# AQA

# AS
# ECONOMICS

Paper 2   The National Economy in a Global Context

Thursday 14 May 2020       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.
- 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** | |

## Section A

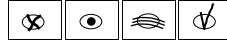Answer **all** questions in this section.

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 | An economy experiences a positive supply-side shock.  Other things remaining equal, the impact on the economy is most likely to be |

A  higher inflation and faster economic growth.  ⬭

B  higher output and lower inflation.  ⬭

C  lower employment and slower economic growth.  ⬭

D  lower unemployment and a larger budget deficit.  ⬭

**[1 mark]**

| 0 2 | The quantity of food imported by an economy increases by 12% in one year.  The most likely cause is a fall in |

A  domestic farm prices.  ⬭

B  income tax.  ⬭
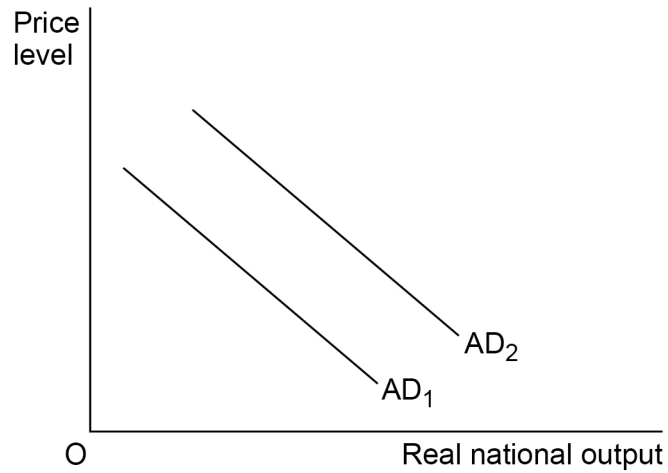
C  the exchange rate.  ⬭

D  welfare benefits.  ⬭

**[1 mark]**

**0 3** **Figure 1** shows aggregate demand (AD) curves for an economy.

**Figure 1**



Which **one** of the following is most likely to cause the aggregate demand curve to shift from $AD_1$ to $AD_2$?

A  A fall in imports

B  A fall in the price level

C  A reduction in the budget deficit

D  A rise in the exchange rate

**[1 mark]**

**0 4** Which **one** of the following statements about the consumer price index (CPI) is correct?

A  A fall in the CPI means that the real value of money is falling

B  An increase in the CPI means that the rate of inflation is rising

C  The CPI measures changes in the prices of goods and services bought by households

D  The weights used in the CPI reflect changes in the quality of goods and services

**[1 mark]**

**Turn over ▶**

**0 5** An economy has recently recovered from a recession and closed its negative output gap. The government would now like to increase the trend rate of economic growth.

Which **one** of the following policies is likely to be the most effective?

**A** Expansionary fiscal policy ⬭

**B** Expansionary monetary policy ⬭

**C** Redistributive policies ⬭

**D** Supply-side policies ⬭

[1 mark]

**0 6** The government invests £1 billion in an extension to the motorway network. As a result, in addition to this initial investment, national income increases by a further £2 billion.

What is the value of the multiplier?

**A** 0.5 ⬭

**B** 1 ⬭

**C** 2 ⬭

**D** 3 ⬭

[1 mark]

**0 7** An economy is experiencing short-run economic growth accompanied by falling unemployment. This is due to rising aggregate demand following the introduction of an expansionary fiscal policy.

Which **one** of the following is most likely to help the economy avoid rising inflation?

**A** A fall in the exchange rate and falling productivity ⬭

**B** A fall in the exchange rate and rising productivity ⬭

**C** A rise in the exchange rate and falling productivity ⬭
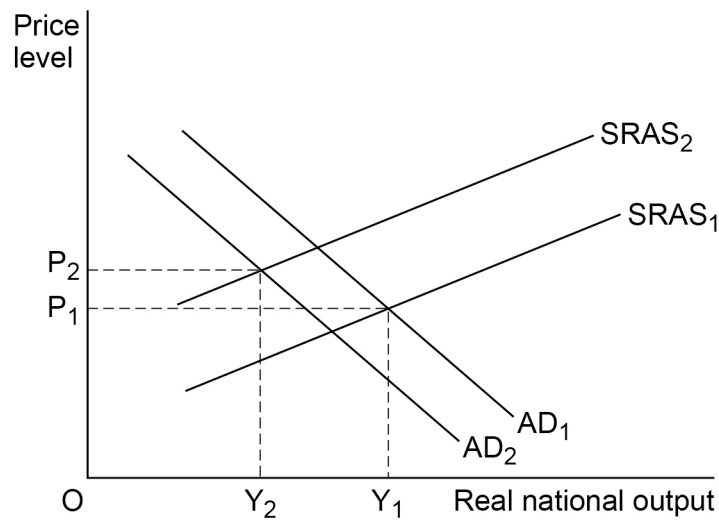
**D** A rise in the exchange rate and rising productivity ⬭

[1 mark]

0 8 **Figure 2** shows the aggregate demand (AD) curves and short-run aggregate supply (SRAS) curves for an economy.

**Figure 2**



Which **one** of the following combinations of events is most likely to cause aggregate demand to shift from $AD_1$ to $AD_2$ and short-run aggregate supply from $SRAS_1$ to $SRAS_2$?

**A** A fall in income tax and lower raw material prices ⬭

**B** A fall in net exports and higher labour productivity ⬭

**C** A rise in money wages and a rise in household saving ⬭

**D** An increase in VAT and a rise in household wealth ⬭

[1 mark]

**Turn over for the next question**

**Turn over ▶**

**0 9** A government wishes to reduce the surplus on the current account of the balance of payments. Which **one** of the following sets of policies is likely to be the most successful?

|   | Change in the exchange rate | Change in the budget surplus |   |
|---|---|---|---|
| **A** | Decrease | Decrease | ⬭ |
| **B** | Decrease | Increase | ⬭ |
| **C** | Increase | Decrease | ⬭ |
| **D** | Increase | Increase | ⬭ |

**[1 mark]**

**1 0** In which **one** of the following situations is there most likely to be cyclical unemployment in an economy?

**A** Absence of an output gap ⬭

**B** Generous unemployment benefits ⬭

**C** Many firms with excess capacity ⬭

**D** Widespread investment in labour-saving equipment ⬭

**[1 mark]**

**1 1** At the start of the year, the national debt for an economy was £920 billion. In the previous year, the budget deficit was £60 billion. In the current year, government spending is projected to fall by £20 billion and tax revenues to increase by £10 billion from last year's levels.

Other things remaining equal, the expected size of the national debt at the end of the current year is

**A** £890 billion. ⬭

**B** £950 billion. ⬭

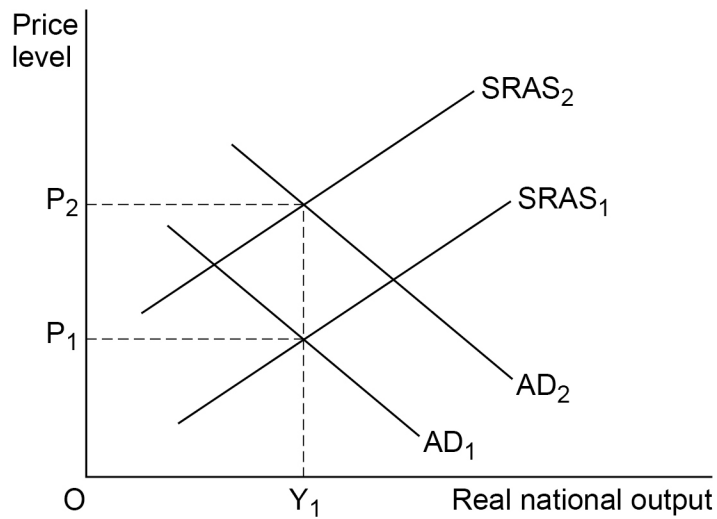**C** £960 billion. ⬭

**D** £980 billion. ⬭

**[1 mark]**

**1 2** **Figure 3** shows an economy's aggregate demand (AD) and short-run aggregate supply (SRAS) curves.

**Figure 3**



The initial equilibrium price level is at $OP_1$. Which **one** of the following is most likely to be responsible for both the cost–push and demand-pull inflationary pressures that raise the price level to $OP_2$?

**A** A fall in interest rates

**B** A fall in the exchange rate

**C** A rise in direct taxes

**D** A rise in indirect taxes

[1 mark]

**1 3** Other things remaining the same, the current account deficit of an economy's balance of payments is most likely to

**A** become smaller as domestic inflation falls below foreign inflation rates.

**B** deteriorate when there is an upturn in economic activity overseas.

**C** improve when there is a rise in the exchange rate.

**D** increase when there is an improvement in the economy's international competitiveness.

[1 mark]

**Turn over ▶**

**1 4** Which statement applies to progressive taxes, but does not apply to proportional or regressive taxes?

As income falls

**A** a larger percentage of income is taken in tax. ⬭

**B** a smaller percentage of income is taken in tax. ⬭

**C** less income is taken in tax. ⬭

**D** the same percentage of income is taken in tax. ⬭

[1 mark]

**1 5** **Figure 4** shows the performance of an economy through time.

**Figure 4**
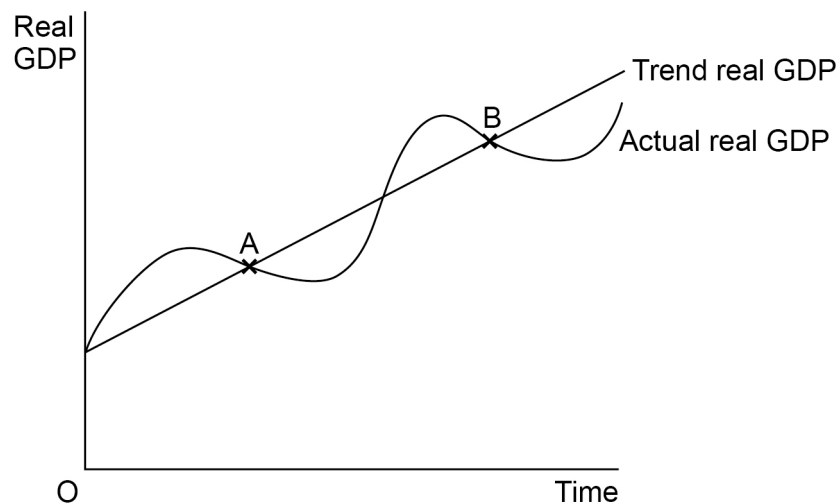
As the economy moves from point A to point B, it can be concluded that

**A** the economy has completed one economic cycle. ⬭

**B** the level of GDP per head has risen. ⬭

**C** the rate of economic growth has increased. ⬭

**D** the trend rate of growth is higher. ⬭

[1 mark]

**1 6** Output of the UK economy is at the normal capacity level and the Bank of England decides to implement measures to restrict the supply of credit to households. The most likely reason for this policy is that

**A** earnings are increasing fast. ⬯

**B** house prices are falling. ⬯

**C** productivity is growing more quickly. ⬯

**D** the exchange rate is appreciating. ⬯

[1 mark]

**1 7** **Table 1** shows the index of export prices, the current monetary value of a country's exports and the calculated value, to the nearest £ billion, of the value of its exports at 2017 prices.

**Table 1**

| Year | Current monetary value of exports (£ billion) | Index of export prices | Value of the country's exports at 2017 prices (£ billion) |
|---|---|---|---|
| 2016 | 180 | 90 | ? |
| 2017 | 200 | 100 | 200 |
| 2018 | 240 | 110 | 218 |
| 2019 | 300 | 120 | ? |

Which **one** of the following is correct?

**A** The value of the country's exports in 2016 at 2017 prices, to the nearest £ billion, was £162 billion ⬯

**B** The value of the country's exports in 2016 at 2017 prices, to the nearest £ billion, was £198 billion ⬯

**C** The value of the country's exports in 2019 at 2017 prices, to the nearest £ billion, was £240 billion ⬯

**D** The value of the country's exports in 2019 at 2017 prices, to the nearest £ billion, was £250 billion ⬯

[1 mark]

**Turn over ▶**

**1 8** **Figure 5** shows the aggregate demand (AD) and long-run aggregate supply (LRAS) curves for an economy.

**Figure 5**
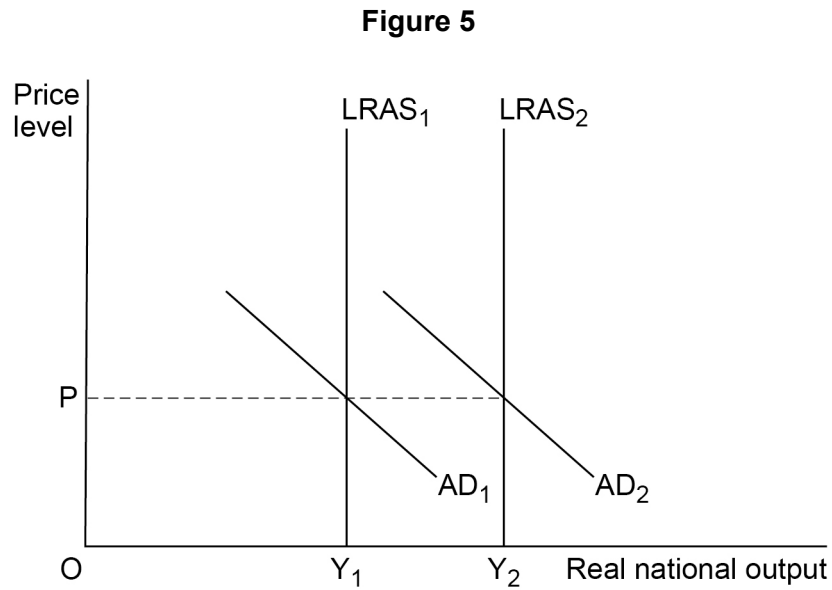


Which one of the following policies is most likely to have caused aggregate demand to shift from AD₁ to AD₂, and long-run aggregate supply to shift from LRAS₁ to LRAS₂?

**A**  A lower rate of corporation tax

**B**  A reduction in the money supply

**C**  An increase in state pensions

**D**  An increase in the exchange rate

**[1 mark]**

**1 9** If the current account of the balance of payments is in surplus, then

**A** the exchange rate of the country's currency must be appreciating.

**B** the net value of trade in goods and services plus the net value of primary and secondary income must be positive.

**C** the total of all money flows into the economy must be greater than the total of all money flows out.

**D** the value of exports of goods and services must be greater than the value of imports of goods and services.

**[1 mark]**

**2 0** The level of unemployment in an economy has fallen. The most likely cause is

**A** a reduction in firms' profits.

**B** a rise in the retirement age.

**C** an increase in immigration.

**D** lower mortgage interest rates.

**[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** ○
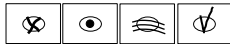
WRONG METHODS ⊗ ⊙ ⊜ ⬧     CORRECT METHOD ⬤

**EITHER**

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

**THE UK RETAIL INDUSTRY**

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 'falling exchange rate' in **Extract B** (line 7).

**[3 marks]**

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**2 2** Use **Extract B** to calculate, to **two** decimal places, the ratio of internet sales to £1 worth of all retail sales in November 2013.

**[4 marks]**

**Turn over for the next question**

**Turn over ▶**

**2 3** Use **Extract A** to identify **two** significant points of comparison between the percentage change in the value of all retail sales and internet sales over the period shown.

**[4 marks]**

Comparison 1 _____

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Extra space _____

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Comparison 2 _____

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Extra space _____

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**2 4** **Extract B** (lines 9–11) states: 'Taking into account pubs, restaurants and other shops, a further 4042 premises became empty, increasing spare capacity in the economy.'

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show an **increase** in spare capacity in the economy.

**[4 marks]**

**Turn over for the next question**

**Turn over ▶**

**2 5** **Extract C** (lines 3–4) states: 'Household consumption accounts for approximately 60% of aggregate demand so has a vital role to play in the economy.'

Explain **two** factors that could cause a fall in consumption.

**[10 marks]**

Extra space

**Turn over ►**

**2 6** **Extract C** (line 1) states: 'So, is the changing retail industry and the decline in the high street bad news for the economy?'

Use the extracts and your knowledge of economics to assess whether the changes taking place in the retail industry are likely to cause lasting damage to UK macroeconomic performance.

**[25 marks]**

**Turn over ►**

Extra space

**Turn over ►**

**50**
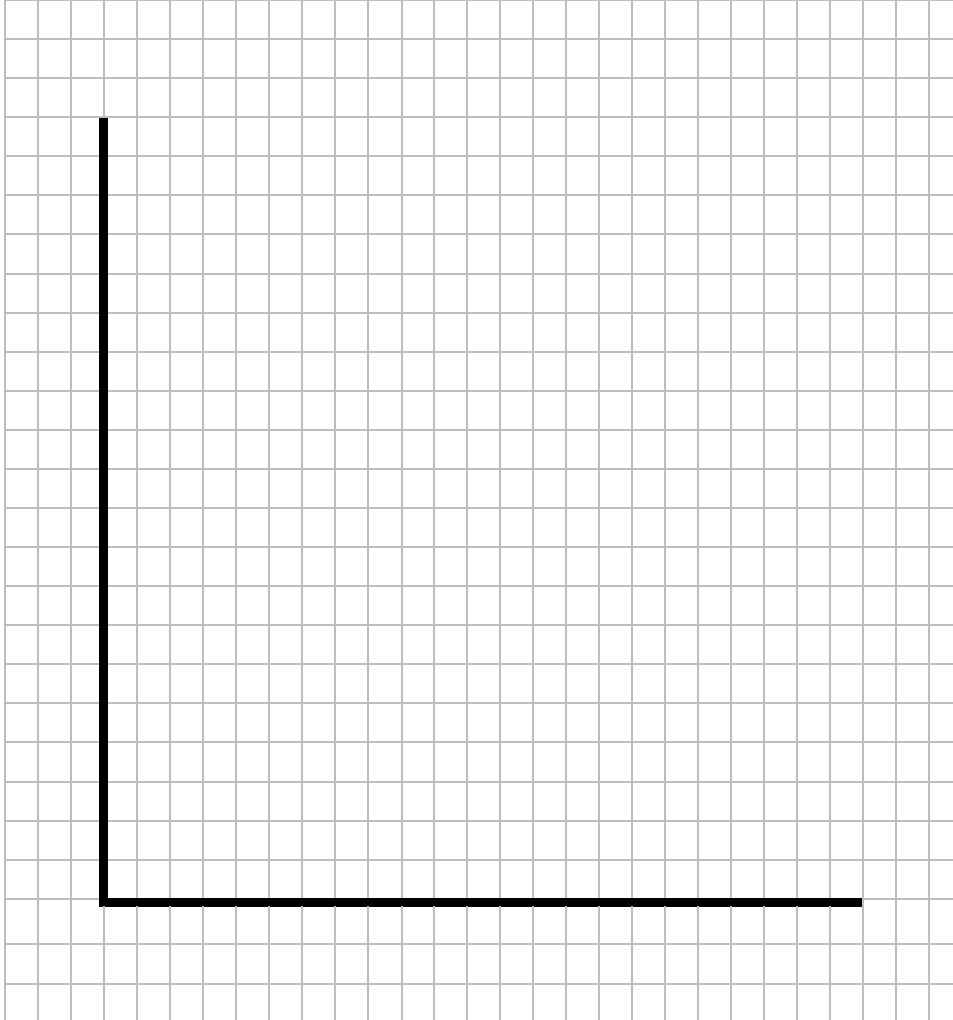
Do **NOT** answer Context 2 if you have answered Context 1.

**OR**

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

**CONFLICTING ECONOMIC OBJECTIVES**

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 'growing budget deficit' in **Extract F** (lines 15–16).

**[3 marks]**

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| 2 | 8 |   Use **Extract E** to calculate, to **two** decimal places, the ratio of cars produced in the UK for export markets to each car produced for the home market, for the year ended December 2018.

**[4 marks]**

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**Turn over ▶**

**2 9** Use **Extract D** to identify **two** significant points of comparison between the percentage change in UK car production for export and home markets over the period shown.

**[4 marks]**

Comparison 1 _____

_____

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Extra space _____

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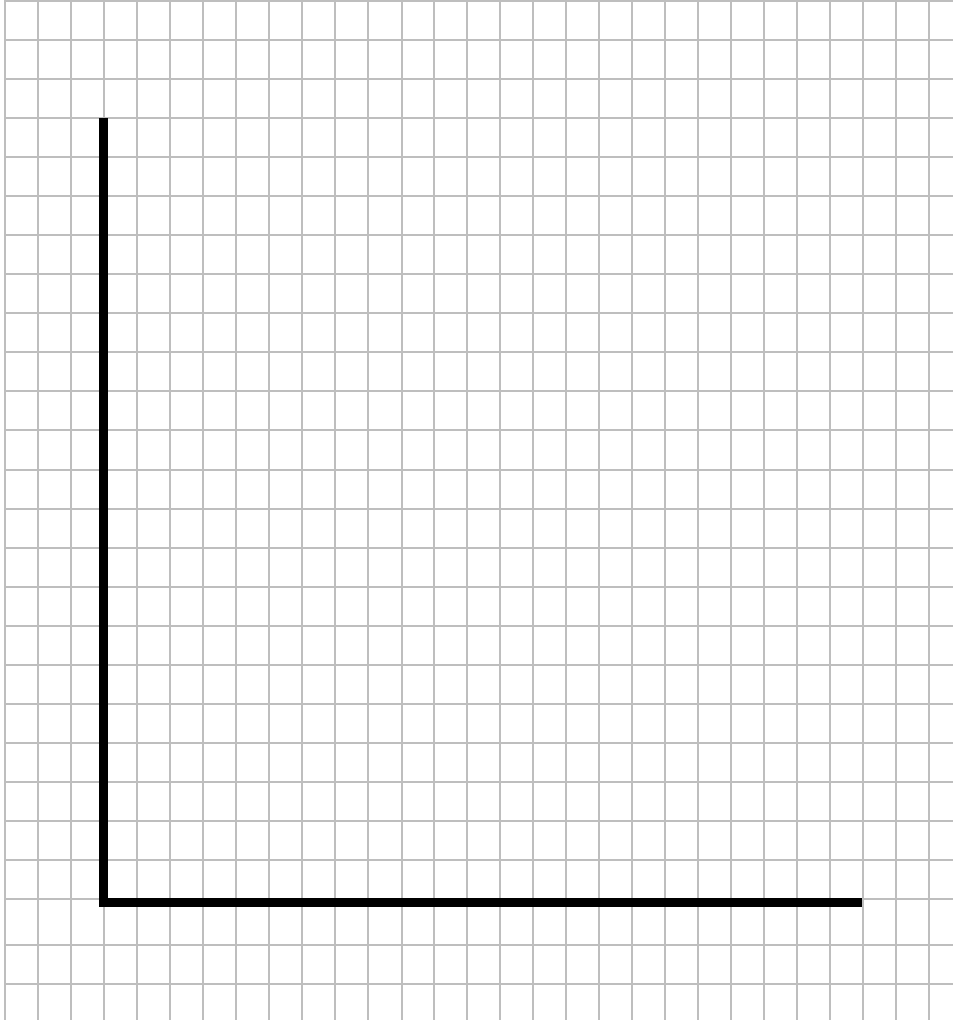
Comparison 2 _____

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Extra space _____

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**3 0** **Extract F** (lines 4–5) states: 'As more workers receive higher in-work income, consumption would be expected to rise, leading to short-run economic growth.'

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show short-run economic growth.

**[4 marks]**



**Turn over for the next question**

**Turn over ▶**

**3** **1** **Extract E** (lines 9–10) states: 'Inevitably, the volume of exports will fall, and it is highly likely that the trade deficit will increase further.'

Explain **two** factors that could cause a fall in the volume of UK exports.

**[10 marks]**

Extra space

**Turn over ►**

**3 2** **Extract F** (lines 13–17) states: '… it is not easy for a government to achieve all of its macroeconomic objectives at the same time... if confidence improves and the manufacturing industry picks up, it will be difficult to avoid more inflationary pressures.'

Use the extracts and your knowledge of economics to assess the view that as the rate of economic growth increases, a rise in inflation is inevitable.

**[25 marks]**

Extra space

Extra space

**Turn over ►**

*Do not write outside the box*

**50**

**END OF QUESTIONS**

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

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

| Question number | Additional page, if required.<br>Write the question numbers in the left-hand margin. |
|---|---|
|  |  |

| Question number | **Additional page, if required.**<br>**Write the question numbers in the left-hand margin.** |
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*Do not write outside the box*

| Question number | **Additional page, if required.** <br> **Write the question numbers in the left-hand margin.** |
|---|---|
| | |

# 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.**

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**CONTEXT 1:  THE UK RETAIL INDUSTRY**

**Questions 21 to 26**

- **Extract A:**  UK retail sales, percentage change on same month a year earlier, January 2016–January 2019

- **Extract B:**  The changing retail industry

- **Extract C:**  Aggregate demand and economic activity

**CONTEXT 2:  CONFLICTING ECONOMIC OBJECTIVES**

**Questions 27 to 32**

- **Extract D:**  UK car production for export and home markets, percentage change on same month a year earlier, January 2016–January 2019

- **Extract E:**  UK manufacturing and the objectives of macroeconomic policy

- **Extract F:**  Conflicting objectives…or not?

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**7135/2**

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

**THE UK RETAIL INDUSTRY**

**Extract A:  UK retail sales, percentage change on same month a year earlier,**
**January 2016–January 2019**
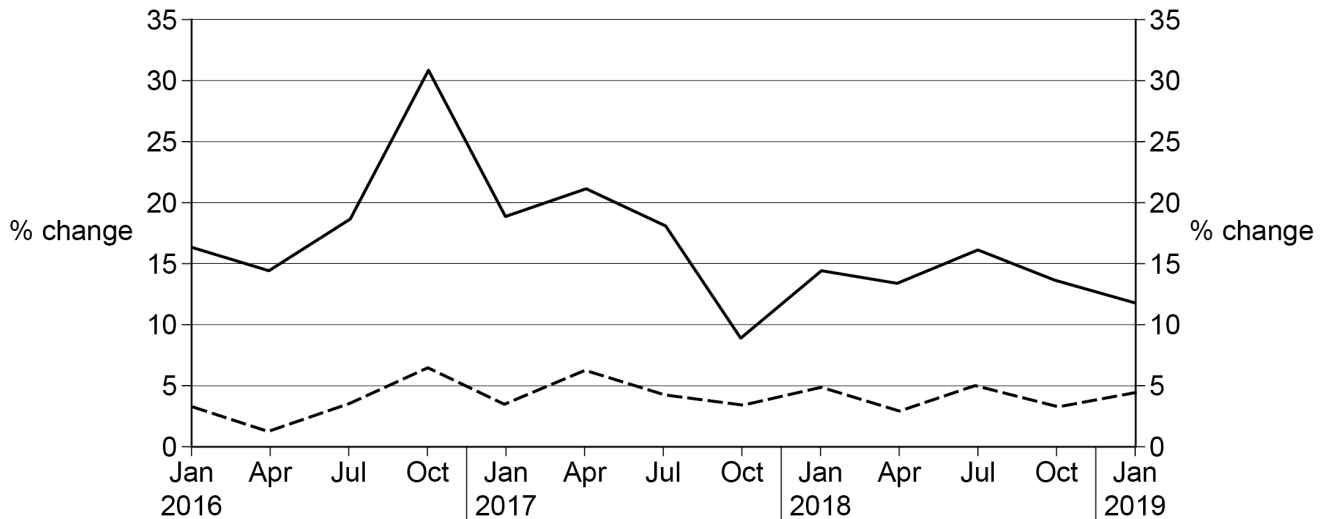


**Key**
——— Internet sales
– – – – All retail sales

**Note:** All retail sales include internet sales but exclude automotive fuels.

Source: Retail sales: February 2019, Office for National Statistics

**Extract B:  The changing retail industry**

The retail industry continues to grow, yet there is clear evidence that the pattern of consumer     1
spending is changing.  In November 2013, when Black Friday* was first introduced to the UK,
the average weekly value of all retail sales in the UK was £6 806.7 million, including internet
sales of £827 million.  However, by November 2018, internet sales accounted for 21.5% of all
retail sales, with a value of £1 819.6 million.                                                      5

Clearly, high street retailers face difficult trading conditions.  Falling demand and rising costs,
due to rises in business rates, an increasing minimum wage and a falling exchange rate, have
meant that some are unable to survive.  According to the accountancy firm PWC, 2692 stores
run by retailers with multiple outlets closed in the first half of 2018.  Taking into account pubs,
restaurants and other shops, a further 4042 premises became empty, increasing spare capacity    10
in the economy.

Inevitably, job losses will follow.  The Office for National Statistics (ONS) said there were 93 000
fewer retail jobs in the three months to the end of September 2018 compared to a year earlier.
In 2017, the British Retail Consortium warned there could be up to 900 000 fewer jobs over the
next decade, which is a huge concern given the industry is the biggest employer in the private    15
sector.

In the November 2018 budget statement, the then Chancellor of the Exchequer, Philip Hammond, acknowledged the importance of the high street to communities and local economies.  He announced 'Our Plan for the High Street', a range of supply-side policies designed to help town centres evolve.  It includes reductions in business rates and an injection of £675 million into a 'Future High Streets Fund', to be used for local projects including improved transport infrastructure.

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**Note**: Black Friday is the day after the US holiday of Thanksgiving, regarded as the first day of the Christmas shopping season, on which retailers make many special offers.

Source: News reports, February 2019

### Extract C:  Aggregate demand and economic activity

So, is the changing retail industry and the decline in the high street bad news for the economy?  Not necessarily.  Many new jobs are being created, for example, in technology, distribution and delivery.  Household consumption accounts for approximately 60% of aggregate demand so has a vital role to play in the economy, but consumption also includes spending on services, and nowadays services spending is gaining a greater share of consumers' disposable income.  Slower growth in consumption can also help to prevent too much inflationary pressure.

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Besides, what of the other components of aggregate demand?  Unfortunately, investment is falling.  The ONS estimated that business investment fell by 1.1% to £46.9 billion between the second and third quarters of 2018, the third consecutive quarter-on-quarter fall. The total trade deficit widened during 2018 to £32.3 billion; even though the value of exports increased, the increase in the value of imports was greater.

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However, Keynesian economists believe that when an economy slows the government should increase its spending to stimulate economic activity.  UK Government finances have improved recently and, if required, the Chancellor now has more flexibility to increase government spending to give the economy a boost.

15

Source: News reports, February 2019

**Turn over for Context 1 questions**

**Turn over ▶**

**Context 1: – Questions 21 to 26**

| 2 | 1 | Define 'falling exchange rate' in **Extract B** (line 7).

**[3 marks]**

| 2 | 2 | Use **Extract B** to calculate, to **two** decimal places, the ratio of internet sales to £1 worth of all retail sales in November 2013.

**[4 marks]**

| 2 | 3 | Use **Extract A** to identify **two** significant points of comparison between the percentage change in the value of all retail sales and internet sales over the period shown.

**[4 marks]**

| 2 | 4 | **Extract B** (lines 9–11) states: 'Taking into account pubs, restaurants and other shops, a further 4042 premises became empty, increasing spare capacity in the economy.'

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show an **increase** in spare capacity in the economy.

**[4 marks]**

| 2 | 5 | **Extract C** (lines 3–4) states: 'Household consumption accounts for approximately 60% of aggregate demand so has a vital role to play in the economy.'

Explain **two** factors that could cause a fall in consumption.

**[10 marks]**

| 2 | 6 | **Extract C** (line 1) states: 'So, is the changing retail industry and the decline in the high street bad news for the economy?'

Use the extracts and your knowledge of economics to assess whether the changes taking place in the retail industry are likely to cause lasting damage to UK macroeconomic performance.

**[25 marks]**

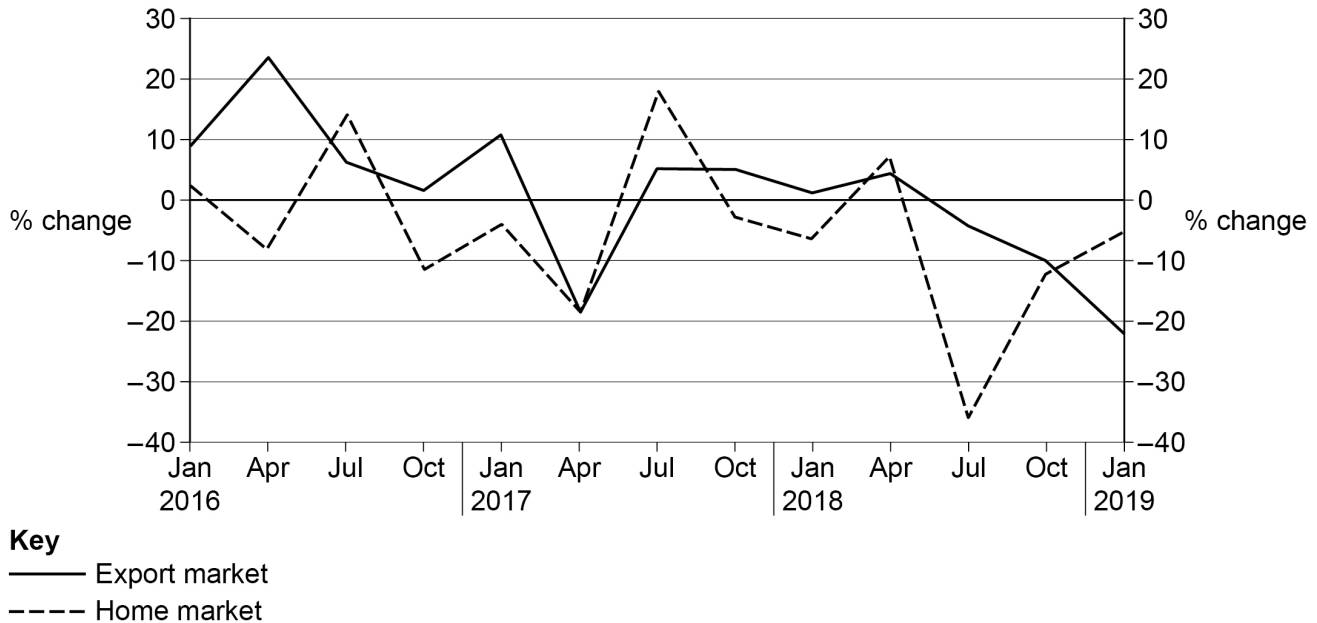**There are no extracts printed on this page**

**Turn over for Context 2**

**Turn over ▶**

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

**CONFLICTING ECONOMIC OBJECTIVES**

**Extract D:  UK car production for export and home markets, percentage change on same month a year earlier, January 2016–January 2019**



**Key**

——— Export market

– – – – Home market

**Extract E:  UK manufacturing and the objectives of macroeconomic policy**

In recent years, car production has been the success story of UK manufacturing, the recipient of large amounts of foreign investment, and experiencing record employment, but now the future looks less bright.  A 17-year high was reached in 2016, with 1.7 million vehicles produced, 1.35 million of which were exported overseas.  In the year to December 2018, only 1 237 608 cars had been exported and 281 832 had been produced for the home market.  Some car manufacturers, such as Jaguar Land Rover, have announced redundancies, and the Japanese firm, Honda, has decided to close its entire UK plant, with the loss of up to 3000 jobs.  When the impact on component manufacturers and the negative multiplier effects are taken into account, the increase in unemployment will be considerably more.  Inevitably, the volume of exports will fall, and it is highly likely that the trade deficit will increase further.

In the three months to November 2018, falling car production was the largest downward contributor to the decline in the manufacturing sector, as output contracted by 0.8%, but other areas are suffering as well.  Philips intends to close its baby-bottle factory, Airbus is ceasing production of its A380 aeroplane, and Hitachi has suspended work on a multi-billion pound nuclear power plant.

Economic growth is one of the main objectives of macroeconomic policy.  It leads to job creation and can help to reduce inequalities in the distribution of income and wealth.  Yet such grim news in manufacturing makes growth more difficult to achieve.  The Office for Budget Responsibility (OBR) and the Bank of England have reduced their growth forecasts for the UK for 2019, and it was not entirely unexpected that real GDP growth slowed to only 0.2% for the final quarter of 2018.

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**Extract F:  Conflicting objectives…or not?**

Despite the gloomy expectations within the economy, the unemployment rate remains very low        1
at 4% and the employment rate hit a high of 75.8% in the final quarter of 2018, with
32.6 million people in work.  Traditionally, economists would have predicted a trade-off between
unemployment and inflation.  As more workers receive higher in-work income, consumption
would be expected to rise, leading to short-run economic growth.  As firms' costs increase this        5
adds to inflationary pressure.  Yet this potential macroeconomic conflict has failed to
materialise: CPI inflation fell to a below-target rate of 1.8% in January 2019, a two-year low,
mainly due to lower energy and fuel prices.

Consequently, monetary and fiscal policies can remain expansionary, to provide the necessary
stimulus to help reverse the slowdown in economic activity.  The Government can devote its        10
attention towards dealing with the challenges faced in manufacturing.  It could use supply-side
policies to create incentives to ease structural change; jobs lost in one industry could be created
in another, and in the long term the economy can improve.  However, it is not easy for a
government to achieve all of its macroeconomic objectives at the same time as conflicts do
arise. An increase in government spending or reduction in taxes could lead to a growing budget        15
deficit.  The Government should also be mindful that if confidence improves and the
manufacturing industry picks up, it will be difficult to avoid more inflationary pressures.

Source: News reports, February 2019

**Turn over for Context 2 questions**

**Context 2: – Questions 27 to 32**

| 2 | 7 | Define 'growing budget deficit' in **Extract F** (lines 15–16).

**[3 marks]**

| 2 | 8 | Use **Extract E** to calculate, to **two** decimal places, the ratio of cars produced in the UK for export markets to each car produced for the home market, for the year ended December 2018.

**[4 marks]**

| 2 | 9 | Use **Extract D** to identify **two** significant points of comparison between the percentage change in UK car production for export and home markets over the period shown.

**[4 marks]**

| 3 | 0 | **Extract F** (lines 4–5) states: 'As more workers receive higher in-work income, consumption would be expected to rise, leading to short-run economic growth.'

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show short-run economic growth.

**[4 marks]**

| 3 | 1 | **Extract E** (lines 9–10) states: 'Inevitably, the volume of exports will fall, and it is highly likely that the trade deficit will increase further.'

Explain **two** factors that could cause a fall in the volume of UK exports.

**[10 marks]**

| 3 | 2 | **Extract F** (lines 13–17) states: '… it is not easy for a government to achieve all of its macroeconomic objectives at the same time… if confidence improves and the manufacturing industry picks up, it will be difficult to avoid more inflationary pressures.'

Use the extracts and your knowledge of economics to assess the view that as the rate of economic growth increases, a rise in inflation is inevitable.

**[25 marks]**

**END OF SOURCES**