www.dynamicpapers.com

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic Performance and Policy

Thursday 23 January 2014 – Morning
Time: 1 hour 30 minutes

Paper Reference
WEC02/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** the questions in Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

P44533A

©2014 Pearson Education Ltd.

5/3/3/3/6/1/1/1/e2

P 4 4 5 3 3 A 0 1 4 0

PEARSON

www.dynamicpapers.com

Section A: Answer all the questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Spain's unemployment rate increased from 15.9% in January 2009 to 26.5% in February 2013.

Which one of the following was the most likely cause of this increase in unemployment?

(1)

A A depreciation of the euro, Spain's currency, against other currencies

B Measures taken by the Spanish government to reduce its budget deficit

C An increase in the school leaving age

D Measures taken by the Spanish government to reduce immigration

Answer ☐

Explanation

(3)

(Total for Question 1 = 4 marks)

www.dynamicpapers.com

2 Which one of the following is an example of a fiscal policy measure to reduce the rate of inflation?

(1)

A A decrease in interest rates

B An increase in income tax rates

C The removal of maximum price controls

D An increase in banks' reserve ratios

Answer ☐

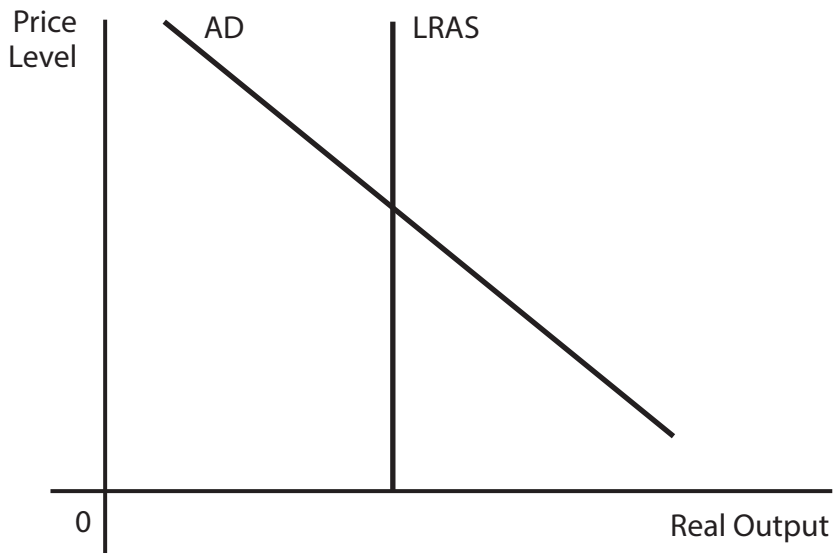
Explanation

(3)

(Total for Question 2 = 4 marks)

www.dynamicpapers.com

3 The diagram shows the aggregate demand (AD) curve and long-run aggregate supply curve (LRAS) for an economy.



What would be the long-run effect of a significant improvement in the quality of education and training on the country's price level and real output? **Annotate** the diagram in your answer.

(1)

	Price Level	**Real Output**
A	Fall	Rise
B	Rise	Rise
C	Rise	Fall
D	Fall	Fall

Answer ☐

www.dynamicpapers.com

Explanation

(3)

(Total for Question 3 = 4 marks)

www.dynamicpapers.com

4 Which one of the following combinations is most likely to occur when an economy is in recession?

(1)

A Rising investment, rising business confidence and rising real output

B Rising profits, increasing real incomes and a positive output gap

C Falling unemployment, rising profits and increased business confidence

D Falling consumption, rising unemployment and a negative output gap

Answer ☐

Explanation

(3)

(Total for Question 4 = 4 marks)

www.dynamicpapers.com

5 In Singapore, tax revenues exceeded government expenditure by S$36 billion in the tax year ending 2013. This means that

(1)

A there was a net injection from the government sector in the circular flow of income

B government expenditure would necessarily increase in the following tax year

C the value of the multiplier would increase

D there was a net withdrawal from the government sector in the circular flow of income

Answer ☐

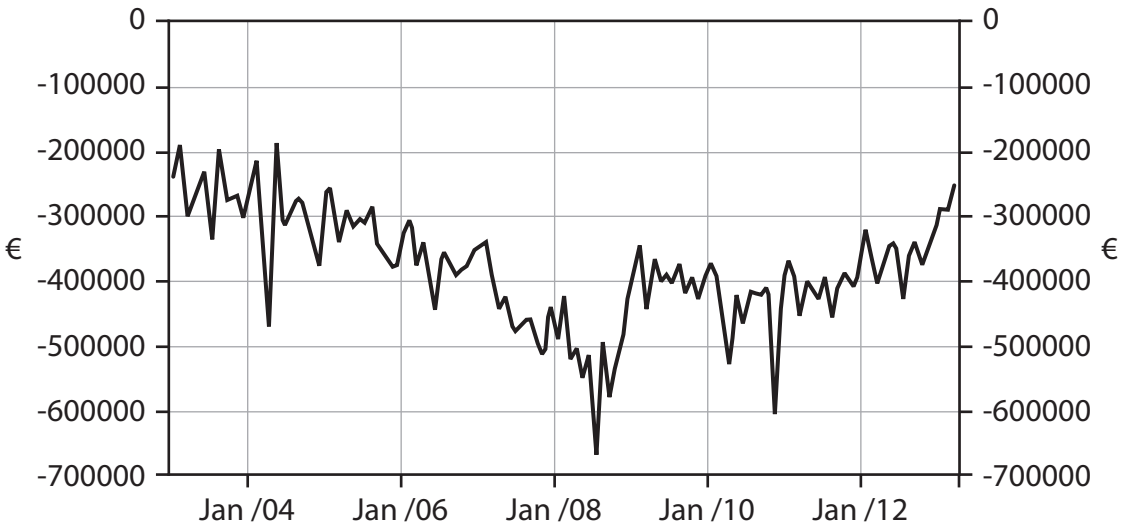
Explanation

(3)

(Total for Question 5 = 4 marks)

www.dynamicpapers.com

6 The chart shows Cyprus's balance of trade between 2003 and 2012 (euros).



(Source: www.tradingeconomics.com, Statistical Service, Republic of Cyprus
http://www.tradingeconomics.com/cyprus/balance-of-trade)

From this chart it can be deduced that for the whole of this period

(1)

A the value of exports was greater than the value of imports

B government expenditure was greater than tax revenues

C the value of imports was greater than the value of exports

D savings were greater than investment

Answer ☐

www.dynamicpapers.com

Explanation

(3)

(Total for Question 6 = 4 marks)

www.dynamicpapers.com

BLANK PAGE

www.dynamicpapers.com

7 Which one of the following would be most likely to lead to a rise in a developed economy's price level and a fall in its real output?

(1)

A An increase in investment

B A reduction in indirect taxes

C An increase in the productivity of the workforce

D An increase in world commodity prices

Answer ☐

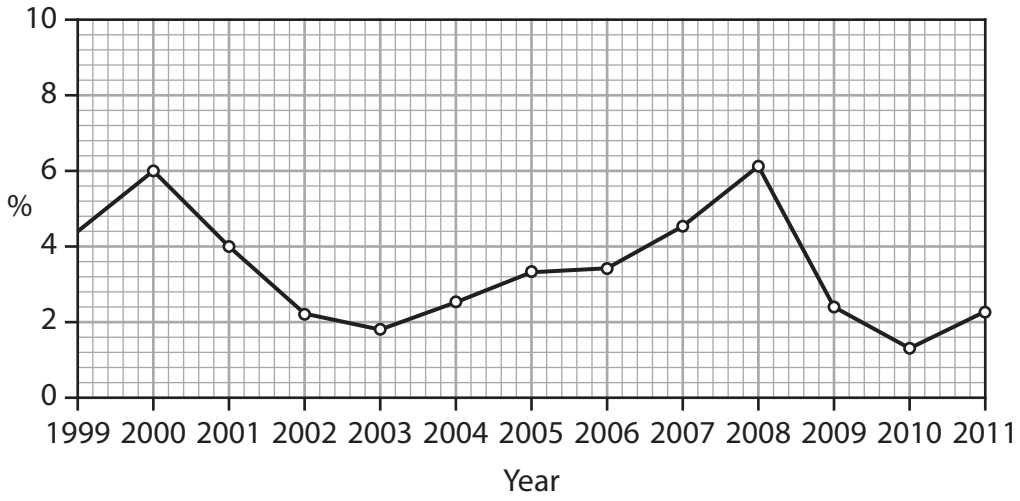
Explanation

(3)

(Total for Question 7 = 4 marks)

www.dynamicpapers.com

8 The chart below shows the annual % change in consumer prices for Croatia 1999–2011.



(Source: http://www.indexmundi.com)

From this chart, it can be deduced that

(1)

A the rate of inflation was higher in 2011 than in 1999

B average prices were higher in 2010 than in 2008

C average prices were falling between 2000 and 2003 and between 2008 and 2010

D average prices were higher in 2000 than in 2010

Answer ☐

www.dynamicpapers.com

Explanation

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

www.dynamicpapers.com

Section B: Answer either Question 9 or Question 10.

If you answer Question 9 put a cross in this box ☒ .

Question 10 starts on page 26.

You should spend 55 minutes on this section.

9 The Malaysian Economy

Figure 1 Percentage change in components of aggregate demand and GDP in 2011 and 2012 (at constant 2005 prices)

	2011	**2012**
Consumption	7.1%	7.0%
Investment	12.2%	11.7%
Government expenditure	8.4%	13.3%
Exports - Imports	-7.4%	-22.2%
GDP	**5.1%**	**5.0%**

Figure 2 Balance of payments on current account 2011–12 (Malaysian ringgit millions)

	2011	**2012**
Trade in goods	73 524	65 256
Trade in services	-3 175	-7 353
Income (interest, profits and dividends)	-12 695	-20 296
Current transfers	-10 372	-9 937
Total: Current account balance	**See question 9(a)**	**See question 9(a)**
Current account balance as % of GDP	**11.4%**	**6.3%**

Figure 3 Savings and investment 2009–12 (as a percentage of Gross National Income)

	2009	**2010**	**2011**	**2012**
Savings	34.0%	35.4%	35.5%	32.7%
Investment	18.2%	23.9%	24.2%	25.2%

www.dynamicpapers.com

Extract 1 Aggregate demand in Malaysia

Aggregate demand is projected to increase by 9.4% in 2012, driven by strong private sector activity.

Private sector expenditure is expected to maintain its growth momentum sustained by higher consumption and investment activities. Private consumption is supported by a steady increase in disposable incomes and stable labour market conditions. After registering rapid expansion in 2011, the strong growth of private sector investment continued into 2012 with an increase of 22.4% in the first half of 2012.

Meanwhile, government expenditure is expected to grow by over 13% in 2012, supported by various government infrastructure projects.

With a more challenging external environment, exports are expected to grow relatively slowly. Gross imports are expected to expand at a faster rate than exports because of strong domestic activity. Nevertheless, the external position remains favourable with an expected current account surplus equivalent to 6.3% in 2012 and nearly 9% of GDP in 2013.

(Source: Ministry of Finance Malaysia: economic Report 2012/2013 chapter 3 http://www.treasury.gov.my/pdf/ekonomi/le/1213/chap3.pdf)

(a) With reference to Figure 2, calculate the **change** in Malaysia's current account balance between 2011 and 2012.

(4)

(b) With reference to the information provided, assess **two** possible reasons for the reduction in Malaysia's current account surplus between 2011 and 2012.

(10)

(c) Assess possible factors which may have affected consumption **and** investment in Malaysia in 2012.

(14)

(d) With reference to Figure 3, explain the difference between an injection into and a withdrawal from the circular flow of income.

(6)

(e) Evaluate the likely impact of increased investment on the Malaysian economy.

(14)

www.dynamicpapers.com

(a) With reference to Figure 2, calculate the **change** in Malaysia's current account balance between 2011 and 2012.

(4)

www.dynamicpapers.com

(b) With reference to the information provided, assess **two** possible reasons for the reduction in Malaysia's current account surplus between 2011 and 2012.

(10)

www.dynamicpapers.com

www.dynamicpapers.com

(c) Assess possible factors which may have affected consumption **and** investment in Malaysia in 2012.

(14)

www.dynamicpapers.com

www.dynamicpapers.com

www.dynamicpapers.com

(d) With reference to Figure 3, explain the difference between an injection into and a withdrawal from the circular flow of income.

(6)

www.dynamicpapers.com

(e) Evaluate the likely impact of increased investment on the Malaysian economy.

(14)

www.dynamicpapers.com

www.dynamicpapers.com

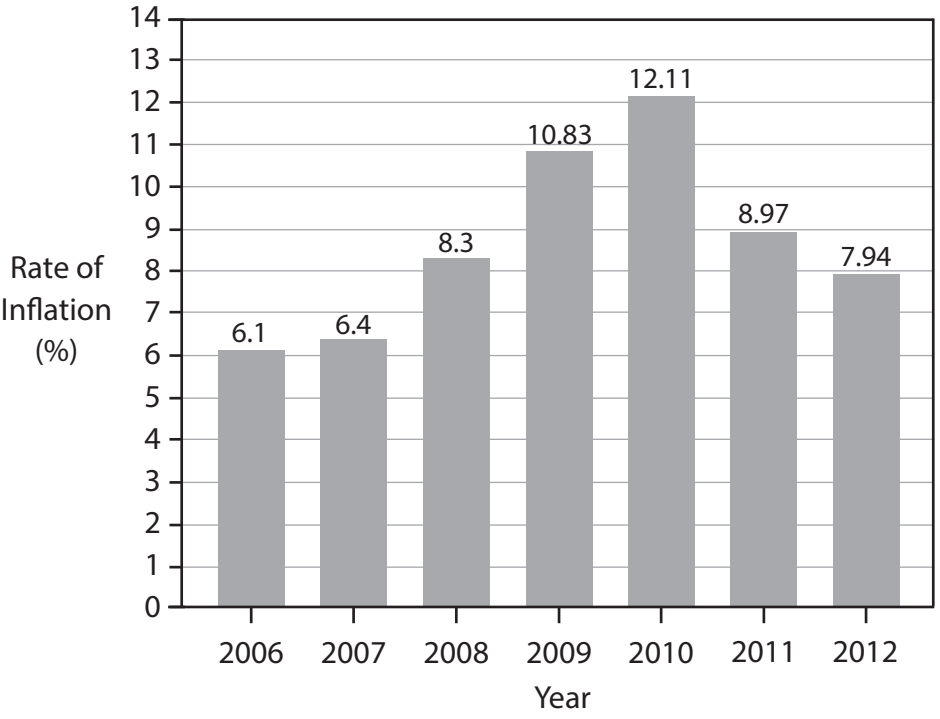
(Total for Question 9 = 48 marks)

www.dynamicpapers.com

If you answer Question 10 put a cross in this box ☒ .

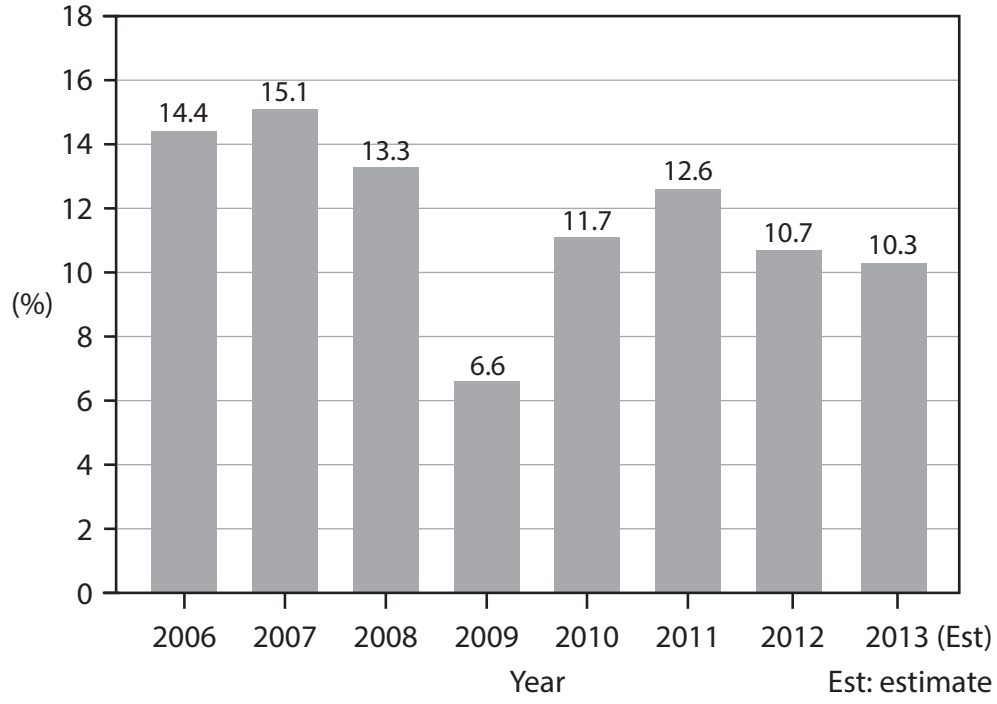
10 The Indian Economy

Figure 1 Inflation rate in India as measured by the Consumer Price Index (2006–2012)



(Source: defenceforumindia.com)

Figure 2 Average nominal wage increases (2006-2013)



www.dynamicpapers.com

Extract 1 Wage rises in India

The economic uncertainty in the global markets, coupled with the crippling effects of delays in reforms and stubborn inflation have taken the sheen off the India growth story. The GDP growth in the last three months of 2012 slowed to a shocking 4.5%, signalling the eighth consecutive quarter of expansion below the 8% average of recent years. Amid projections of a continuing bleak future, a big question on the mind of corporate India is the impact of the struggling economy on salary increases. Reduced growth and lower profit margins suggest that wage rises will slow down to 10.3% in 2013 from 10.7% in 2012 and 12.6% in 2011.

(Source: http://www.aon.com)

Extract 2 Reserve Bank of India (RBI) warns of limited room to ease monetary policy

In May 2013 the Reserve Bank of India (RBI) warned of limited space for further easing of its monetary policy. RBI is widely expected to cut interest rates for the third time in 2013. The central bank has already reduced its key interest rate by 1 percentage point during the previous twelve months and pressure is mounting on it to further cut interest rates to boost economic growth, which fell to a decade's low of 5% in the last year.

A revival in economic growth in the current fiscal year (2013-14) is likely, but the recovery would be modest against a backdrop of stagnating industrial output, according to the RBI. A survey of professional forecasters sponsored by RBI expects growth to improve to 6% in 2013-14, and the average headline inflation rate to moderate to 6.5%. The nearly 20% fall in commodity prices, and inflation at a 3 year low of 5.96% in March 2013, has led to expectations of a reduction in interest rates.

The RBI recognised that high interest rates have been one of the reasons for economic growth to slow down, but maintained that an interest rate cut alone will not drive up the rate of economic growth. The central bank also called for a government investment stimulus 'balanced with offsetting reductions' in expenditures, along with removing the supply side bottlenecks, to revive the economy.

The report also said that if the government continues with its recent efforts of cutting expenditure in order to reduce its budget deficit, it is likely to reduce the deficit in the current account of the balance of payments.

(Source: http://businesstoday.intoday.in/story/rbi-policy-review-rate-cut/1/194611.html 2 May 2013)

www.dynamicpapers.com

(a) With reference to Figure 1 and Figure 2, calculate the change in average **real** wages in India from 2010 to 2011.

(4)

(b) Identify and explain **two** costs of inflation.

(6)

(c) With reference to Figure 1 and Figure 2, examine the likely effects of rising wages on the price level and real output in India.

(10)

(d) With reference to the information provided, assess the case for a reduction in the rate of interest in India.

(14)

(e) Evaluate the likely economic effects of 'a government investment stimulus' (Extract 2, lines 15 and 16) on the Indian economy.

(14)

www.dynamicpapers.com

(a) With reference to Figure 1 and Figure 2, calculate the change in average **real** wages in India from 2010 to 2011.

(4)

www.dynamicpapers.com

(b) Identify and explain **two** costs of inflation.

(6)

www.dynamicpapers.com

(c) With reference to Figure 1 and Figure 2, examine the likely effects of rising wages on the price level and real output in India.

(10)

www.dynamicpapers.com

www.dynamicpapers.com

(d) With reference to the information provided, assess the case for a reduction in the rate of interest in India.

(14)

www.dynamicpapers.com

www.dynamicpapers.com

www.dynamicpapers.com

(e) Evaluate the likely economic effects of 'a government investment stimulus' (Extract 2, lines 15 and 16) on the Indian economy.

(14)

www.dynamicpapers.com

www.dynamicpapers.com

(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS

www.dynamicpapers.com

BLANK PAGE

www.dynamicpapers.com

BLANK PAGE

Every effort has been made to contact copyright holders to obtain their permission for the use of copyright material. Edexcel, a product of Pearson Education Ltd. will, if notified, be happy to rectify any errors or omissions and include any such rectifications in future editions.