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Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Thursday 10 January 2019

Afternoon (Time: 1 hour 30 minutes) | Paper Reference **WEC02/01**

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic Performance and Policy

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.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of 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 ▶

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SECTION A

Answer ALL 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 In Macedonia, the annual rate of inflation was -2.4% in 2016.

(a) Which one of the following is a fiscal policy measure that could be used to increase the rate of inflation? A reduction in

(1)

A interest rates

B income tax rates

C government spending

D asset purchases by the Central Bank

Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 In the 2015-2016 tax year, the UK's Government expenditure exceeded its tax revenues by £69 billion.

(a) This means that

(1)

A there was a deficit on the current account of the balance of payments

B there was a net withdrawal by the government sector from the circular flow of income

C there was a surplus on the current account of the balance of payments

D there was a net injection by the government sector into the circular flow of income

Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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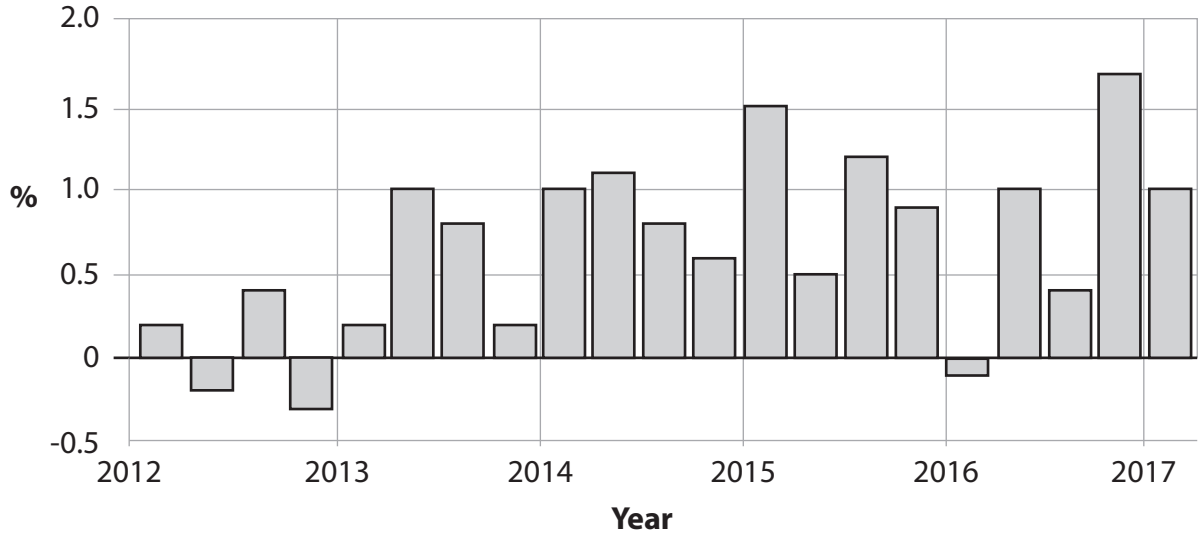
3 The chart shows the quarterly percentage change in real GDP for Poland between 2012 and the first quarter of 2017.



(Source: http://www.tradingeconomics.com/poland/gdp-growth)

(a) From this chart it can be deduced that

(1)

A there was deflation in quarter 2 and quarter 4 of 2012

B there was negative real GDP growth for two consecutive quarters in 2012 and 2016

C the total real GDP of Poland was higher in quarter 1 of 2017 than in quarter 4 of 2016

D there was a higher GDP per capita in quarter 1 of 2017 than in quarter 1 of 2012

Answer ☐

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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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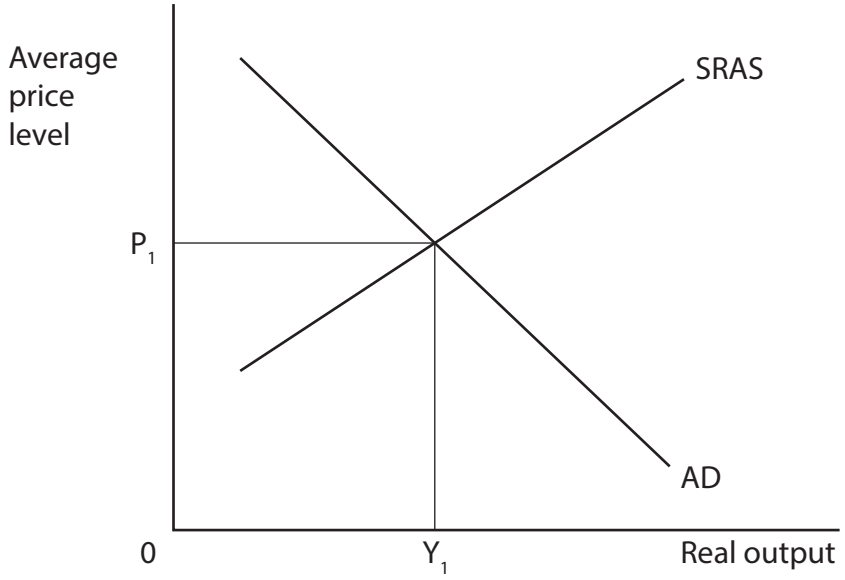
4 The aggregate demand (AD) and short-run aggregate supply (SRAS) diagram represents the economy of Venezuela in 2016. The equilibrium is at real output Y_1 and price level P_1.



(a) *Ceteris paribus*, which of the following are most likely to result from a significant fall in the value of net exports between 2016 and 2017?

(1)

	Real Output	**Average Price Level**
A	Decrease	Decrease
B	Increase	Increase
C	Decrease	Increase
D	Increase	Decrease

Answer ☐

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(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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5 The table shows the Consumer Price Index (CPI) for Norway between 2008 and 2015 (2010 = 100).

Year	CPI
2008	95.6
2009	97.7
2010	100.0
2011	101.3
2012	102.0
2013	104.2
2014	106.3
2015	108.6

(a) From the data it can be deduced that

(1)

A there was deflation in 2009

B the rate of inflation was higher in 2011 than in 2010

C there was inflation in all years from 2009 to 2014

D there was disinflation in all years

Answer ☐

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(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 In quarter 3 of 2016, India's nominal GDP growth was 10.6% and real GDP growth was 7.1%.

(a) From this data it can be deduced that the rate of inflation was

(1)

A -17.7%

B -3.5%

C +3.5%

D +17.7%

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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QUESTION 7 BEGINS ON THE NEXT PAGE.

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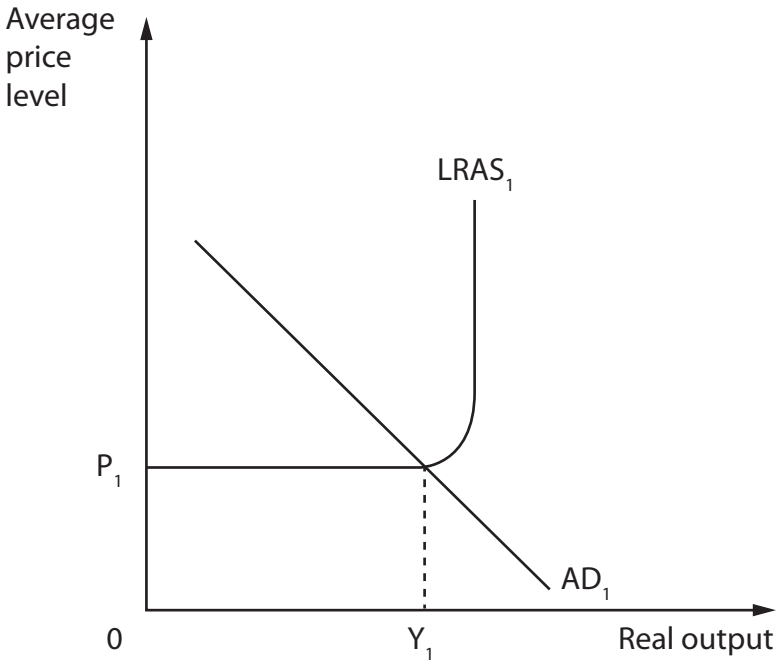
7 The aggregate demand (AD) and long-run aggregate supply (LRAS) diagram represents the economy of the UK in 2017. The equilibrium is at real output Y_1 and price level P_1.



(a) *Ceteris paribus*, which of the following are most likely to result from the planned 8% real decrease in government spending on education between 2017 and 2020?

(1)

	LRAS curve	**AD curve**
A	Leftward shift	Rightward shift
B	Leftward shift	Leftward shift
C	Rightward shift	Leftward shift
D	Rightward shift	Rightward shift

Answer ☐

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) Which one of the following is likely to constrain economic growth?

(1)

A A strong and stable government

B An increase in productivity

C A current account surplus on the balance of payments

D A fall in the level of real investment spending on infrastructure

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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QUESTION 9 BEGINS ON THE NEXT PAGE.

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SECTION B

Answer EITHER Question 9 OR Question 10.

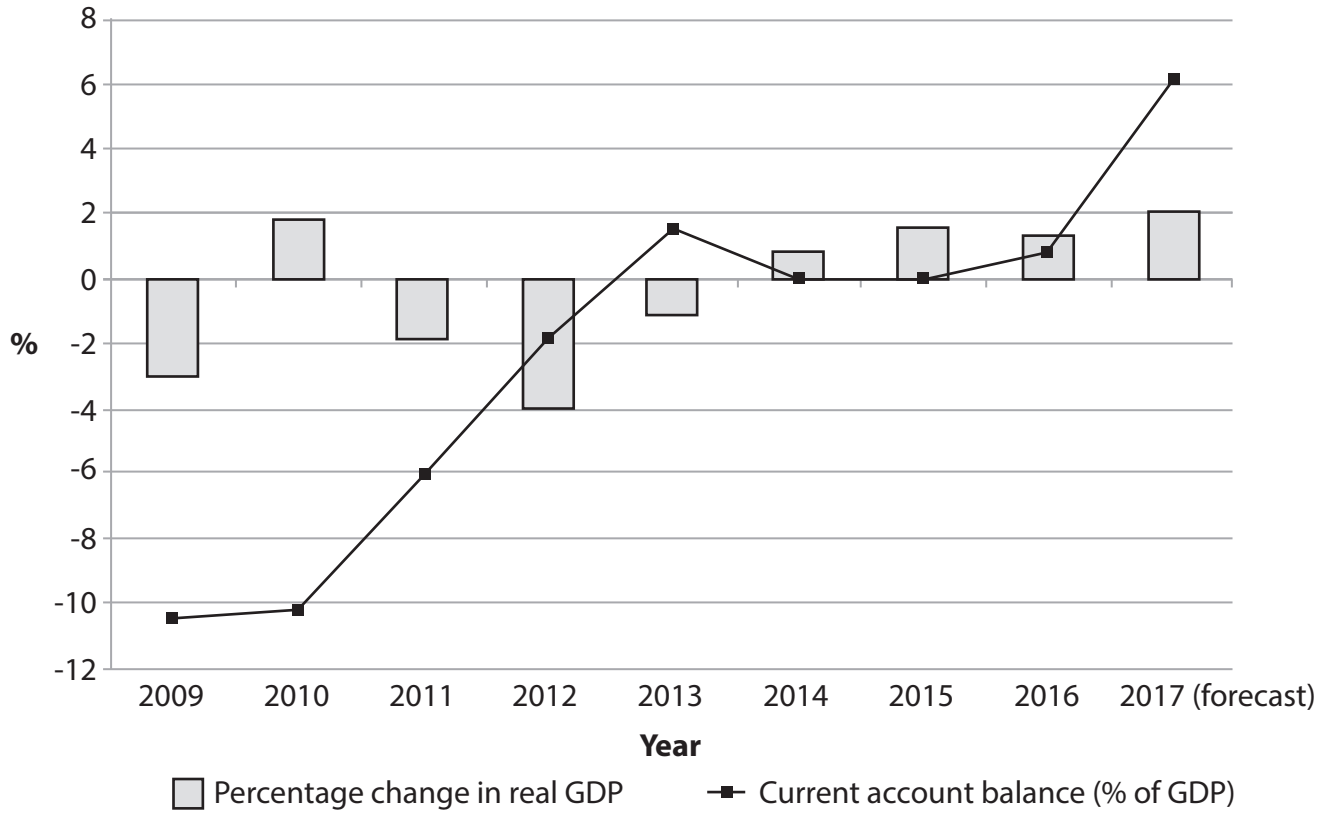
You are advised to spend 55 minutes on this question.

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

Question 10 starts on page 30.

9 The economy of Portugal

Figure 1 Annual percentage change in real GDP and current account on the balance of payments as a percentage of GDP, 2009-2017



(Source: http://data.worldbank.org/country/portugal and
https://ieconomics.com/portugal-current-account-to-gdp-forecast and
http://www.oecd.org/eco/outlook/portugal-economic-forecast-summary.htm)

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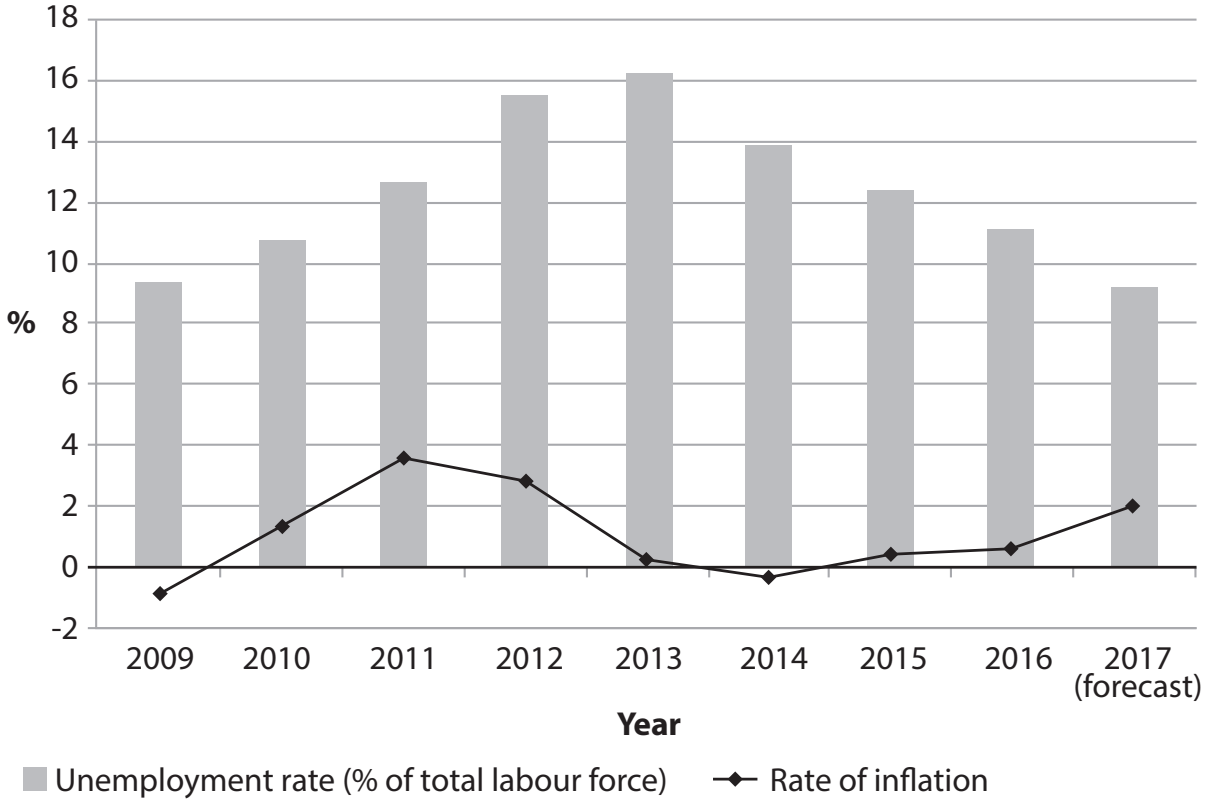
Figure 2 Unemployment rate and rate of inflation (CPI), 2009-2017



(Source: http://data.worldbank.org/country/portugal and
https://tradingeconomics.com/portugal/inflation-cpi/forecast and
https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/portugal/economic-forecast-portugal_en)

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Extract 1 Economic recovery

Portugal is leading the eurozone recovery with higher investment and higher exports that were expected to help the economy to grow by 2% in 2017. This is its best economic performance for more than twenty years. Unemployment fell to 9.4% in May 2017, the lowest level since 2008. However, the youth unemployment rate for 15-24 year-olds continued to rise to 24.6%.

The increase in economic growth also affected the budget balance. Portugal has experienced four years of high growth in tax revenues from tourism, with investment in the sector also supporting growth in the construction industry. The increase in tourism led to a rise in tax revenues and made the 2017 budget deficit target of 1.5% of GDP more achievable.

The Portuguese Government wants to take full advantage of the recent tourism boom and has set an ambitious target to achieve growth of 4% on an annual basis by 2027.

The Secretary of State for Tourism said, 'Portuguese tourism is something crucial to the economy. It's the main export sector, representing almost 17% of the exports of goods and services. The trade balance would be negative without tourism.'

If everything goes according to plan, Portugal will double the number of workers in the tourism sector with secondary or higher education qualifications.

(Source: adapted from https://www.ft.com/content/42835397-c570-3713-ab5d-5477f044863e IMF praises Portuguese economic revival by Peter Wise © Financial Times - June 2017 and http://www.tourism-review.com/portuguese-tourism-introduced-a-new-plan-news5342)

(a) With reference to Figure 1, explain the main components of the current account on the balance of payments.

(4)

(b) With reference to the information provided and your own knowledge, evaluate the likely impact of increased investment in tourism on the economy of Portugal. Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)

(c) With reference to Extract 1 and your own knowledge, explain **two** possible reasons why the rate of youth unemployment in Portugal is continuing to rise.

(6)

(d) With reference to Figure 2 and Extract 1, assess the likely economic effects of the change in the rate of unemployment in Portugal since 2013.

(10)

(e) Evaluate the view that the Portuguese Government was successfully avoiding conflicts between macroeconomic objectives between 2009 and 2017.

(14)

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QUESTION 10 BEGINS ON THE NEXT PAGE.

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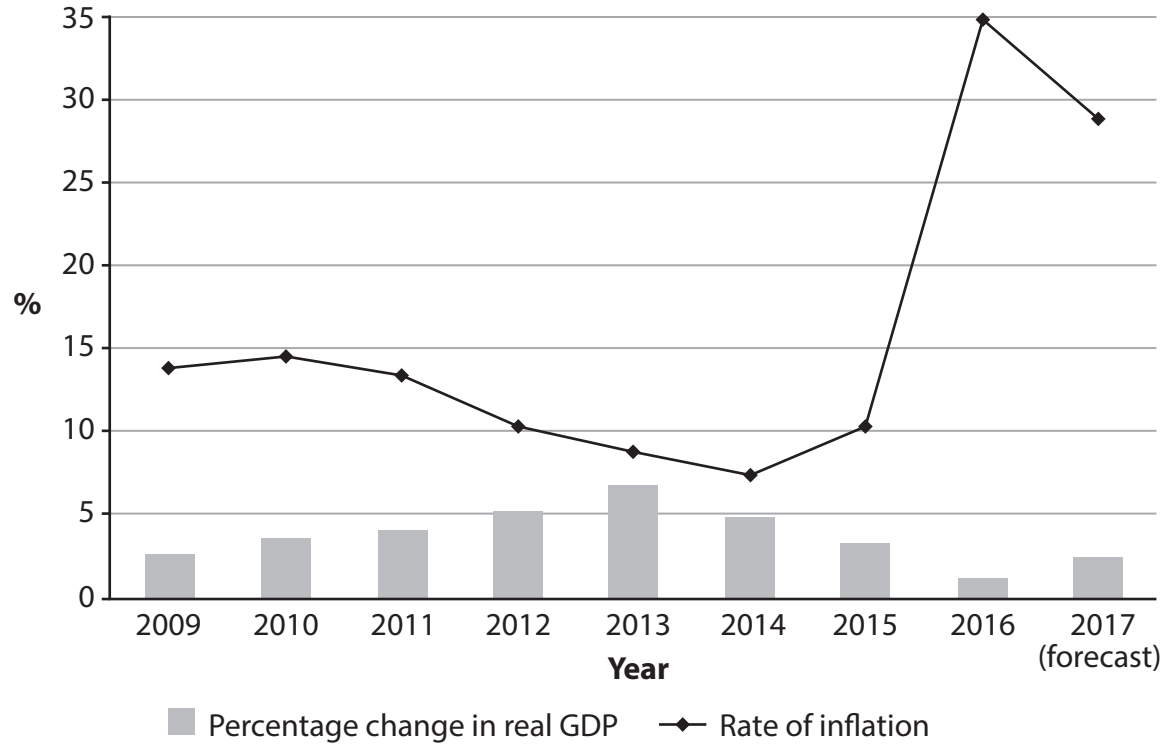
If you answer Question 10 put a cross in the box ☒ .

10 The economy of Angola

Figure 1 Annual percentage change in real GDP and the rate of inflation (CPI), 2009-2017



(Source: http://data.worldbank.org/country/angola and https://tradingeconomics.com/angola/inflation-cpi/forecast and http://www.africaneconomicoutlook.org/en/country-notes/angola)

Figure 2 Selected indicators, 2009-2017

	2009	2010	2011	2012	2013	2014	2015	2016	2017 (forecast)
Current account on the balance of payments (% of GDP)	-10.0	9.1	12.6	12.0	-6.5	-3.0	-10.0	-6.4	-4.0
Angolan kwanzas (AKZ) to US$1	79	92	94	96	97	98	120	164	166

(Source: http://data.worldbank.org/country/angola and https://tradingeconomics.com/angola/forecast and http://unctadstat.unctad org and http://www.xe.com/currencycharts/?from=USD&to=AOA)

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Extract 1 Investment

The Government of the West African nation of Angola is attempting to diversify its economy which for many years was dependent on oil. The focus is on developing the agriculture and tourism industries, which means investing in the country's infrastructure, particularly energy supply. According to a World Investment Report, Angola is one of the countries with the highest return on investment in the world and investment is expected to double by 2045. One of Angola's most successful businesswomen invested $25 million in a fish processing factory. 'It's important for entrepreneurs in Angola to start looking at sectors other than oil,' she said.

A large steel factory, built in 2015, represents an investment of $350 million. It was the first of its kind in Angola. Steel is recycled in this factory, which produces iron-reinforced concrete bars used for building roads and dams. The production capacity is huge: 500 000 tonnes a year which is twice Angola's current needs enabling it to start exporting. This has been described as a "small revolution" for Angola which imports nearly everything.

550 people have been trained and are now employed at the steel factory. Moreover, part of the project involved the creation of new water supplies and electricity generation. This means that the factory is able to supply the entire region with water and electricity. In 2012 the unemployment rate in this region was 70% but it has now fallen to 20% with jobs linked directly and indirectly to the factory.

(Source: adapted from http://www.euronews.com/2017/07/10/drawing-private-investors-to-in-angola)

Extract 2 Monetary policy

In July 2017 the Monetary Policy Committee (MPC) of the Angolan National Reserve Bank (BNA), noted that inflation in Angola continued the downward trend that started in January 2017.

The MPC monitors a range of factors including the banking sector, trade, exchange rates and the international economy, as well as average prices in the national economy.

In February 2016 the base interest rate was increased to 12% and in July 2016 it was increased further to 16%. This rate was maintained throughout 2017.

(Source: adapted from http://allafrica.com/stories/201707040788.html)

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(a) With reference to Extract 2, explain what is meant by *monetary policy*.

(4)

(b) With reference to the information provided, evaluate the likely benefits of increased investment for the economy of Angola. Illustrate your answer with an aggregate demand and aggregate supply diagram.

(14)

(c) With reference to the information provided, explain **two** causes of the changes in the current account on the balance of payments as a percentage of GDP since 2015.

(6)

(d) With reference to the information provided and your own knowledge, assess the likely disadvantages of a high rate of inflation for the economy of Angola.

(10)

(e) With reference to the information provided, evaluate the decision by the MPC to increase the base interest rate in 2016.

(14)

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

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