

AS ECONOMICS 7135/2

Paper 2 The national economy in a global context

Specimen 2014

Morning

Time allowed: 1 hour 30 minutes

Materials

For this paper you must have:

- the source booklet
- the use of a calculator.

Instructions

- Use a black ball-point pen. Do **not** use pencil.
- Answer **all** questions in **Section A**.
- Answer **EITHER** Context 1 **OR** Context 2 in **Section B**.
- You will need to refer to the source booklet provided to answer **Section B**.
- Do all rough work in this answer book. Cross through any work you do not want to be marked.
- You must answer the question in the spaces provided. Do not write outside the box around each page or on blank pages.

Information

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

Please write clearly, in block capitals, to allow character computer recognition.

Centre number Candidate number

Surname

Forename(s)

Candidate signature _____

Section A

Answer **all** questions in this section

Only **one** answer per question is allowed.

For each answer completely fill in the lozenge 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

Fiscal policy involves the use of

A interest rates.

B direct and indirect taxes.

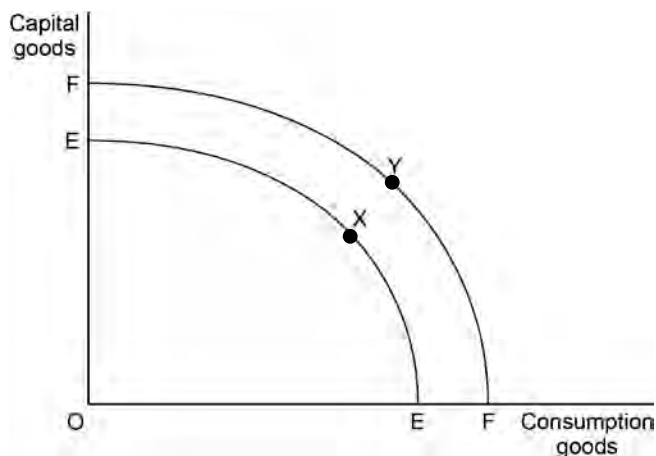
C the money supply.

D exchange rates.

[1 mark]

0 2

The diagram below shows two production possibility frontiers for an economy. The economy is initially producing at point X on production possibility frontier EE.



The outward movement of the production possibility frontier from EE to FF, with increased production of both types of good at point Y, is most likely to be the result of

A a decrease in unemployment in the economy.

B the implementation of supply-side policies.

C an increase in the rate of inflation.

D the elimination of a negative output gap.

[1 mark]

0 3

Which one of the following combinations is correct regarding the rate of inflation and the responsibilities of the UK Government and Monetary Policy Committee (MPC) of the Bank of England?

	Inflation target set by	Interest rate set by	
A	Government	Government	<input type="radio"/>
B	Government	MPC	<input type="radio"/>
C	MPC	MPC	<input type="radio"/>
D	MPC	Government	<input type="radio"/>

[1 mark]

0 4

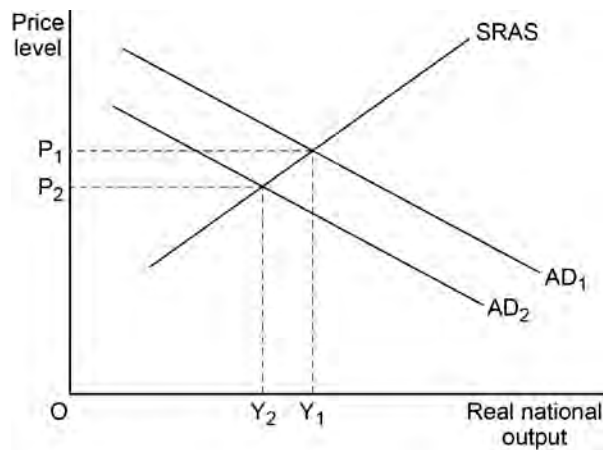
Which one of the following is most likely to cause demand-pull inflation?

- A An increase in indirect taxation.
- B An increase in productivity.
- C A decrease in interest rates.
- D A rise in oil prices.

[1 mark]

0 5

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



All other things being equal, a fall in the price level from P_1 to P_2 could be explained by a fall in

- A imports.
- B interest rates.
- C labour productivity.
- D government spending.

[1 mark]

0 6

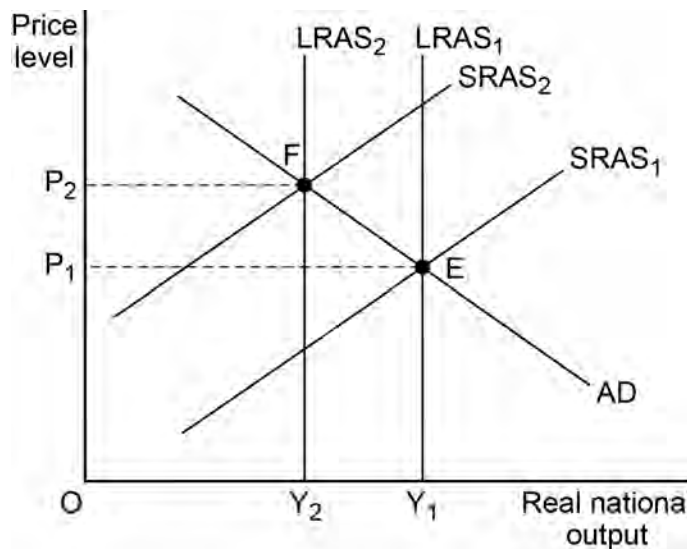
Which one of the following would be regarded as a supply-side shock for the UK economy?

- A An economic downturn in the US economy affecting UK exports.
- B A rise in interest rates discouraging borrowing.
- C Rising oil and gas prices increasing the costs of UK firms.
- D A rise in tax rates imposed on household incomes.

[1 mark]

0 7

The diagram below shows the aggregate demand (AD), short-run aggregate supply (SRAS) and long-run aggregate supply (LRAS) curves for an economy. The economy's initial equilibrium is at point E.



Which one of the following developments affecting the economy is most likely to account for the movement of macroeconomic equilibrium from E to F?

- A An increase in labour productivity and wage rates.
- B A decrease in the underlying trend rate of growth and an increase in world commodity prices.
- C A decrease in government expenditure and an increase in indirect taxation.
- D A fall in productivity and an increase in world commodity prices.

[1 mark]

0 8

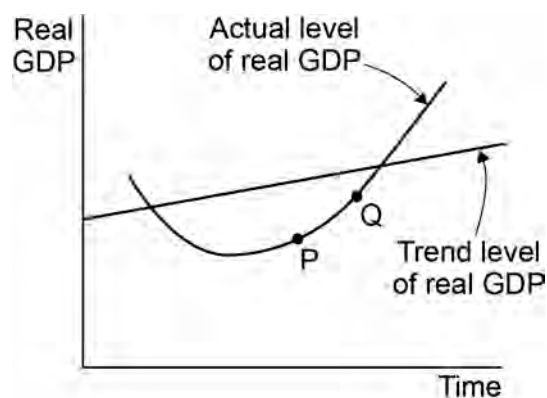
A country has a slow rate of growth of productivity and rising cyclical unemployment. All other things being equal, which measures are most likely to increase the rate of growth of productivity and reduce cyclical unemployment?

- A Increased investment and increased saving.
- B More government spending on training and a higher exchange rate.
- C Decreased benefit payments and a lower budget deficit.
- D Lower taxation on businesses and lower interest rates.

[1 mark]

0 9

The diagram below shows the actual level of real GDP and the trend level of real GDP over time for an economy.



Between the points P and Q, which one of the following is most likely to be correct?

- A The actual rate of economic growth is rising while the level of unemployment is falling.
- B The actual rate of economic growth is negative while the rate of inflation is falling.
- C The trend rate of economic growth is rising while the balance of payments on current account is deteriorating.
- D The trend rate of economic growth and the output gap are both positive.

[1 mark]

1 0

Structural unemployment is most likely to be caused by

- A a change in the pattern of demand.
- B a fall in the exchange rate.
- C a fall in unemployment benefits.
- D an increase in interest rates.

[1 mark]

1 1

The table below shows the Consumer Price Index (CPI) of a country over a period of time.

Year	CPI
2009	98
2010	100
2011	110
2012	120
2013	125

Which one of the following can be deduced from the data?

- A The inflation rate was the same in 2011 and 2012.
- B There was deflation in 2009.
- C The average price level increased each year.
- D The inflation rate was highest in 2013.

[1 mark]

1 2

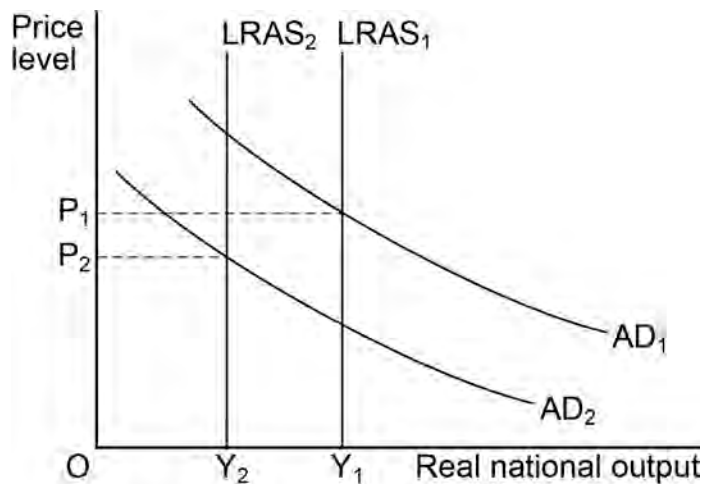
All other things being equal, a rise in a country's exchange rate is most likely to

- A reduce unemployment and increase economic growth.
- B reduce inflation and reduce a deficit on the current account of the balance of payments.
- C reduce a positive output gap and reduce inflation.
- D increase a negative output gap and reduce a deficit on the current account of the balance of payments.

[1 mark]

1 3

The diagram below shows an economy's aggregate demand (AD) and long run aggregate supply (LRAS) curves. OY_1 is the initial equilibrium level of real output.



Which one of the following combination of events is likely to lead to a new equilibrium level of output of OY_2 ?

	Event 1	Event 2	
A	A fall in the quantity and productivity of labour in the economy	An increase in imports relative to exports	<input type="radio"/>
B	Increased government spending on education and training	An increase in the cost of consumer credit	<input type="radio"/>
C	A decline in factor mobility in the economy	A fall in the exchange rate	<input type="radio"/>
D	Greater use of new technology across the economy	A rise in indirect taxes	<input type="radio"/>

[1 mark]

1 4

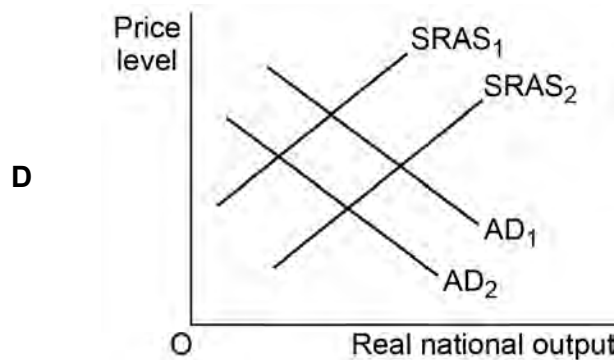
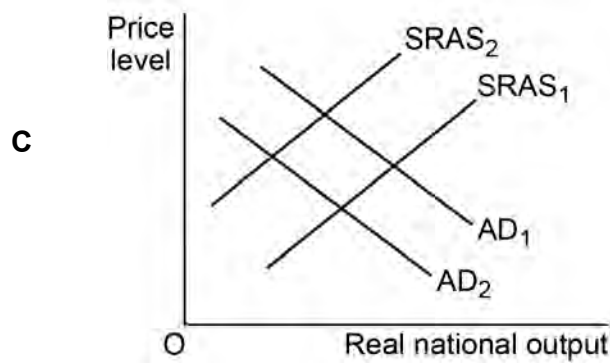
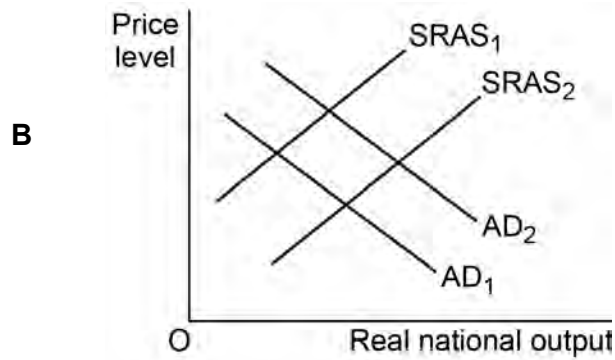
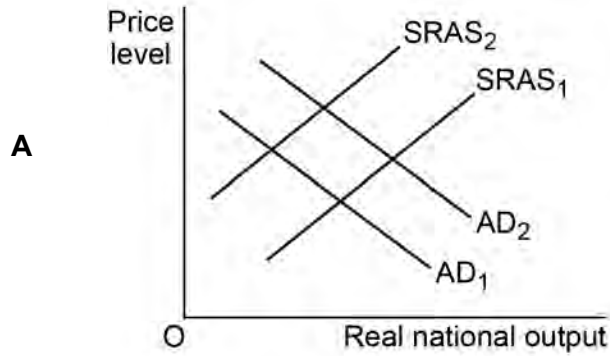
The accelerator principle illustrates the relationship between investment and the rate of change of

- A unemployment.
- B prices.
- C government spending.
- D national income.

[1 mark]

1 5

The diagrams below show aggregate demand (AD) and short-run aggregate supply (SRAS) curves for the UK. All other things being equal, which one of the diagrams, **A**, **B**, **C** or **D**, shows the most likely effects of an increase in government spending financed by an increase in indirect tax?



[1 mark]

1 6

Which one of the following is most likely to lead to a supply-side improvement in an economy? An increase in

- A innovation by firms.
- B the availability of imports.
- C government spending on welfare benefits.
- D company taxation to reduce the government's budget deficit.

[1 mark]

1 7

The table below shows values (£billion) for components of aggregate demand (AD) in an economy:

Components of AD	(£billion)
Consumption	500
Investment	50
Government spending	250
Exports	?
Imports	50
Aggregate demand	825

What is the value of exports in £ billion?

- A 25
- B 75
- C 100
- D 125

[1 mark]

1 8

Which one of the following is an example of expansionary monetary policy? An increase in

- A interest rates.
- B the money supply.
- C the exchange rate.
- D government expenditure.

[1 mark]

1 9

Which one of the following is most likely to result from a growing negative output gap?

- A An increase in the rate of investment.
- B A fall in business confidence.
- C A rise in interest rates.
- D A fall in government spending on welfare benefits.

[1 mark]

2 0

All other things being equal, which one of the following is most likely to increase the current account deficit on the balance of payments?

- A A decrease in the rate of inflation.
- B An increase in productivity.
- C An increase in the exchange rate.
- D A decrease in the level of consumption.

[1 mark]

**QUESTION 20 IS THE LAST
QUESTION IN SECTION A**

Section B

Look at the source booklet 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 19 to 27 of this answer booklet.

There is a total of 50 marks for either context.

Shade the lozenge below to indicate which context you have answered.

Context

0	1	<input type="radio"/>
---	---	-----------------------

Context

0	2	<input type="radio"/>
---	---	-----------------------

WRONG METHODS



CORRECT METHOD



EITHER

Context 1

Total for this Context: 50 marks

UK ECONOMIC RECOVERY

Using the provided source booklet, study **questions 21 to 26** and **Extracts A, B and C**, and then answer the questions in the spaces which follow.

2	1
---	---

Define 'inflation' (**Extract C**, line 19).

[3 marks]

Extra space

2 2

In 2013, the average house price in the UK was £193 000. Using **Extract C** calculate the predicted average house price for 2014.

[4 marks]

2 3

Using **Extract A**, identify **two** significant features of the data, showing contribution to output and the construction industry breakdown for October 2013.

[4 marks]

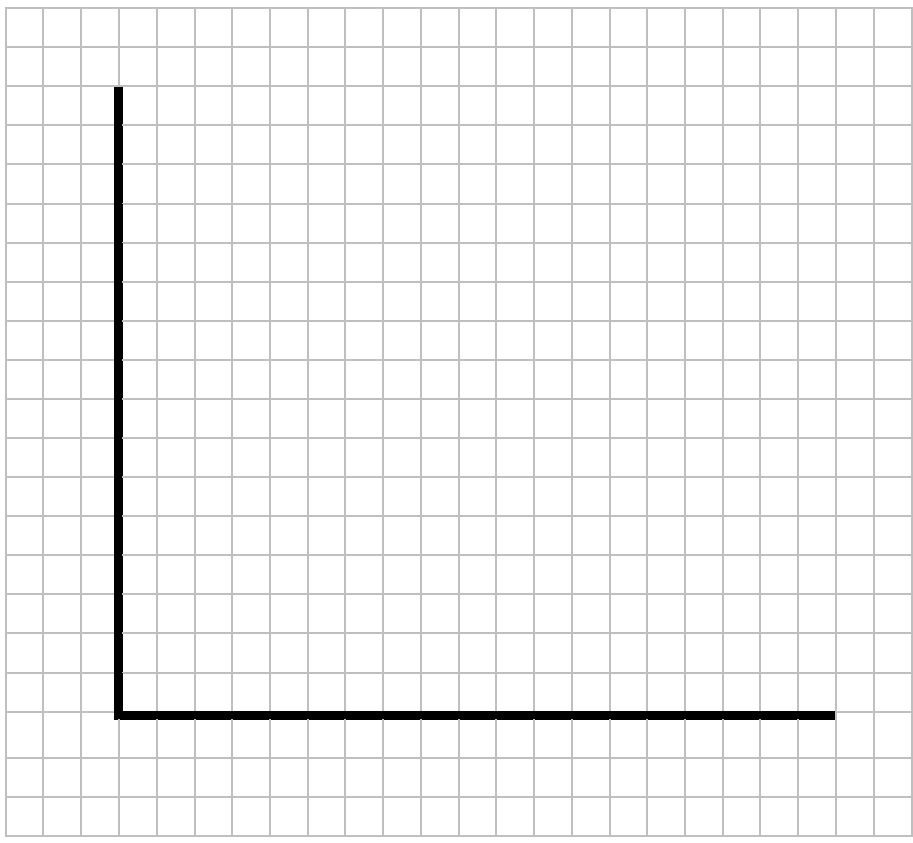
Feature 1

Feature 2

2 4

With reference to **Extract B** (lines 7–14), draw an AD/AS diagram to illustrate the likely impact of a weaker pound on the price level and national output.

[4 marks]



2 5

Extract B (lines 15–17) states ‘some economists argue that there is still a long way to go to improve the external performance of the economy. Improvements in productivity are absolutely vital’.

Explain how improvements in productivity can affect the UK’s trade balance.

[10 marks]

A blank sheet of lined paper with 25 horizontal lines. The lines are evenly spaced and extend across the width of the page, leaving a margin on the left side. The paper is otherwise empty of text or markings.

A blank sheet of lined paper with 25 horizontal lines. The lines are evenly spaced and extend across the width of the page, leaving a margin on the left side.

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

OR

Context 2

Total for this Context: 50 marks

UK EMPLOYMENT AND UNEMPLOYMENT

Using the provided source booklet, study **questions 27 to 32** and **Extracts D, E and F** and then answer the questions in the spaces which follow.

2 7

Define 'multiplier effect' (**Extract E**, line 10).

[3 marks]

2 8

Using **Extract D**, calculate, to **two** decimal places, the percentage of people in employment who work part-time.

[4 marks]

Extra space

2	9
---	---

Using **Extract D**, identify **two** significant points of comparison between male and female Job Seeker's Allowance (JSA) claimants in September 2013.

[4 marks]

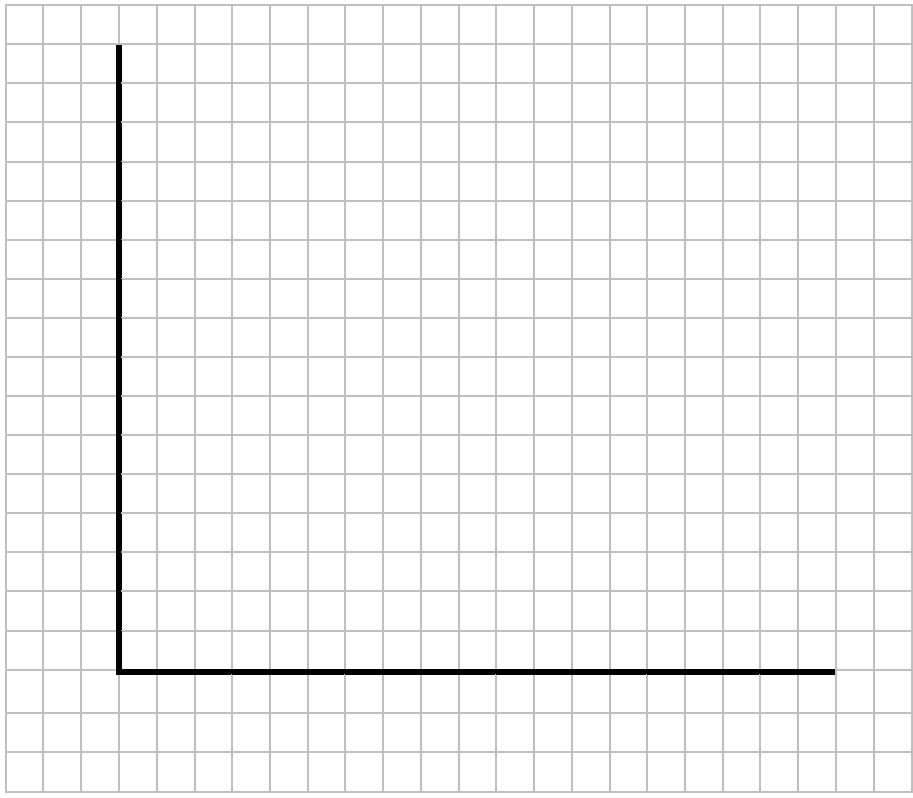
Comparison 1

Comparison 2

3 0

Using **Extract F**, draw an AD/AS diagram to illustrate the likely short-run effects of a rise in confidence on the price level and national output.

[4 marks]



3	1
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Extract F (line 7–8) states that ‘This is a move away from the more familiar role of interest rates, which has been to control inflation.’

Explain how monetary policy can be used to control inflation.

[10 marks]

Extra space

A blank sheet of lined paper with 20 horizontal lines. The lines are evenly spaced and extend across most of the width of the page, leaving a margin on the left side.

END OF QUESTIONS

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AS ECONOMICS 7135/2

Paper 2 The national economy in a global context

Source booklet

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

Context 1 UK economic recovery

Questions 21 to 26

- Extract A: Contribution to output as a proportion of GDP, and the construction industry breakdown, October 2013
- Extract B: The road to recovery: industry, investment and exports?
- Extract C: Is a consumption-led recovery desirable?

Context 2 UK employment and unemployment

Questions 27 to 32

- Extract D: People in employment and people claiming Jobseeker's Allowance
- Extract E: Good news...and not such good news
- Extract F: All change at the Bank of England

Extract C: Is a consumption-led recovery desirable?

<p>The level of consumer spending is growing again and, compared with a year earlier, the amount spent on retail sales in August has increased by 3.6%. It seems that, while on average, UK workers have seen falls in the purchasing power of their incomes, confidence is returning, and many have not lost their appetite for shopping. But not all of the money stays in the UK, a quick look around people's homes reveals a strong desire for imports. In addition, 20% is added to the price of nearly all purchases and paid to the government as Value Added Tax (VAT).</p>	1
<p>Rising consumption is likely to be spurred on further by rising house prices. As homeowners see the value of their homes increase, they feel better off, and so are more likely to spend. It is predicted that house prices will rise by 6.6% in 2014. Undoubtedly this has been fuelled by the Government's 'Help to Buy' scheme, which is designed to provide financial support to would-be homeowners. In terms of complementary purchases, it should provide a welcome boost to the economy, but more importantly it could provide a lifeline to the construction industry.</p>	5
<p>The construction industry has struggled to recover since the financial crisis. A small rise in output of 2% was recorded for July 2013, compared with July 2012, so there are reasons to be optimistic. Although following the inevitable job losses over the past few years, there are concerns that a skills shortage may fuel wage increases. Coupled with rising consumer spending, it might make it difficult to keep inflation under control, if the necessary supply-side improvements are not seen.</p>	10
	15
	20

Source: News reports, October 2013

Turn over for context 1 questions

Context 1 - Questions 21 to 26

2 1

Define 'inflation' (**Extract C**, line 19).

[3 marks]

2 2

In 2013, the average house price in the UK was £193 000. Using **Extract C**, calculate the predicted average house price for 2014.

[4 marks]

2 3

Using **Extract A**, identify **two** significant features of the data, showing contribution to output and the construction industry breakdown for October 2013.

[4 marks]

2 4

With reference to **Extract B** (lines 7–14), draw an AD/AS diagram to illustrate the likely impact of a weaker pound on the price level and national output.

[4 marks]

2 5

Extract B (lines 15–17) states 'some economists argue that there is still a long way to go to improve the external performance of the economy. Improvements in productivity are absolutely vital.'

Explain how improvements in productivity can affect the UK's trade balance.

[10 marks]

2 6

Extract B (lines 4–5) states, 'Yet there is so much more to an economy than this: the UK economy is open to a range of injections and withdrawals.'

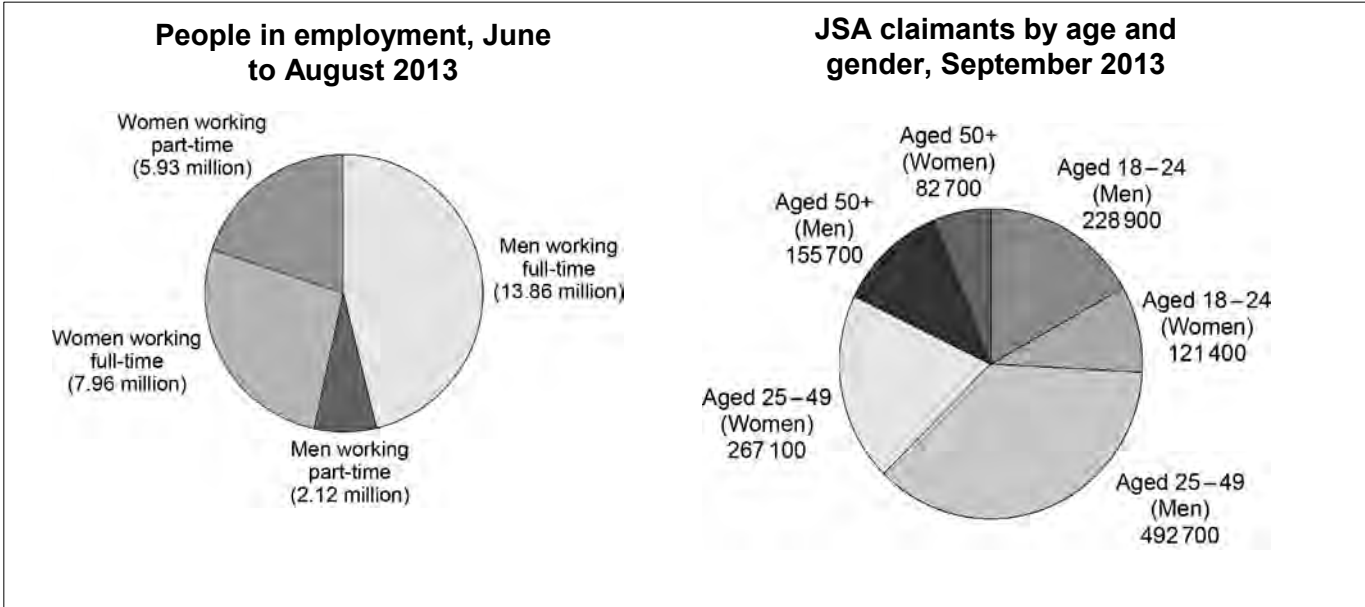
Using the data in the extracts and your economic knowledge, assess the possible effects on UK macroeconomic performance if exports grow more quickly than imports.

[25 marks]

Turn over for Context 2

UK employment and unemployment

Extract D: People in employment and people claiming Jobseeker’s Allowance



Source: Contains public sector information licensed under the Open Government Licence v. 1.0

Note: JSA claimants refers to the number of people claiming Jobseeker’s Allowance

Extract E: Good news...and not such good news

<p>There is good news in the economy at last, as employment in the UK hit a record high of almost 29.9 million people, following the creation of 155 000 new jobs during the summer. Coupled with the sharpest monthly fall in the jobless claimant count for more than 16 years, to 1.35 million, it seems that the economy is well and truly on the way to recovery.</p>	1
<p>And there are more reasons for optimism: in the services sector Deutsche Bank, the German investment bank, said it intended to double the number of staff working in its Birmingham office to 2000 by summer 2014. In manufacturing, Jaguar Land Rover announced plans to create 1 700 jobs at its plant in Solihull as part of a £1.5 billion investment. The positive multiplier effect of such projects could be significant.</p>	5
<p>Yet, despite this, the unemployment rate as measured by the Labour Force Survey remains stubbornly high at 7.7%. Looking more closely at the unemployment figures, 900 000 people have been unemployed for twelve months or more, 467 000 of those for over two years. Perhaps more disturbing, the unemployment rate for those aged between the years of 18 to 24 reached 21% for the quarter ending August 2013.</p>	10
<p>In addition, some regions are struggling more than others: in the North East the unemployment rate is currently the highest in the UK at 10.4%. The effect that high unemployment can have on local communities can be devastating. The number of shop vacancies in the north west seaside town of Morecambe stands at 37.1%.</p>	15

Source: News reports, October 2013

Extract F: All change at the Bank of England

<p>The slow fall in unemployment since its peak in 2011 may be blamed partly on a lack of confidence. Consumers have been reluctant to increase consumption, firms have postponed expansion plans, and it has been said that banks have been unwilling to lend. Confidence is vital to any recovery and subsequent fall in unemployment.</p>	1
<p>In an attempt to boost confidence, Mark Carney, the new Governor of the Bank of England, has said that interest rates will not rise until unemployment falls to at least 7.0%. This is a move away from the more familiar role of interest rates, which has been to control inflation. Is the Governor suggesting that a reduction in unemployment is more important? What if inflation starts to increase again? The possibility of conflicts between the various macroeconomic objectives should not be overlooked.</p>	5
<p>Rising confidence will encourage domestic firms to invest, and high-profile politicians are also keen to attract more foreign investment. The Chancellor, George Osborne, has just returned from a week-long trade mission to China.</p>	10
<p>But will this be enough? The Government continues to make use of supply-side policies, such as welfare reform. Others believe that an immediate increase in government spending is required. Yet governments do not need to take all the responsibility: many businesses and communities are busy creating local initiatives. Everyone has a role to play.</p>	15

Source: News reports, October 2013

Turn over for Context 2 questions

Context 2 - Questions 27 to 32

- 2 7** Define 'multiplier effect' (**Extract E**, line 10).
[3 marks]
- 2 8** Using **Extract D**, calculate, to **two** decimal places, the percentage of people in employment who work part-time.
[4 marks]
- 2 9** Using **Extract D**, identify **two** significant points of comparison between male and female Jobseeker's Allowance (JSA) claimants in September 2013.
[4 marks]
- 3 0** Using **Extract F**, draw an AD/AS diagram to illustrate the likely short-run effects of a rise in confidence on the price level and national output.
[4 marks]
- 3 1** **Extract F** (line 7–8) states that 'This is a move away from the more familiar role of interest rates, which has been to control inflation.'

Explain how monetary policy can be used to control inflation.
[10 marks]
- 3 2** **Extract E** (lines 11–12) states that 'the unemployment rate as measured by the Labour Force Survey remains stubbornly high at 7.7%.'

Using the data in the extracts and your economic knowledge, evaluate different policies that could be used to reduce the rate of unemployment in the UK.
[25 marks]

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Extracts B, C, E, F: News Reports; October 2013

Extract D: Contains public sector information licensed under the Open Government Licence v1.0

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