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Pearson Edexcel
International
Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic Performance and Policy

Monday 23 May 2016 - 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** 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 your spelling, 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 ▶

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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 (a) The Russian Central Bank increased the interest rate from 5.5% in February 2014 to 8% in June 2014. All other things being equal, this is likely to lead to an increase in

(1)

A economic growth

B aggregate demand

C unemployment

D aggregate supply

Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 (a) In 2014, youth unemployment in the European Union was approximately 20%. Which one of the following is most likely to lead to an increase in real output and employment without increasing the rate of inflation?

(1)

A An increase in bank cash reserve ratios

B A reduction in unemployment benefits

C Asset sales by the European Central Bank

D Appreciation of the euro

Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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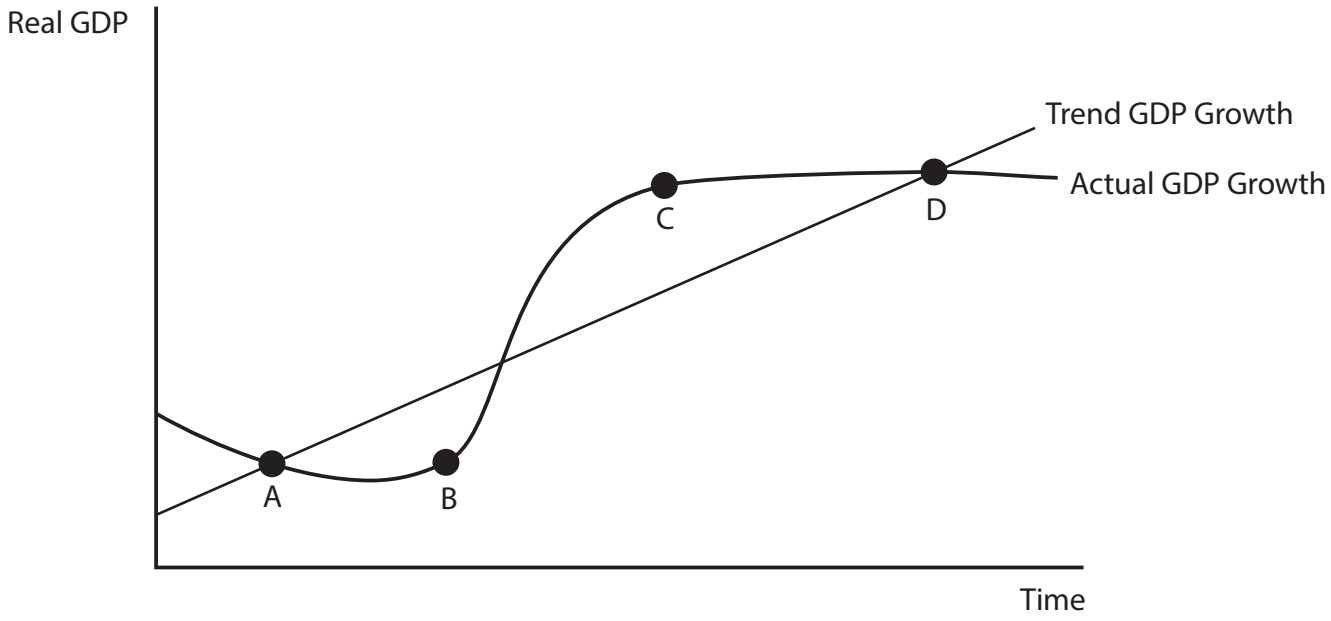
3 (a) The following diagram shows the trend growth of GDP for an economy compared with its actual GDP growth. At which point in the diagram is there a negative output gap?

(1)



Answer

(b) Explanation

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(Total for Question 3 = 4 marks)

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4 The table below shows the Human Development Index (HDI) and Gross National Income (GNI) per capita for the Netherlands and Denmark in 2013.

Country	HDI	GNI per capita (current US$)
Netherlands	0.910	43 210
Denmark	0.895	44 460

(a) Which one of the following may be deduced from the data?

(1)

A The Netherlands had lower levels of human development than Denmark

B Denmark's population had better access to clean water than the Netherlands' population

C Denmark had a higher level of energy consumption per capita than the Netherlands

D The Netherlands had more years of compulsory schooling or better standards of health than Denmark

Answer ☐

(b) Explanation

(3)

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(Total for Question 4 = 4 marks)

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5 (a) Which one of the following is most likely to result in a demand-side shock to the US economy?

(1)

A Increase in US house prices

B Increase in environmental regulations on US businesses

C Increase in world commodity prices

D Increase in use of new technology by US businesses

Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 (a) All other things being equal, which one of the following combinations is most likely to lead to deterioration in a country's balance of payments on the current account?

(1)

	Inflation rate	Exchange rate	Unemployment rate
A	Increase	Decrease	Decrease
B	Decrease	Increase	Increase
C	Increase	Increase	Decrease
D	Decrease	Decrease	Increase

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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7 (a) All other things being equal, demand-pull inflation is most likely to result from an increase in

(1)

A the rate of interest

B the cost of imported raw materials

C the rate of income tax

D government spending

Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) Which one of the following is most likely to increase the size of the multiplier?
An increase in the

(1)

A marginal propensity to import

B marginal rate of income tax

C marginal propensity to consume

D marginal propensity to save

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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SECTION B

Answer either Question 9 or Question 10.

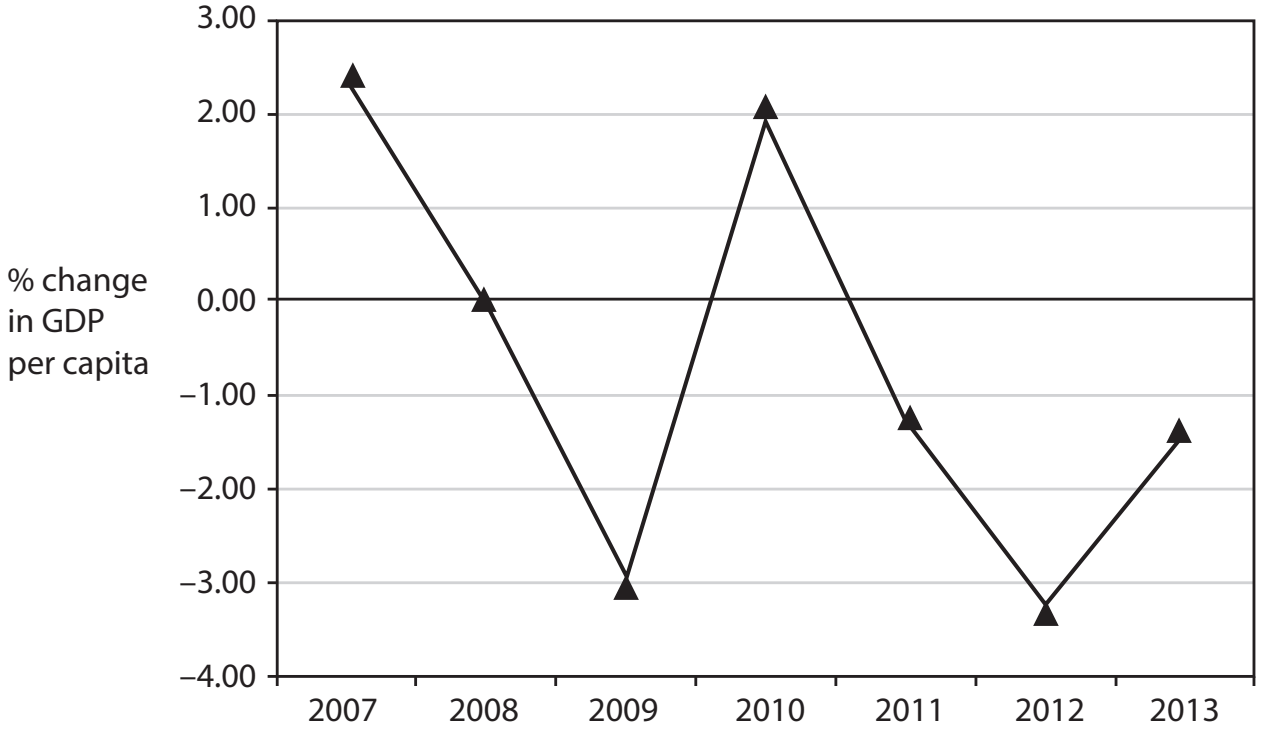
If you answer Question 9 put a cross in the box ☒ .

Question 10 starts on page 26.

You should spend 55 minutes on this section.

9 The economy of Portugal

Figure 1 Annual percentage real Gross Domestic Product (GDP) per capita growth for Portugal, 2007–2013



(Source: http://data.worldbank.org/indicator)

Figure 2 Inflation and unemployment indicators for Portugal, 2007-2013

Indicator	2007	2008	2009	2010	2011	2012	2013
Consumer Price Index (CPI), % change	2.8	2.6	–0.8	1.4	3.7	2.8	0.3
Unemployment, % of total labour force	8.0	7.6	9.5	10.8	12.7	15.6	16.0

(Source: http://data.worldbank.org/indicator)

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Extract 1 Bailout is over for Portugal

In Portugal, austerity meant deep cuts in the wages of public sector employees, lower pension payments and unemployment benefits and budget cuts in previously protected areas like education. Adding to the pain were higher personal income tax, value-added tax and reduced subsidies for drugs and for doctors' bills.

Portugal is also demonstrating that there are trade-offs in trying to restore growth. While growth is slowly returning, unemployment is still above 15%, which is higher than the eurozone average. Tens of thousands of workers have moved to Britain, Germany and Portuguese-speaking countries such as Brazil and Angola, in search of employment. About 120 000 left the country in 2012, out of a labour force of 5.5 million. Those who left included many young and qualified workers, even from companies that remained profitable throughout the crisis.

Portugal's biggest challenge may be reducing Government (public sector) debt. This has risen during the bailout programme from 94% of GDP in 2010 to 129% of GDP in 2013.

Portuguese exports were 28% of GDP in 2009 and 40% of GDP in 2013. While the crisis pushed many manufacturers into bankruptcy, the surviving businesses have used spare production capacity to aim far more aggressively at overseas markets.

The austerity debate is unlikely to end. Spending cuts in sectors like education have caused irreparable social and economic damage to Portugal, according to some politicians and analysts.

(Source: http://www.nytimes.com/2014/05/06/business/international/bailout-is-over-for-portugal-but-side-effects-will-linger.html?_r=0)

Extract 2 The mystery of why Portugal is so doomed

Adopting the euro in 1999 meant more integration with Portugal's main trade partners and lower borrowing costs, both of which should have created a boom. That is not how things turned out.

Between 2000 and 2012, Portugal's GDP per capita grew less than the US during the Great Depression of the 1930s or Japan during the 1990's. Incredibly, real GDP per capita in Portugal was higher in 2000 than it was in 2012.

Part of the problem is Portugal's small business culture and partly the result of too much regulation. Businesses stay small, because the laws make it hard to grow which results in low productivity.

Portugal has to fix its structural problems, for example by making it easier to hire and fire workers and to start and expand a business.

(Source: http://www.theatlantic.com/business/archive/2013/06/the-mystery-of-why-portugal-is-so-doomed/276371/)

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(a) With reference to Figure 1, explain what is meant by the term 'real GDP per capita growth'.

(4)

(b) With reference to the information provided, assess **two** possible causes of the increase in the rate of unemployment in Portugal between 2007 and 2013.

(10)

(c) Portugal experienced deflation in 2009 and also in 2014. Assess the likely impact of deflation on the Portuguese economy.

(14)

(d) With reference to Extract 2, explain how deregulation may increase productivity in Portugal.

(6)

(e) Evaluate the likely costs of sustained high levels of unemployment on the Portuguese economy.

(14)

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QUESTION 10 BEGINS ON THE NEXT PAGE.

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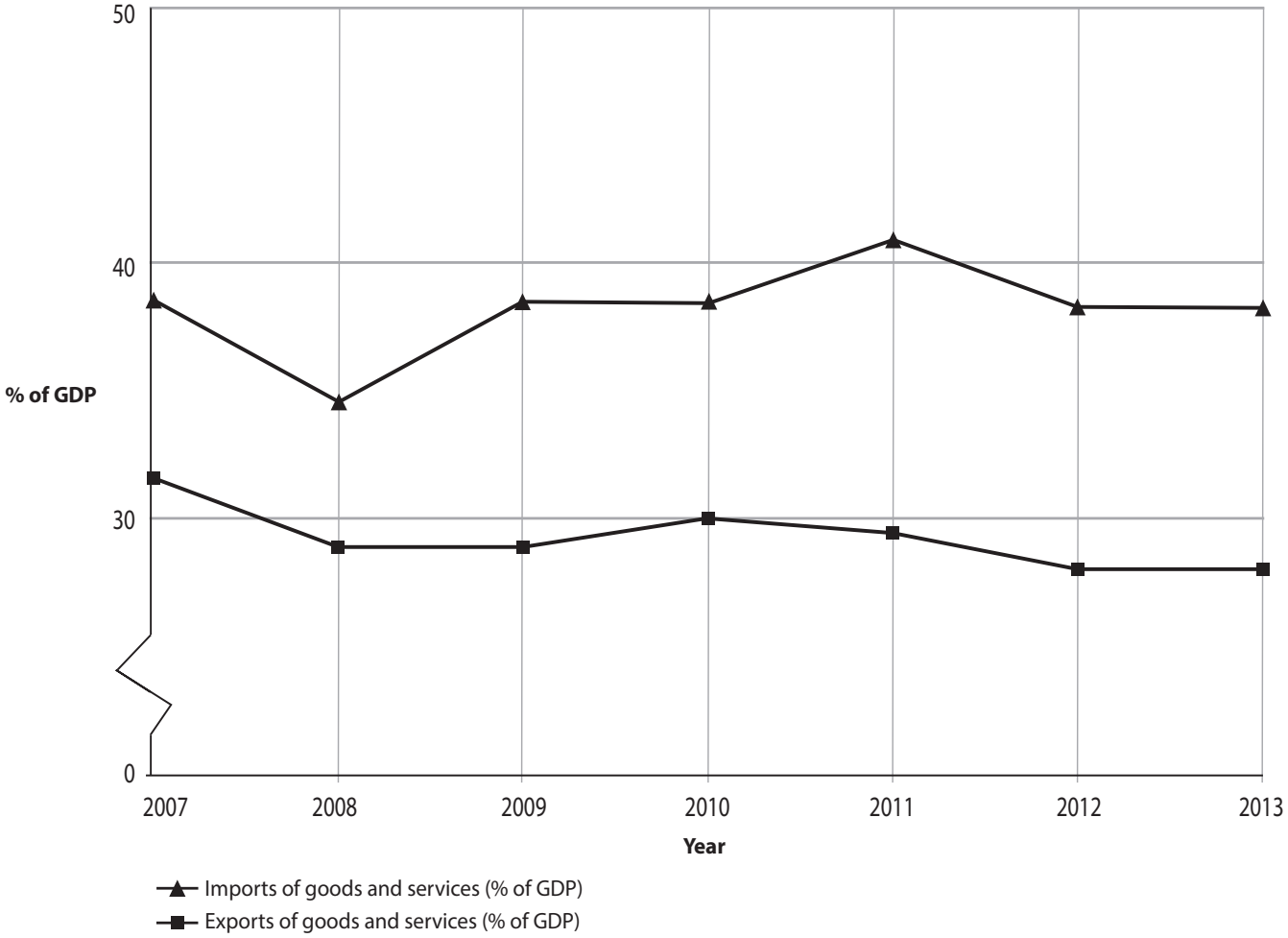
If you answer Question 10 put a cross in the box ☒.

10 The economy of Mozambique

Figure 1 Mozambique exports and imports as % of Gross Domestic Product (GDP), 2007–2013



(Source: http://data.worldbank.org/indicator)

Figure 2 Macroeconomic indicators for Mozambique, 2007–2013

	2007	2008	2009	2010	2011	2012	2013
Inflation, consumer prices (annual %)	8.16	10.33	3.25	12.70	10.35	2.09	4.86
GDP growth (annual %)	7.28	6.83	6.33	7.08	7.32	7.24	7.15
Current account balance (% of GDP)	–9.78	–12.07	–12.62	–15.64	–23.89	–43.80	–43.10
Exchange rate: Mozambique Metical to US$ Dec 31st each year	23 560	24 990	27 557	32 407	26 571	29 435	29 950

(Sources: http://data.worldbank.org/indicator and http://www.oanda.com/currency/historical-rates/)

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Extract 1 Coal exports

Mozambique's coal deposits are the fourth-largest in the world. The country is relying on increasing coal exports to expand its infrastructure and drive economic growth. This is despite falling global coal prices which might delay some railway and port projects. The Government is keen to attract investors to help build the infrastructure needed to exploit its offshore natural gas reserves.

The World Bank has forecast that coal and gas may generate up to US$ 9 billion in revenues by 2032 for Mozambique, which is still poor and still recovering from the 1975–92 civil war.

Significant investment in rail and port expansion is still needed to carry the coal from the inland mines to the sea ports. With low global prices for coal because of excess supply, the Mozambican coal mining operations face an uphill battle to be competitive in the next few years, especially when so much infrastructure capacity still needs to be built. It is believed that coal prices could recover, with future demand predicted to come from India, Japan and China.

In a May 2014 economic outlook report for Mozambique, the International Monetary Fund (IMF) forecast the economy growing 8% annually – one of the higher rates in Africa.

(Source: http://coal.steelguru.com/africa/17761/ mozambique_ turns_to_coal_exports_despite_competition)

Extract 2 Employment and unemployment in Mozambique

Mozambique's unemployment rate was estimated to be 23.2% in 2013.

Unemployment is increasing, because the labour market is unable to absorb the hundreds of thousands of young people who try to enter the market every year.

Unemployment is particularly high amongst those with low levels of education and without any professional qualifications.

Some commentators argue that, to improve the employment situation, Mozambique's trade unions should put pressure on the government to draw up and implement a national labour policy. They also argue that this policy should seek to remove the main barriers facing young Mozambicans chasing their first job – these include employers' demands that recruits should already have many years of experience, or that they should speak English, for example.

(Source: http://allafrica.com/stories/201309190201.html)

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(a) With reference to Figure 2, explain what is meant by the term exchange rate.

(4)

(b) With reference to the information provided, assess the possible causes of the deterioration in Mozambique's current account balance from 2007–2012.

(10)

(c) With reference to the information provided and your own knowledge, assess possible factors which may have contributed to changes in the rate of inflation in Mozambique.

(14)

(d) With reference to Extract 2, explain **two** ways by which the employment situation in Mozambique could be improved.

(6)

(e) Evaluate the likely impact of a significant increase in Mozambique's coal and gas exports on the country's future economic performance.

(14)

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