[4 marks]**

| 2 | 4 | Use **Extract A** to construct a bar chart to show employment in the **four** industries with the highest percentage of jobs under threat from automation in 2017.

**[4 marks]**

| 2 | 5 | **Extract C** (lines 10–11) states: 'It has announced increased government spending on technological education and training.'

Explain how an increase in government spending could affect the national debt.

**[10 marks]**

| 2 | 6 | **Extract B** (lines 9–11) states: 'Inevitably, some types of employment, industries and regions are likely to be affected more than others, and consequently we might expect to see a sharp rise in structural unemployment.'

Use the extracts and your knowledge of economics to evaluate different policies that a government could use to try to prevent a rise in structural unemployment.

**[25 marks]**

**There are no questions printed on this page**

**Turn over for Context 2**

**Context 2**                                                    **Total for this context: 50 marks**

**UK EXPORTS**

**Extract D: Total UK exports and imports with selected non-EU countries, 2016**

| Country | Value of exports £ billion | Value of imports £ billion |
|---|---|---|
| Australia | 8.6 | 4.5 |
| Brazil | 3.0 | 2.4 |
| Canada | 8.3 | 7.1 |
| China | 16.8 | 42.3 |
| India | 5.7 | 9.7 |
| Japan | 12.5 | 11.5 |
| Saudi Arabia | 6.2 | 2.2 |
| South Africa | 4.3 | 4.4 |
| Switzerland | 21.0 | 13.7 |
| USA | 99.6 | 66.3 |

Source: Geographical breakdown of the current account, The Pink Book, 2017, ONS

**Extract E: A world of opportunities**

At the end of 2017 there was good news about UK exports. According to Bank of England data, UK firms have been taking advantage of the weaker value of the pound, which fell significantly in the months after the UK voted to leave the EU. Exports have been increasing to the main markets of Europe and the USA, as well as to other markets, such as Australia, the Far East and India. In addition, the Bank of England reported that export activity had increased across a range of sectors, for example, construction materials, chemicals and accountancy services.

Economists at Standard Chartered Bank say there are many more exporting opportunities. They have identified the Emerging 7 (E7)*, a group of seven countries with whom the UK currently has annual exports of £24 billion. Collectively these countries represent over 50% of the world's population and 20% of global GDP. With young, growing populations and expanding middle classes, their GDP is likely to grow steadily for many years. Consequently economists believe that closer trading links with the E7 could add almost £10 billion per year to UK national income. This would be a welcome boost at a time of low domestic demand due to falling real incomes and high consumer debt repayments.

The UK's total trade deficit widened in the three months to January 2018. This was partly due to a £1.3 billion increase in the value of goods imported. Given that the UK is very dependent on imports, it is important that the increase in exports seen towards the end of 2017 is sustained. It is needed to reduce the trade deficit and have other positive impacts on the economy.

*E7 countries according to Standard Chartered Bank: Bangladesh, Indonesia, Nigeria, Pakistan, Vietnam, China and India.

Source: News reports, March 2018

**Extract F: But are the benefits likely to be sustained?**

An increase in exports should help to reduce unemployment, which is already very low at 4.2%.   1
The multiplier effect of an increase in exports should lead to further increases in short-term
growth, but can the benefits be sustained?

Firms need to ensure that the goods and services they produce for export markets are
genuinely competitive, rather than merely relying on a weaker pound.  When the Bank of     5
England increased Bank Rate, the value of the pound against the US dollar increased sharply,
so the benefits of the weak pound cannot be relied upon indefinitely.  The UK economy
continues to grow, albeit slowly.  Hopefully, firms will feel encouraged by the increases in
demand and output, and, according to the accelerator process, this should have positive effects
on investment.  Further investment and innovation should lead to efficiency and productivity   10
gains, which should result in improvements in international competitiveness.

Recently the UK has experienced disinflation, yet the CPI rate of inflation is currently 2.7%, still
above the Government's target.  Given that the global economy is expanding at its fastest pace
for seven years, and the UK is currently benefiting from this growth, there could be further
pressure on inflation.  Consumption is also expected to rise as some workers start to see long-   15
awaited real pay increases.  However, this could lead to cost-push inflation if productivity gains
are not achieved.  In response, the Bank of England has hinted at an earlier than expected
tightening of monetary policy to try to reduce the impact of these potential inflationary
pressures.

Source: News reports, March 2018

**Turn over for Context 2 questions**

## Context 2 – Questions 27 to 32

**2 7** Define 'disinflation' **Extract F** (line 12).

**[3 marks]**

**2 8** Use **Extract D** to calculate the UK's **mean** trade balance with the selected non-EU countries in 2016.

**[4 marks]**

**2 9** Use **Extract D** to identify **two** significant points of comparison between the geographical breakdown of UK exports and imports.

**[4 marks]**

**3 0** Use **Extract D** to construct a bar chart to show the UK's **four** largest single export markets to non-EU countries.

**[4 marks]**

**3 1** **Extract F** (lines 8–10) states: 'Hopefully, firms will feel encouraged by the increases in demand and output, and, according to the accelerator process, this should have positive effects on investment.'

Explain how the accelerator process is likely to affect economic growth.

**[10 marks]**

**3 2** **Extract E** (lines 17–19) states: '…it is important that the increase in exports seen towards the end of 2017 is sustained.  It is needed to reduce the trade deficit and have other positive impacts on the economy.'

Use the extracts and your knowledge of economics to discuss the significance of an increase in exports for the performance of the UK economy.

**[25 marks]**

## END OF SOURCES