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Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel International Advanced Level

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.

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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 a er, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 The World Bank calculates a 'Purchasing Power Parity (PPP)-adjusted level of GDP' for different countries.

Which **one** of the following is compared when calculating PPP?

☒ **A** The price of a basket of comparable goods and services in different countries

☒ **B** Real incomes, national happiness and wellbeing in different countries

☒ **C** The external value of one currency in terms of the US dollar

☒ **D** Inflation rates in different countries over a given time period

(Total for Question 1 = 1 mark)

2 The table below shows Bahrain's Gross National Income (GNI) between 2017 and 2019.

Year	GNI ($ billion)
2017	33.5
2018	35.6
2019	36.3

(Source: https://data.worldbank.org/indicator/NY.GNP.MKTP.CD?locations=BH)

If 2017 is the base year, which **one** of the following represents the index number for 2019?

☒ **A** 100.0

☒ **B** 102.0

☒ **C** 106.3

☒ **D** 108.4

(Total for Question 2 = 1 mark)

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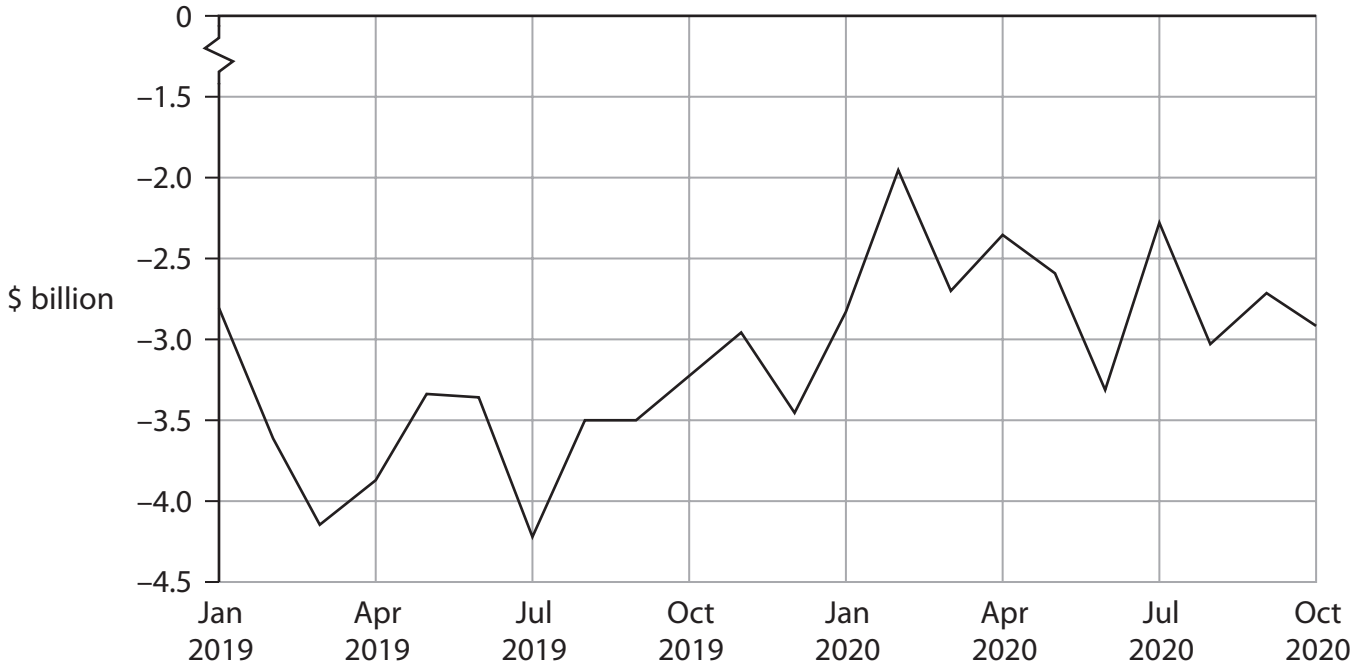
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3 Which **one** of the following is likely to cause a decrease in the value of a country's multiplier?

- ☒ **A** A decrease in the marginal propensity to tax
- ☒ **B** A decrease in the marginal propensity to save
- ☒ **C** An increase in the marginal propensity to import
- ☒ **D** An increase in the marginal propensity to consume

(Total for Question 3 = 1 mark)

4 The chart shows Egypt's net monthly balance of trade in goods and services, January 2019 to October 2020.



(Source: https://tradingeconomics.com/egypt/balance-of-trade)

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

- ☒ **A** The value of injections was always greater than the value of withdrawals
- ☒ **B** The Government was spending more than it received in taxation
- ☒ **C** Egypt's balance of trade was always in a surplus
- ☒ **D** The value of imports was always greater than the value of exports

(Total for Question 4 = 1 mark)

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5 Between Q1 2020 and Q4 2020 the savings ratio in the Netherlands increased fro 15.3% to 24.3%.

Ceteris paribus, which **one** of the following is the most likely effect of this increase in the savings ratio?

- ☒ **A** A decrease in withdrawals from the circular flow of income
- ☒ **B** An increase in injections into the circular flow of income
- ☒ **C** A decrease in consumption
- ☒ **D** An increase in imports

(Total for Question 5 = 1 mark)

6 The table shows the annual percentage change in the real GDP of Canada between 2017 and 2019. The long-term trend rate of economic growth for the economy is estimated to be 2.7%.

Year	Change in real GDP (annual %)
2017	3.2
2018	2.0
2019	1.7

(Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2019&locations=CA&start=2017)

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

- ☒ **A** The positive output gap increased between 2017 and 2018
- ☒ **B** There was a negative output gap in 2018 and 2019
- ☒ **C** There was a positive output gap in 2018 and 2019
- ☒ **D** The negative output gap decreased between 2018 and 2019

(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 The table shows selected changes to the UK's Consumer Price Index (CPI) basket of goods and services in 2020.

Items now included in the basket	Items removed from the basket
Reusable bottles	Fruit pies
Vegetable crisps	Frozen chicken
Portable digital music player	MP4 music player

(Source: https://www.theguardian.com/business/2020/mar/16/reusable-bottles-and-mugs-added-to-ons-inflation-basket)

With reference to the table, explain **one** reason why it is necessary to regularly update the CPI basket of goods and services.

(Total for Question 7 = 4 marks)

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8 Between January 2014 and September 2020 the price of natural gas fell from $5.60 per cubic foot to $1.66 per cubic foot. Natural gas is an important source of energy for Japanese producers.

Draw a SRAS and AD diagram to show the effect of the decrease in the price of natural gas on the price level and real output for Japan.

(Total for Question 8 = 4 marks)

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9 The table shows the nominal GDP and population of Argentina in 2018 and 2019.

	GDP ($ millions)	Population (millions)
2018	517 627	44.5
2019	445 445	44.9

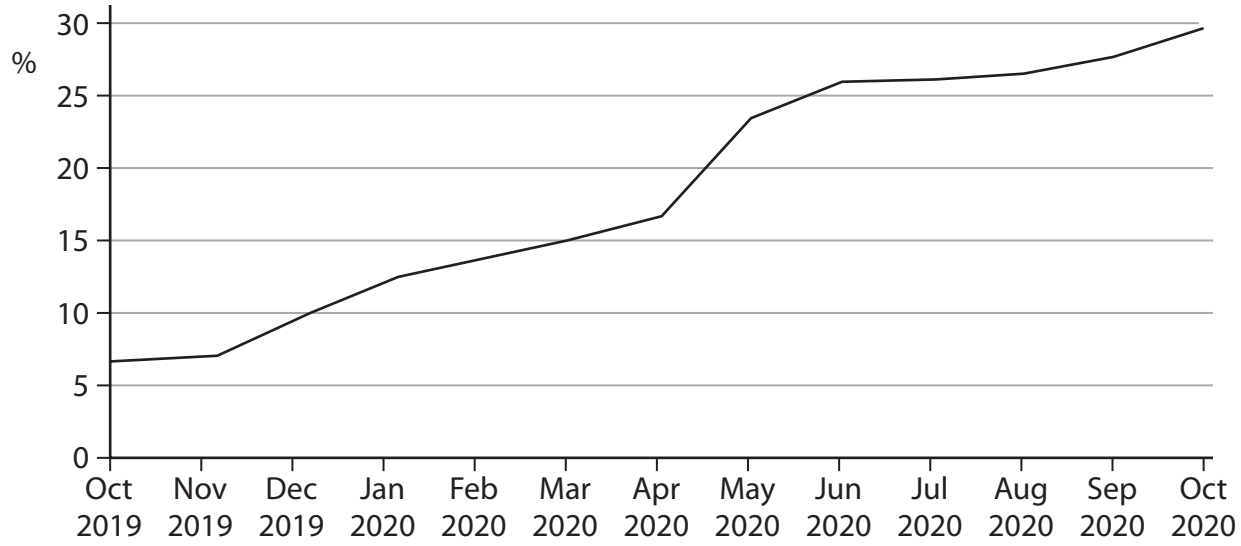
(Source: https://data.worldbank.org/country/argentina)

Based on this information, calculate the *change* in Argentina's GDP per capita between 2018 and 2019. Show your workings.

(Total for Question 9 = 4 marks)

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10 The chart shows the annual percentage increase in house prices in Turkey betwe October 2019 and October 2020.



(Source: https://www.ceicdata.com/en/indicator/turkey/house-prices-growth)

With reference to the chart, explain **one** likely macroeconomic impact of an increase in house prices on existing homeowners.

(Total for Question 10 = 4 marks)

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11 For the year ending June 2020, there were 509 600 immigrants arriving in Australi and 315 200 emigrants leaving Australia.

With reference to the information above, explain what is meant by net migration.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answeri Question 12.

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

12 (a) Define the term 'real GDP' (Figure 1).

(2)

(b) With reference to Figure 2, explain the difference between disinflation and deflation.

(4)

(c) With reference to Figure 1 and the first paragraph of Extract A, analyse **two** influences on the level of investment in the eurozone.

(6)

(d) Examine the likely effects of 'the increase in the exchange rate of the euro against the US dollar' (Extract A, lines 25–26) on the net trade balance of the eurozone.

(8)

(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the ECB's monetary policy on the eurozone economy.

(14)

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12 (a) Define the term 'real GDP' (Figure 1).

2)

(b) With reference to Figure 2, explain the difference between disinflation and deflation.

(4)

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(c) With reference to Figure 1 and the first paragraph of Extract A, analyse **two** influences on the level of investment in the eurozone.

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(d) Examine the likely effects of 'the increase in the exchange rate of the euro aga the US dollar' (Extract A, lines 25–26) on the net trade balance of the eurozone.

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(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the ECB's monetary policy on the eurozone economy.

(14

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D BEGINS ON THE NEXT PAGE.

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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In the first two quarters of 2020, pollution in China decreased by 10.8% as a result of the slowdown in the country's rate of economic growth.

Evaluate the potential conflicts between the objective of economic growth and **two** other macroeconomic objectives.

(Total for Question 13 = 20 marks)

OR

14 In 2019 India's productivity increased by 5.2%. To achieve its GDP growth target of 8% in 2020, India needed to increase its productivity to 6.3%.

Evaluate supply-side policies that the Indian government could use to increase the country's productivity.

(Total for Question 14 = 20 marks)

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

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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Time 1 hour 45 minutes

Paper reference **WEC12/0**

Economics

International Advanced Subsidiary
UNIT 2: Macroeconomic performance and policy

Source Booklet

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Sources for use with Section C

The eurozone economy

Figure 1 Annual real GDP growth rate, Q1 2018 to Q3 2020

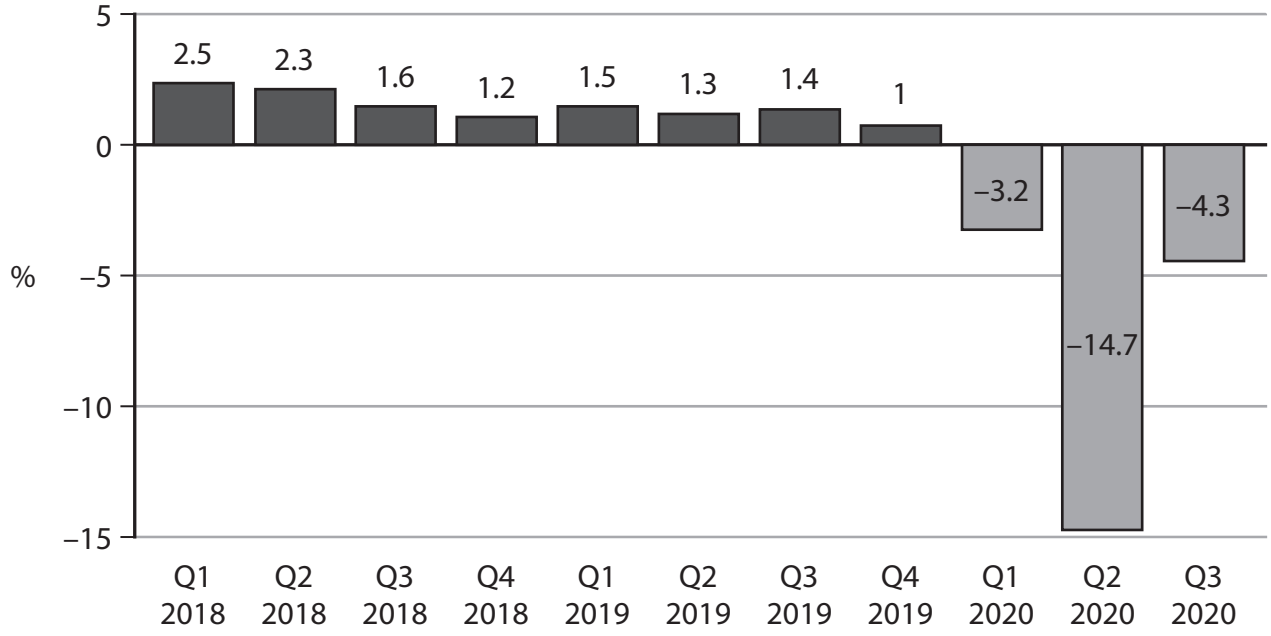
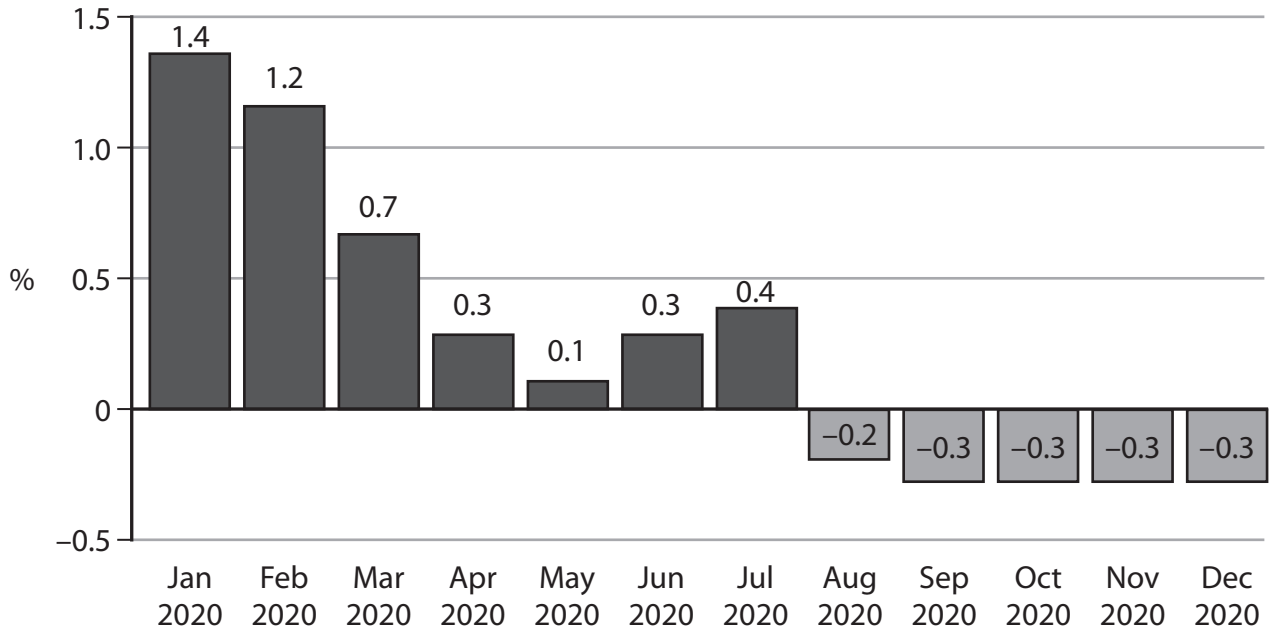


Figure 2 Inflation rate, as measured by the Consumer Price Index (CPI), January 2020 to December 2020



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Extract A Monetary policy

In November 2020 the European Central Bank (ECB) highlighted that there were "worrying signals" about the future state of the eurozone economy. It indicated that low business confidence had caused a fall in the demand for bank loans. At the same time, there was a decrease in the availability of credit. These factors resulted in significantly lower levels of investment.

In response the ECB immediately launched an additional round of quantitative easing in December 2020. This programme was reintroduced to help the eurozone economy to recover from negative rates of economic growth, rising unemployment and to prevent another recession. It announced a €500 billion increase in the size of its quantitative easing programme for the period January 2021 to September 2021.

The ECB also announced the provision of extra low-cost funding for banks, aimed at encouraging an increase in bank lending. It agreed to finance the banks at negative interest rates of –1% until June 2022. This meant that the ECB would be paying banks to borrow more money, provided they continue to lend.

Economists have suggested that a reflationary policy could be needed for years, given the weak state of the eurozone economy. In 2020 economic growth in the eurozone was –6.7%. The ECB forecast an economic growth rate of only 3.9% in 2021, 4.2% in 2022 and 2.1% in 2023. The ECB also forecast that the rate of inflation in 2023 will increase but remain below its 2% target.

However, it is unlikely that the ECB can manage the entire burden of supporting the eurozone recovery. Market forces have already reduced the effectiveness of existing policies. For example, in 2020 the eurozone's currency, the euro, traded at its highest level against the US dollar for more than two years. The ECB said it was "very carefully" monitoring the impact of the increase in the exchange rate of the euro against the US dollar.

Economists are concerned that the ECB's asset purchases will have a limited impact because interest rates are already extremely low. They argue that reflationary fiscal policy will be necessary to stimulate economic recovery.

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Acknowledgements

Figure 1 adapted from https://tradingeconomics.com/euro-area/gdp-growth-annual

Figure 2 adapted from https://tradingeconomics.com/euro-area/inflation-cpi

Extract A adapted from FT; https://www.ft.com/content/94d82ff8-b56d-4f3c-aea4-2bdc975ec340