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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 16 May 2019

Morning (Time: 1 hour 45 minutes) | Paper Reference **WEC12/01**

Economics

International Advanced Subsidiary
Unit 2: Macroeconomic performance and policy

You must have:
Source Booklet (enclosed)

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 Sections A, B and C.
- Answer **ONE** question in Section D.
- 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.*
- 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.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 In 2017 Turkey's deficit on the current account of the balance of payments increased to $4.2 billion.

This increase in the deficit on the current account is most likely to have resulted from

☒ **A** an increase in the value of imports

☒ **B** an increase in the value of exports

☒ **C** a decrease in government spending

☒ **D** a decrease in employment

(Total for Question 1 = 1 mark)

2 The table shows Malaysia's rate of inflation between February 2017 and July 2017.

Month	Rate of inflation (%)
February	4.5
March	5.1
April	4.4
May	3.9
June	3.6
July	3.2

From this table it can be deduced that

☒ **A** there was deflation between April and May

☒ **B** there was disinflation between May and June

☒ **C** the rate of inflation was at its highest in July

☒ **D** inflation increased at a constant rate between May and July

(Total for Question 2 = 1 mark)

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3 The Moroccan economy had a large negative output gap in 2017.

Which **one** of the following is usually associated with a negative output gap?

☒ **A** Demand-pull inflation and decreasing unemployment

☒ **B** Cost-push inflation and high employment rates

☒ **C** Real GDP growth less than the long-term productive potential

☒ **D** Real GDP growth more than the long-term productive potential

(Total for Question 3 = 1 mark)

4 Between 2010 and 2016 Indonesia recorded a 44.4% fall in the value of its exports. This resulted from a decrease in the demand for Indonesian clothing.

Ceteris paribus, which **one** of the following is likely to result from this situation?

		Rate of unemployment	Rate of inflation
☒	**A**	Falling	Rising
☒	**B**	Falling	Falling
☒	**C**	Rising	Rising
☒	**D**	Rising	Falling

(Total for Question 4 = 1 mark)

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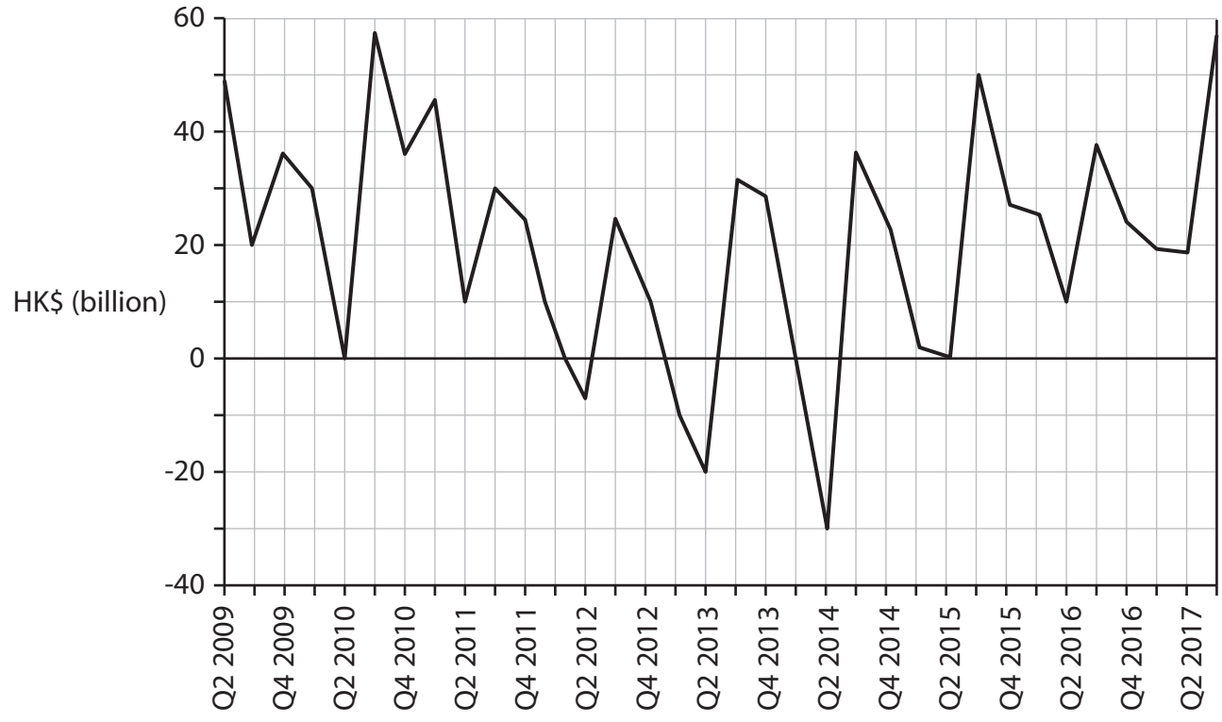
5 The chart shows the current account of the balance of payments for Hong Kong, quarter 2 2009 to quarter 3 2017 HK$ (billion).



(Source: http://www.censtatd.gov.hk/FileManager/EN/UTIL_STAT_CHART/041chart01.gif)

Which **one** of the following can be deduced from the chart?

☒ **A** There was a current account surplus in Q2 2013

☒ **B** The current account surplus fell by HK$20 billion between Q4 2009 and Q2 2010

☒ **C** The current account was in a deficit in Q2 2014

☒ **D** There was a balanced government budget in Q2 2015

(Total for Question 5 = 1 mark)

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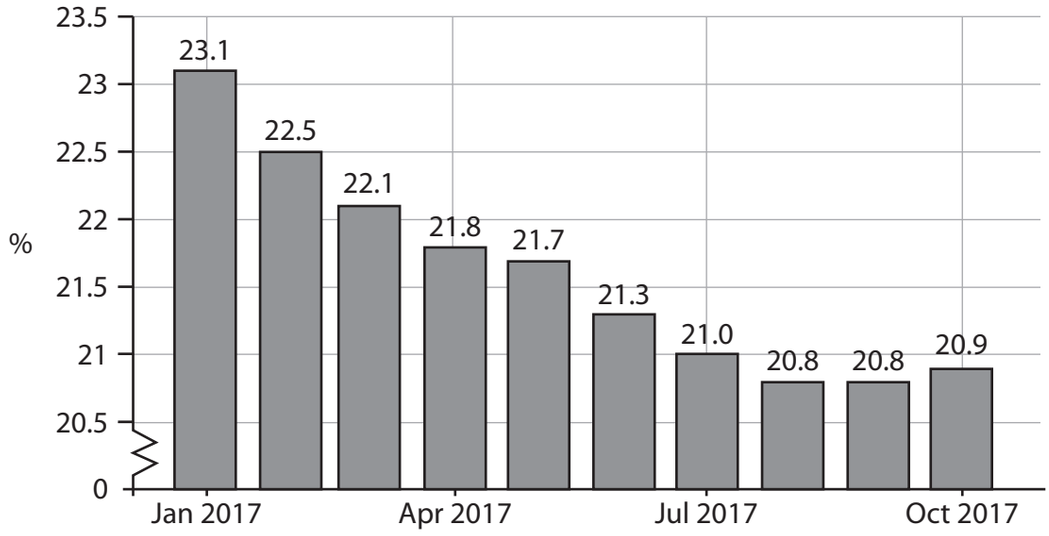
6 The chart shows the ILO unemployment rate for Greece between January 2017 and October 2017.



(Source: https://tradingeconomics.com/greece/unemployment-rate)

Which **one** of the following is the percentage change in the unemployment rate for Greece between January 2017 and October 2017?

☒ **A** –2.2

☒ **B** –9.52

☒ **C** –10.53

☒ **D** –10.7

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B

Answer ALL questions in this section in the space provided.

7 In January 2018 South Korea's Central Bank raised its base interest rate from 1.25% to 1.5%.

Explain **one** likely economic effect of this increase in the base interest rate.

(Total for Question 7 = 4 marks)

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8 New Zealand has a population of 4.693 million people. In 2017 its net migration was 73 000, with more individuals arriving than leaving the country.

Explain **one** possible impact on the level of unemployment of this net migration.

(Total for Question 8 = 4 marks)

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9 Between January 2016 and January 2018 the price of oil rose from $30 per barrel to $65 per barrel. France is a net importer of oil.

Draw a short-run AS and AD diagram to show the effect of the increase in the price of oil on the price level and real output for France.

(Total for Question 9 = 4 marks)

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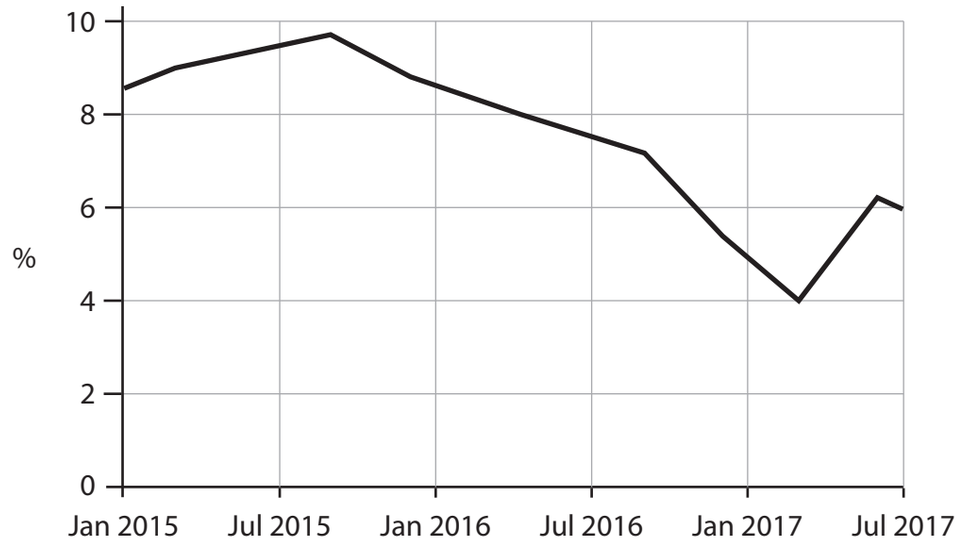
10 This chart shows the savings ratio for the UK between January 2015 and July 2017.



(Source: https://tradingeconomics.com/united-kingdom/personal-savings)

With reference to the overall trend of the data, explain what is meant by 'the savings ratio'.

(Total for Question 10 = 4 marks)

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11 The Central Bank of Egypt has estimated that the marginal propensity to consume for Egypt's economy is 0.6. In October 2017, the Egyptian Government announced a LE11.9 billion investment into renewable energy. (LE = Egyptian currency).

Ceteris paribus, calculate the final increase in the national income resulting from the LE11.9 billion investment.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'fiscal policy' (Extract A, line 6).

(2)

(b) With reference to Figure 1, explain the term 'real GDP growth'.

(4)

(c) With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax.

(6)

(d) With reference to the information provided, examine the likely impact of increased investment on Romania's economy.

(8)

(e) Discuss the likely effects of the increase in the rate of inflation on Romania's economy.

(14)

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12 (a) Define the term 'fiscal policy' (Extract A, line 6).

(2)

(b) With reference to Figure 1, explain the term 'real GDP growth'.

(4)

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(c) With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax.

(6)

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(d) With reference to the information provided, examine the likely impact of increased investment on Romania's economy.

(8)

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(e) Discuss the likely effects of the increase in the rate of inflation on Romania's economy.

(14)

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 China's economic growth has resulted in a significant increase in pollution within the country. It is believed that recent government legislation to lower pollution will cause China's real GDP to increase at a slower rate.

Evaluate the view that conflicts between macroeconomic objectives are inevitable.

(Total for Question 13 = 20 marks)

OR

14 Increasing household consumption is a major factor contributing to India's high rate of economic growth.

Evaluate the view that rising consumer expenditure will always benefit an economy.

(Total for Question 14 = 20 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 13** ☒ **Question 14** ☒

Write your answer here:

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TOTAL FOR SECTION D = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

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Economics

International Advanced Subsidiary
Unit 2: Macroeconomic performance and policy

Source Booklet

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Sources for use with Section C.

The Romanian economy

Figure 1 Year-on-year real GDP growth by quarter, 2016-2017

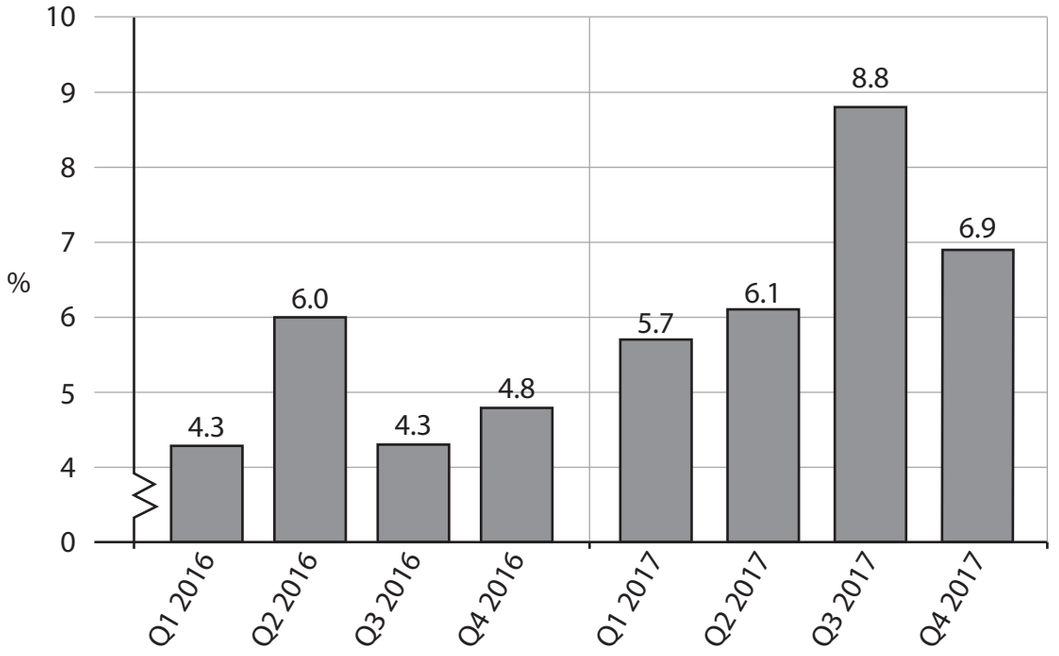
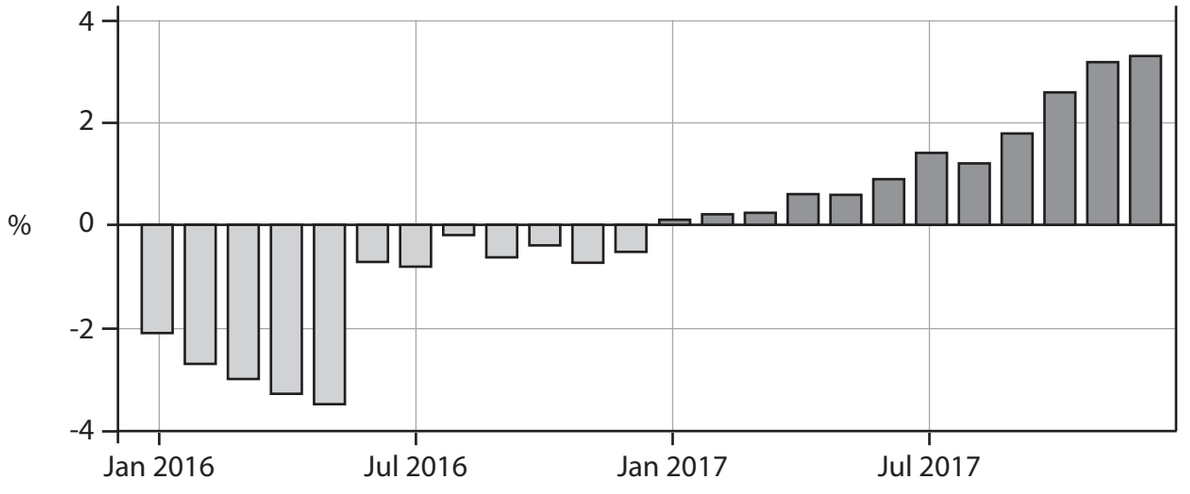


Figure 2 The rate of inflation, as measured by the consumer price index, 2016-2017



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Extract A Romania's economic growth

For many years Romania had been viewed as a poor country by European standards, experiencing low wages and a slow rate of economic growth. However, since 2015, Romania's rate of economic growth outperformed other European countries. This growth was stimulated by a number of factors including the Government's expansionary fiscal policy, increased household consumption and high levels of investment in new technology for manufacturing industries.

In 2015 the Government cut VAT from 24% to 20%. It planned to double the minimum wage over a four-year period. It also increased the salaries of public sector employees. However, wage levels are still low compared to other European countries leading to high levels of migration out of the country. This resulted in labour shortages as businesses found it hard to fill vacancies. The unemployment rate fell to 4.6% in 2017.

Romania has one of the fastest broadband internet speeds in the world, behind Singapore, Hong Kong, South Korea and Iceland. It also has a very well-educated workforce, with excellent language, maths and science skills. The technology sector is expanding fast in the country, and many large foreign firms such as Siemens and Ford have set up factories in Bucharest, the Romanian capital. This has increased production in the country and generated strong growth in exports.

Extract B Inflationary pressures

As disposable incomes have risen, consumption has also increased significantly reaching a ten-year peak in 2017. The rate of inflation has risen throughout 2017. This was partly caused by a 3.8% increase in food prices and by a 4.1% price increase in non-food products.

The central bank responded to this inflationary pressure by increasing its base interest rate for the first time in 10 years from 1.75% to 2%. Mugur Isarescu, the Governor of the central bank, suggested that the Romanian Government's fiscal policies are to blame for the higher rate of inflation. The fiscal deficit rose to 3% of GDP in 2016. The Government defended its position, believing that reductions in tax rates and increased government spending on infrastructure will lead to long-term economic growth.

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Acknowledgements

Figure 1 and 2 based on data taken from Tradingeconomics.com

Extract A adapted from https://www.theguardian.com/world/2017/oct/14/romania-economy-booming

Extract B adapted from https://www.nytimes.com/2017/10/18/business/europe-economy-romania.html