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Please check the examination details below before entering your candidate information

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.

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 It is estimated that the marginal propensity to consume in Germany is 0.4.

Which **one** of the following represents the value of the multiplier in Germany?

☒ **A** 0.5

☒ **B** 0.6

☒ **C** 1.7

☒ **D** 2.5

(Total for Question 1 = 1 mark)

2 India's central bank, the Reserve Bank of India, has an inflation target and is banker to the Indian Government.

Which **one** of the following is also a role of the central bank?

☒ **A** Increasing the trade deficit

☒ **B** Acting as the lender of last resort

☒ **C** Achieving national happiness

☒ **D** Reducing income equality

(Total for Question 2 = 1 mark)

3 In Indonesia it is estimated that approximately 27% of part-time workers are employed for fewer hours than they would be willing to work.

Which **one** of the following may be deduced from this information?

☒ **A** There is a high level of underemployment in Indonesia

☒ **B** There is a high level of economic inactivity in Indonesia

☒ **C** There is a high rate of unemployment in Indonesia

☒ **D** There is a high rate of inflation in Indonesia

(Total for Question 3 = 1 mark)

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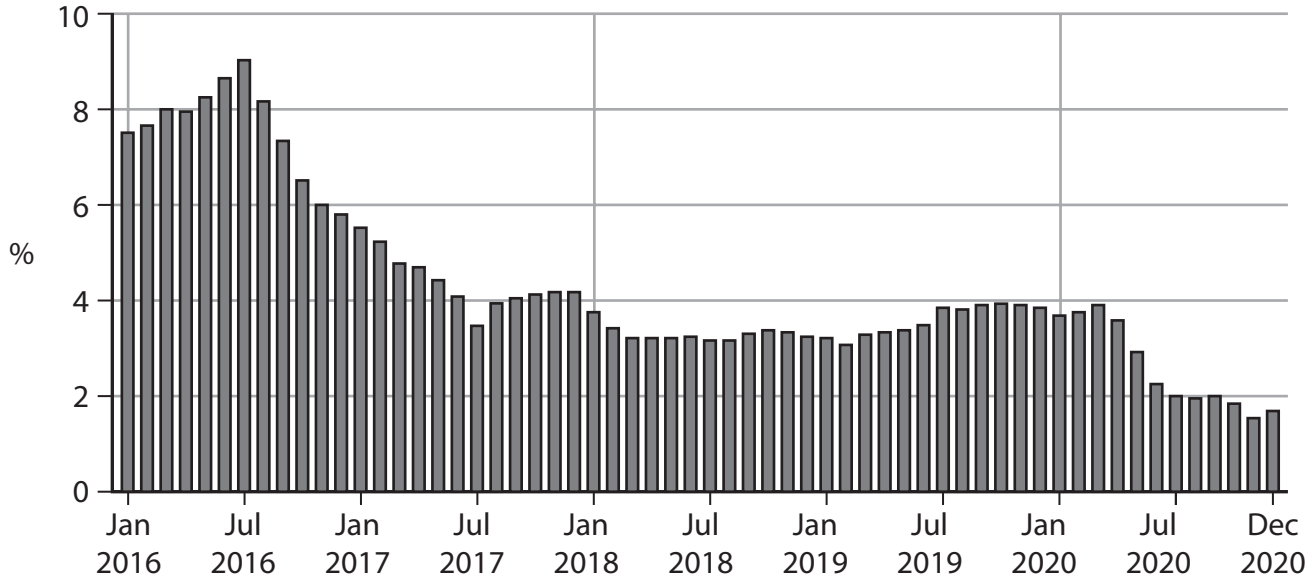
4 The chart shows the annual rate of inflation in Colombia, measured by the Consumer Price Index (CPI), January 2016 to December 2020.



(Source: https://tradingeconomics.com/colombia/inflation-cpi)

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

- ☒ **A** There was disinflation from January 2016 to July 2016
- ☒ **B** There was deflation from January 2017 to July 2017
- ☒ **C** The average price level was unchanged between January 2019 and July 2019
- ☒ **D** The average price level was lower in January 2020 than in July 2020

(Total for Question 4 = 1 mark)

5 In 2020 the Italian Government spent €945.6 billion and received €789.3 billion in tax revenue.

Which **one** of the following policies could the Italian Government implement to achieve a balanced budget over the following year?

- ☒ **A** Deflationary monetary policy
- ☒ **B** Reflationary monetary policy
- ☒ **C** Deflationary fiscal policy
- ☒ **D** Reflationary fiscal policy

(Total for Question 5 = 1 mark)

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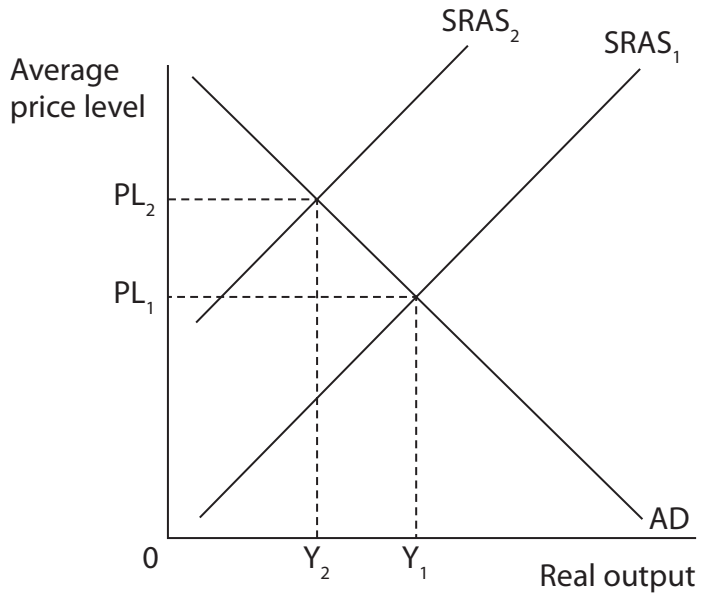
6 The diagram shows the short-run aggregate supply curve and the aggregate demand curve for China's economy.



Which **one** of the following was the most likely cause of the change from $SRAS_1$ to $SRAS_2$?

- ☒ **A** An increase in energy prices
- ☒ **B** A decrease in indirect tax rates
- ☒ **C** An increase in investment in education
- ☒ **D** A decrease in bank lending to consumers

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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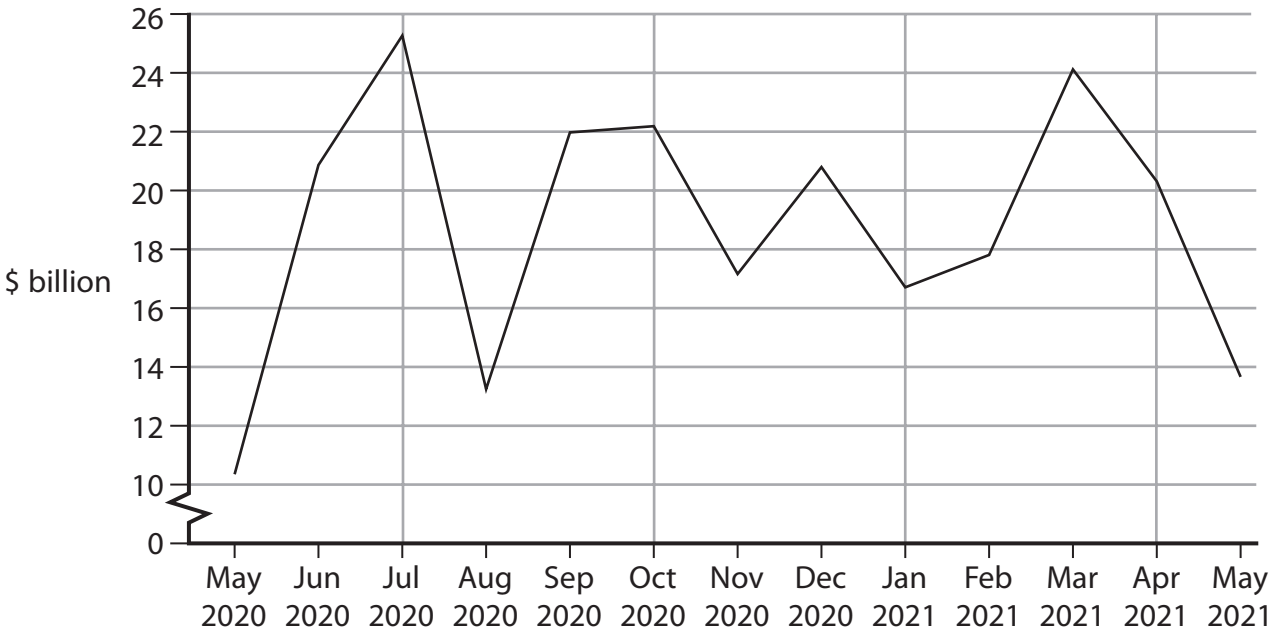
SECTION B

Answer ALL questions in this section in the space provided.

7 The chart shows Malaysia's net monthly balance of trade in goods and services, May 2020 to May 2021.



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

With reference to the chart, explain **one** likely reason for the surplus in Malaysia's balance of trade in goods and services.

(Total for Question 7 = 4 marks)

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8 For the year ending June 2020, there were 153 900 immigrants arriving in New Zealand and 74 200 emigrants leaving New Zealand.

Draw a LRAS and AD diagram to show the effect of this net migration on the price level **and** real output for New Zealand.

(Total for Question 8 = 4 marks)

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9 The table shows the nominal GDP and GDP per capita of Angola in 2019 and 2020.

	GDP ($ billion)	**GDP per capita ($)**
2019	89.42	2 810
2020	62.31	1 896

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

Based on this information, calculate the *change* in Angola's population between 2019 and 2020. Show your workings.

(Total for Question 9 = 4 marks)

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10 The UK's central bank extended its existing asset purchases (quantitative easing) programme from £645 billion in March 2020 to £895 billion in November 2020.

With reference to this information, explain **one** likely impact of the increase in quantitative easing on aggregate demand.

(Total for Question 10 = 4 marks)

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11 The table shows the annual percentage change in the real GDP of Japan in 2019 and 2020. The long-term trend rate of growth for the economy is estimated to be 0.5%.

Year	Change in real GDP (annual %)
2019	0.27
2020	–4.83

(Source: https://www.statista.com/statistics/263607/gross-domestic-product-gdp-growth-rate-in-japan/)

With reference to the table, explain what is meant by an output gap.

(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 'recession' (Extract A, line 2).

(2)

(b) With reference to Figure 1, explain what is meant by the savings ratio.

(4)

(c) With reference to the second paragraph of Extract A, analyse **two** factors that caused household consumption to increase in quarter 3, 2020.

(6)

(d) With reference to Figure 2 and Extract A, examine **two** likely effects of the substantial increase in the rate of unemployment on the Australian economy.

(8)

(e) With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.

(14)

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12 (a) Define the term 'recession' (Extract A, line 2).

(2)

(b) With reference to Figure 1, explain what is meant by the savings ratio.

(4)

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(c) With reference to the second paragraph of Extract A, analyse **two** factors that caused household consumption to increase in quarter 3, 2020.

(6)

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(d) With reference to Figure 2 and Extract A, examine **two** likely effects of the substantial increase in the rate of unemployment on the Australian economy.

(8)

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(e) With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.

(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 'Pursuing economic growth at the expense of the environment has resulted in pollution, climate change and the overconsumption of natural resources.'

Evaluate the costs of economic growth. Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

14 Between June 2020 and June 2021 the rate of inflation in the USA increased from 0.6% to 5.4%.

Evaluate the costs of a high rate of inflation. Refer to a country of your choice in your answer.

(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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Pearson Edexcel International Advanced Level

Time 1 hour 45 minutes

Paper reference **WEC12/01**

Economics

International Advanced Subsidiary
UNIT 2: Macroeconomic performance and policy

Source Booklet

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Sources for use with Section C

The Australian economy

Figure 1 Savings ratio, Q3 2018 to Q3 2020

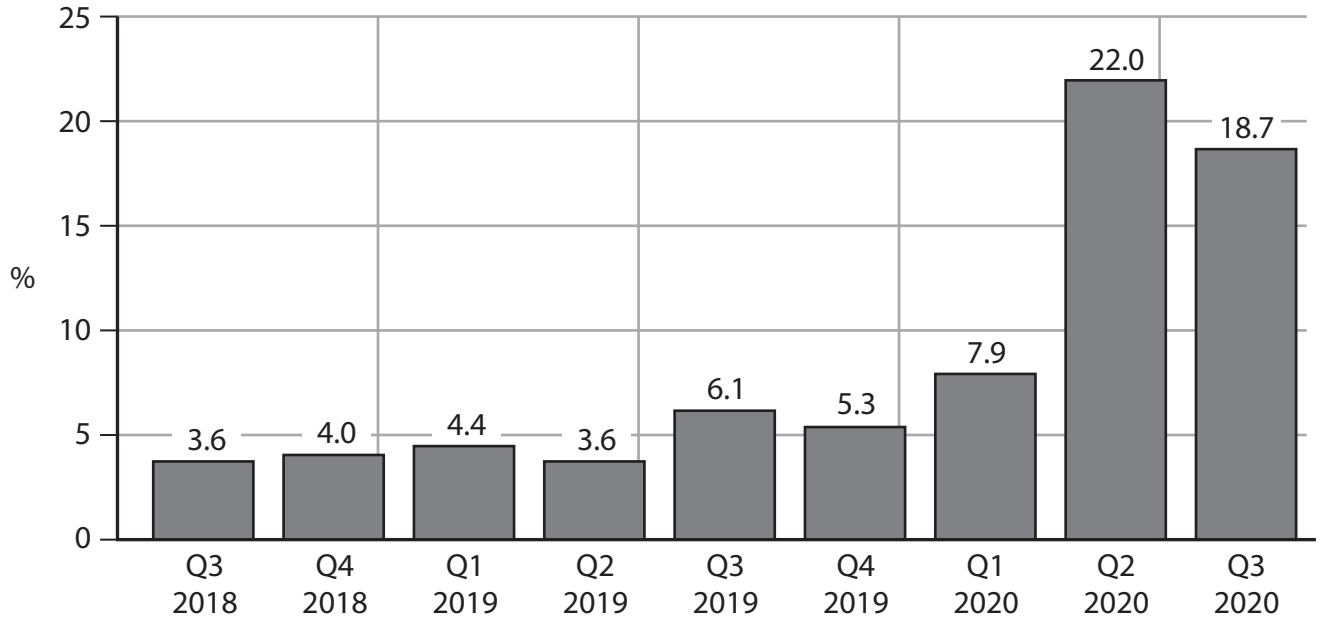
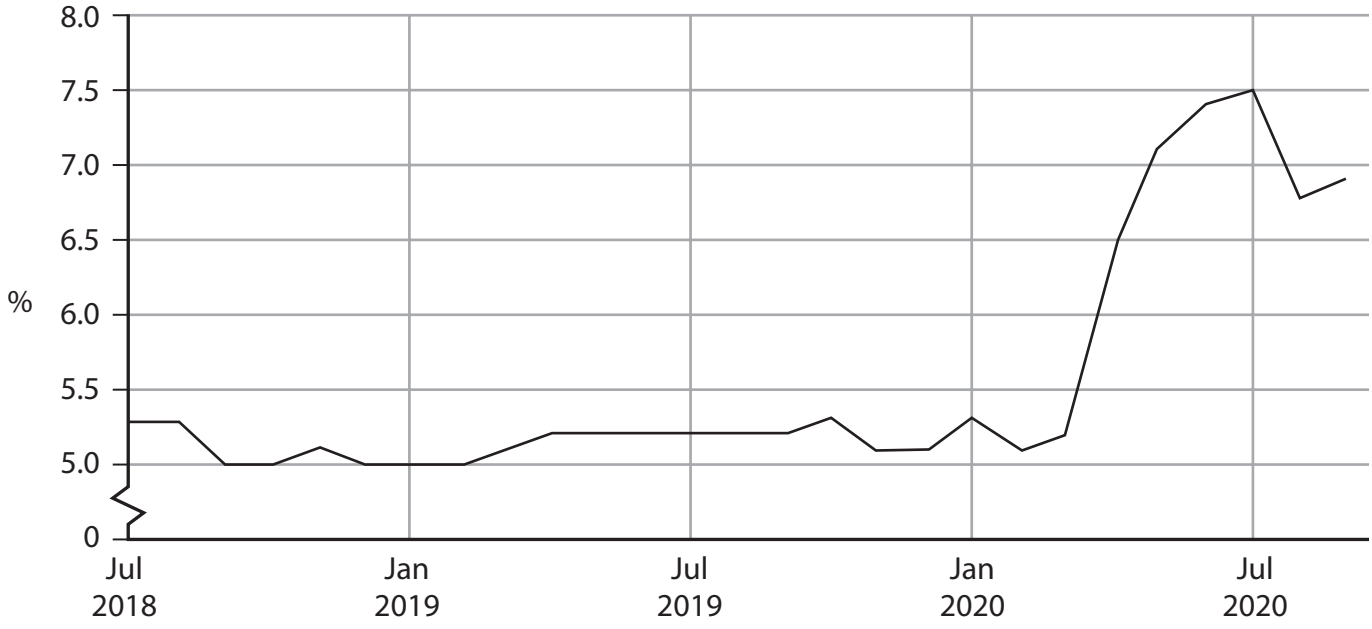


Figure 2 Unemployment rate, July 2018 to September 2020



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Extract A Economic performance

In the first half of 2020 Australia's economy was in recession. In quarter 1 the economic growth rate was −0.3% and it declined further in quarter 2 to −6.8%. Consequently, between March and July 2020 there was a substantial increase in the rate of unemployment.

However, Australia's economy recovered quickly with an economic growth rate of 3.3% in quarter 3 of 2020. This was much higher than predictions of a growth rate of 2.5%. This increase in the growth rate was mainly as a result of a rise in household consumption. Although household consumption decreased by 12.5% in quarter 2 of 2020, it rose by 7.9% in quarter 3. The main reasons for this rise in consumption were:

- rising house prices
- reductions in the base interest rate by Australia's central bank
- higher welfare payments to households.

These factors resulted in an increase in consumer confidence.

While household consumption supported Australia's economic recovery, the rate of unemployment was still relatively high. In response, the Australian Government continued its JobKeeper Payment scheme to keep workers in employment. This scheme supported businesses negatively affected by the economic decline. Businesses were able to claim AU$1 200 (before tax) per employee every two weeks to help cover the cost of wages.

Extract B Supply-side policies

Between 2010 and 2020 Australia's average annual increase in productivity was 1.7%. The country's average annual growth in real GDP per capita was 0.6%. This was below the 1% growth in GDP per capita in the USA. To increase GDP per capita, Australia needs to raise its productivity growth. This applies particularly to the service sector, which accounts for nearly 70% of Australia's GDP.

According to some economists, the Australian Government should consider implementing a range of interventionist supply-side policies to increase the country's productivity. These include:

- providing finance for business start-ups
- investment in infrastructure improvements
- investment in high-quality education and training schemes
- offering tax incentives and subsidies to encourage investment.

Successful implementation of these policies will enable Australia to achieve long-run economic growth.

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Acknowledgements

Figure 1 adapted from https://tradingeconomics.com/australia/personal-savings

Figure 2 adapted from https://tradingeconomics.com/australia/unemployment-rate

Extract A adapted from https://www.marketwatch.com/story/consumer-spending-boosts-australias-economy-2020-12-01; https://www.cnbc.com/2021/04/21/australias-retail-sales-jump-in-march-as-consumer-confidence-soars.html; https://treasury.gov.au/coronavirus/jobkeeper

Extract B adapted from https://www.ampcapital.com/au/en/insights-hub/articles/2021/march/econosights-australian-economic-policy-beyond-covid-19