



Oxford Cambridge and RSA

# AS Level in Economics

## H060/02 Macroeconomics

### Thursday 17 May 2018 – Morning

### Time allowed: 1 hour 30 minutes



**You must have:**

- a scientific or graphical calculator



First name										
Last name										
Centre number						Candidate number				

#### INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Sections A and B: Answer **all** the questions in each of these sections.
- Section C: Answer **one** question in this section.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the barcodes.

#### INFORMATION

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

## SECTION A

Answer **all** the questions in this section.

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

- 1 If a country's tax receipts are \$520bn and government expenditure is \$540bn, which of the following best describes the state of the macroeconomy?

- A Budget deficit
- B Budget surplus
- C Current account deficit
- D Current account surplus

Your answer

[1]

- 2 What could explain the trade-off between the policy objectives of economic growth and the balance of payments?

- A Economic growth caused by technological progress reduces the price of exports
- B If high earners see their income rise more than low earners then the benefits of growth will not be shared equally
- C Rising output increases the amount of goods and services available to export
- D When income rises the demand for imports increases

Your answer

[1]

- 3 A woman lost her job as a solicitor two months ago. She has since been searching for employment as a hotel manager. She has been too embarrassed to apply for any state benefits and has been living off her savings. Would she be classified as unemployed on the claimant count measure and the Labour Force Survey (ILO) measure?

	Claim count measure	Labour Force Survey (ILO) measure
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

Your answer

[1]

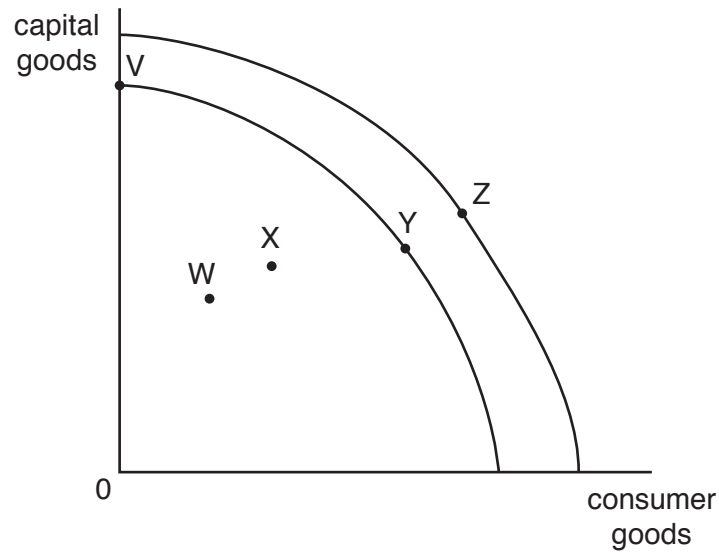
- 4 In what economic climate would money be most at risk of **not** fulfilling its function as a medium of exchange?

- A Deflation
- B Disinflation
- C Hyperinflation
- D Inflation

Your answer

[1]

- 5 What movement represents short run economic growth in the production possibility frontier diagram below?



- A V to Y
- B W to X
- C Y to X
- D Y to Z

Your answer

[1]

- 6 Which of the following is **not** a method of measuring national income?

- A Expenditure
- B Income
- C Input
- D Output

Your answer

[1]

- 7 In which of the following cases is the international competitiveness of domestic producers most likely to improve?

- A A decrease in domestic wage rates combined with an increase in labour productivity abroad
- B An appreciation of the exchange rate and a decrease in domestic wage rates
- C An exchange rate depreciation combined with an increase in wage rates abroad
- D An increase in domestic labour productivity accompanied by an increase in domestic wage rates

Your answer

[1]

- 8 In 2015 the value of the Chilean peso fell substantially against the US dollar because of falling copper prices (Chile's key export). The Chilean government considered selling off foreign exchange reserves in response to this. Which exchange rate system does this information suggest Chile is operating?

- A Fixed
- B Floating
- C Hybrid
- D Purchasing Power Parity

Your answer

[1]

- 9 The data below outlines changes to the index of prices in a country between 2014 and 2017.

Year	2014	2015	2016	2017
Price Index	99.1	100	103.1	106.4

What was the inflation rate in 2017?

- A 3.2%
- B 3.3%
- C 6.4%
- D 7.4%

Your answer

[1]

- 10 Some economists argue that one of the potential impacts of the UK voting to leave the European Union is that the long run aggregate supply curve will shift to the left. What could be the cause of this?

- A A decrease in immigration
- B A fall in the value of the pound
- C An increase in input prices
- D An increase in trade with countries outside of the European Union

Your answer

[1]

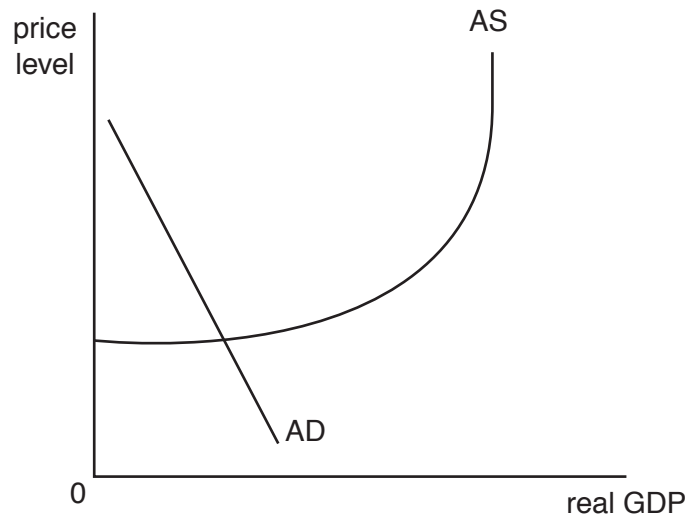
- 11 When will an appreciation of the currency result in the current account of the balance of payments improving?

Option	PED for exports	PED for imports
A	-0.4	-0.3
B	-0.5	-0.6
C	-0.6	-0.4
D	-0.7	-0.7

Your answer

[1]

- 12 The diagram below illustrates the macroeconomic equilibrium in an economy. Given the interest rate in the economy is 0.1%, which policy is the government most likely to pursue in these circumstances?



- A Contractionary monetary policy
- B Expansionary fiscal policy
- C Expansionary monetary policy
- D Supply side policy

Your answer

[1]

13 Which of the following would be classed as a monetary policy measure?

- A Devaluing the exchange rate
- B Increasing the personal tax allowance
- C Reducing government expenditure on education
- D Subsidising firms' investment in research and development

Your answer

[1]

14 Following the financial crisis, the UK experienced its deepest recession for more than 50 years between 2008 and 2009. Which type of unemployment did this cause?

- A Cyclical
- B Frictional
- C Seasonal
- D Structural

Your answer

[1]

15 Between 1990 and 1992, UK citizens were charged a Community Charge commonly known as the poll tax – a single flat-rate per capita tax on every adult at a rate set by the local authority. What type of tax was this?

- A Indirect
- B Progressive
- C Proportional
- D Regressive

Your answer

[1]

## SECTION B

Answer **all** the questions in this section.

### Shortages, inflation and oil slump hit Venezuela

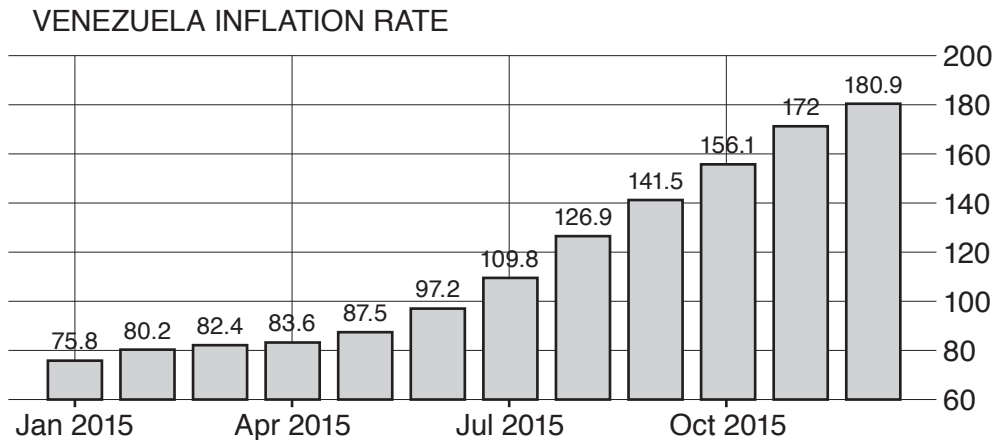
Global oil production had slowed to approximately 83 million barrels per day in 2016, from about 84 million in mid-2015. As global oil production slowed down over the period, the economic impact on key oil-exporting economies became clear. Fig. 1 shows key macroeconomic data (projected for 2016 and 2017) for four countries dependent on oil exports.

Country	Real GDP growth rate (%)		Consumer Prices (%)		Current Account Balances (% of GDP)		Unemployment (%)	
	2016	2017	2016	2017	2016	2017	2016	2017
Nigeria	2.3	3.5	10.4	12.4	-2.8	-1.8	Data not available	
Norway	1.0	1.5	2.8	2.5	6.5	7.3	4.6	4.4
Saudi Arabia	1.2	1.9	3.8	1.0	-10.2	-6.1	Data not available	
Venezuela	-8.0	-4.5	481.4	1,642.8	-6.0	-2.5	17.4	20.7

**Fig. 1 Real GDP growth rate, Consumer Prices, Current Account Balances and Unemployment data**

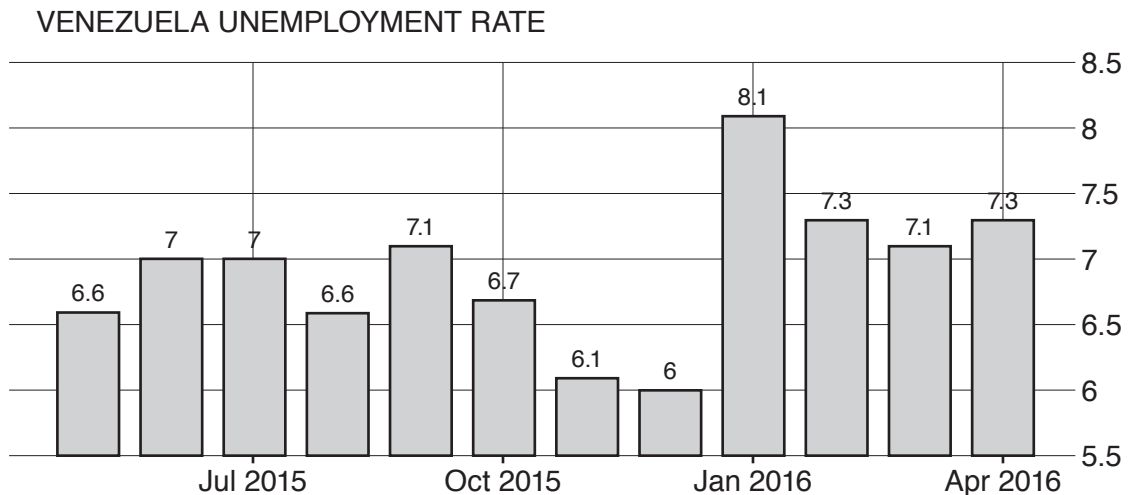
Oil production in Venezuela has been estimated to account for more than 95% of Venezuela's export income, and the country had been suffering from falling oil production for some time. The price of Venezuela's oil exports also continued to fall during the period. This coupled with lengthy queues for Venezuelan citizens outside supermarkets due to food shortages, and rocketing inflation, caused increased tensions. Police enforced a policy limiting patrons to two shopping days a week and banned overnight queues. However, this was the start of difficult times for Venezuelans, as inflation continued to increase at a significant rate.

Venezuela's inflation rate for 2015 can be seen in Fig. 2 below:



**Fig. 2 Venezuela Inflation rate % (2015)**

Furthermore, unemployment rates in the country continued to fluctuate over the period, as can be seen in Fig. 3 below:



**Fig. 3 Venezuela Unemployment rate % (May 2015 – April 2016)**

In an attempt to stabilise the Venezuelan economy, the president Nicolás Maduro embarked on a world tour of China, Russia and several OPEC nations in order to gain funds and to try and convince other oil producers to curtail production. In Beijing, Maduro announced that China agreed to invest more than \$20bn (£13.2bn) in Venezuela.



16 (a) Define the term 'current account balance'.

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(b) Using Fig. 1, what is the projected state of Venezuela's current account balance in 2017?

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(c) Using Fig. 1, compare the projected real GDP growth rates for Venezuela and Nigeria over 2016 and 2017.

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(d) Using Fig. 2 and 3:

(i) Describe the relationship between Venezuela's inflation rate and its unemployment rate from the period October to December 2015.

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(ii) Explain how the change in Venezuela's inflation rate over the period may have affected consumers.

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(e) Using an appropriate diagram, explain the impact of falling oil prices on economic growth in Venezuela.

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(f)\* Evaluate the consequences of the proposed Chinese investment of \$20bn (£13.2bn) on the performance of the Venezuelan economy.

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SECTION C

Answer Question 17 or Question 18.

**17\*** According to the International Monetary Fund in 2016 Myanmar in South East Asia was the world’s fastest-growing economy. The country’s GDP was expected to grow by 8.6%.

Evaluate, using an appropriate diagram(s), the costs and benefits of economic growth. **[20]**

**OR**

**18\*** In June 2016, on the day following the UK’s vote to leave the European Union, the UK currency (Pound Sterling) fell by more than 10 per cent to a rate of £1:\$1.326.

Evaluate, using an appropriate diagram(s), the likely consequences of a fall in Pound Sterling on international competitiveness. **[20]**

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**END OF QUESTION PAPER**

**ADDITIONAL ANSWER SPACE**

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

A large area of lined paper for writing. It consists of a vertical solid line on the left side, creating a margin. To the right of this line, there are numerous horizontal dotted lines spaced evenly down the page, providing a guide for writing.

A large area of the page is reserved for writing, featuring a vertical solid line on the left side and horizontal dotted lines extending across the page.



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