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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

Monday 15 May 2023

Afternoon (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 Which **one** of the following is a withdrawal from the circular flow of income?

- ☒ **A** Investment
- ☒ **B** Consumption
- ☒ **C** Savings
- ☒ **D** Exports

(Total for Question 1 = 1 mark)

2 Spain's unemployment rate fell from 13.6% in quarter 1 2022 to 12.5% in quarter 2 2022.
Its annual rate of inflation increased from 6.1% in January 2022 to 10.2% in June 2022.

Which **one** of the following best illustrates the possible conflict between the macroeconomic objectives of a low rate of inflation and a low rate of unemployment?

- ☒ **A** The short-run Phillips curve
- ☒ **B** The aggregate demand curve
- ☒ **C** The short-run AS curve
- ☒ **D** The Keynesian LRAS curve

(Total for Question 2 = 1 mark)

3 Which **one** of the following statements about the classical long-run aggregate supply (LRAS) curve is correct?

- ☒ **A** It is relatively elastic at high levels of spare capacity
- ☒ **B** It is perfectly inelastic at the full employment level of real output
- ☒ **C** It is perfectly inelastic at high levels of spare capacity
- ☒ **D** It is relatively elastic at the full employment level of real output

(Total for Question 3 = 1 mark)

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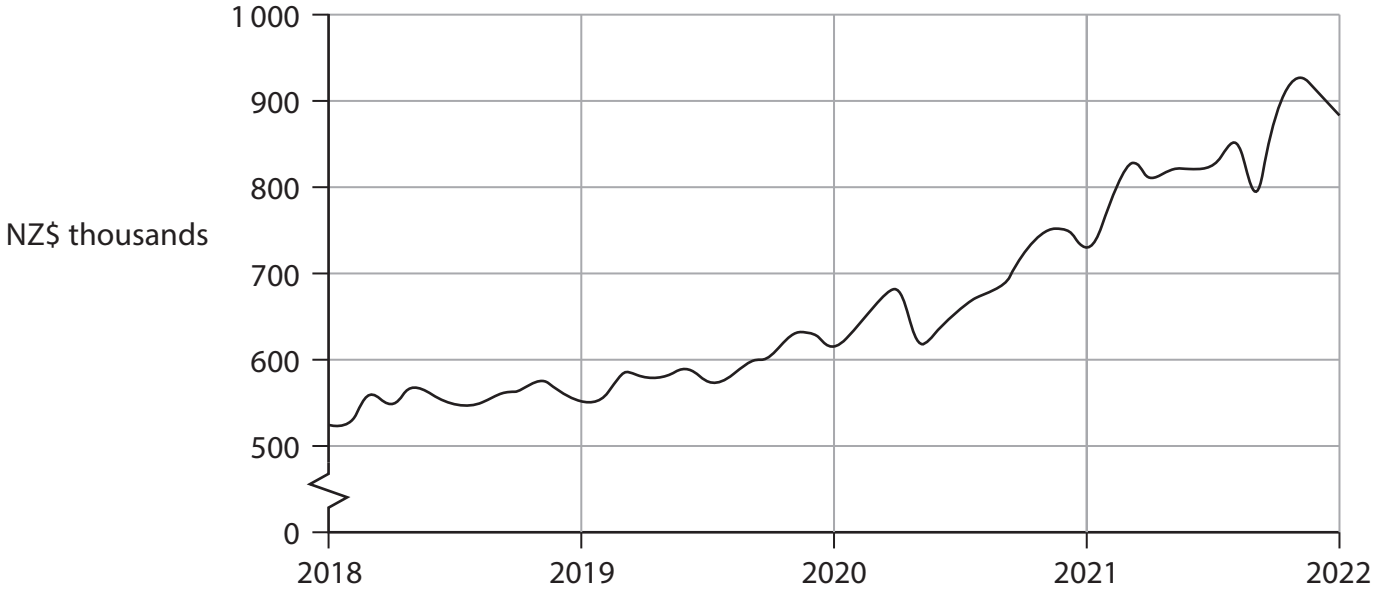
4 The chart shows changes in average house prices in New Zealand between January 2018 and December 2021.



Which **one** of the following is the most likely impact of the change in average house prices on existing homeowners between January 2018 and December 2021?

- ☒ **A** Higher consumer confidence
- ☒ **B** Negative wealth effects
- ☒ **C** An increase in net investment
- ☒ **D** Lower consumer expenditure

(Total for Question 4 = 1 mark)

5 In December 2021 the European Central Bank (ECB) decided to end its asset purchases (quantitative easing) scheme. In August 2022 the ECB started to sell these assets.

Which **one** of the following describes this economic policy?

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

(Total for Question 5 = 1 mark)

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6 The table shows China's nominal Gross Domestic Product (GDP) and population for 2011 and 2021.

Year	GDP ($ billion)	Population (billions)
2011	7 550	1.345
2021	17 730	1.412

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

☒ **A** Between 2011 and 2021 nominal GDP increased by 5%

☒ **B** Between 2011 and 2021 population increased by 134.8%

☒ **C** GDP per capita in 2011 was $10 155

☒ **D** GDP per capita in 2021 was $12 557

(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 Between 2018 and 2021 the annual rate of unemployment in Pakistan increased from 4.1% to 6.5%.

Explain **one** possible effect of the increase in the rate of unemployment on the public finances of Pakistan.

(Total for Question 7 = 4 marks)

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8 Between July 2021 and July 2022 there was a fall in business confidence in Germany.

Draw an AD and LRAS diagram to show the likely impact of a fall in business confidence on the economy of Germany.

(Total for Question 8 = 4 marks)

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9 In 2022 it was estimated that an increase in government spending of $25 billion in an economy would eventually result in an increase in the country's national income of $100 billion.

Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.

(Total for Question 9 = 4 marks)

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10 In 2022 Vietnam's output gap was forecast to be between –5% and –10%.

Explain **one** likely impact of a negative output gap on Vietnam's economy.

(Total for Question 10 = 4 marks)

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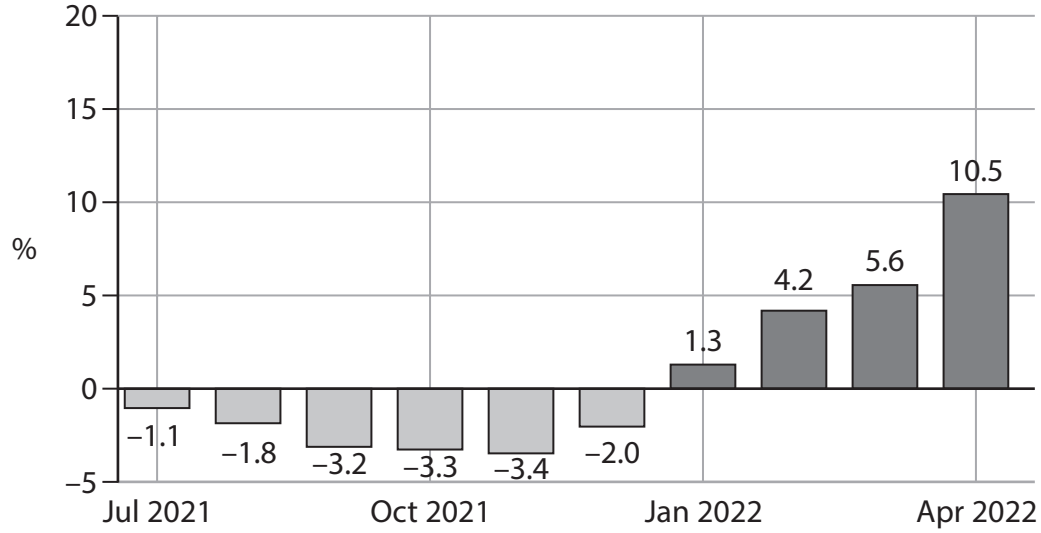
11 The chart shows the CPI inflation rate* in Rwanda between July 2021 and April 2022.



*This is the year-on-year inflation rate calculated monthly.

With reference to the chart, explain what is meant by deflation.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

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

12 (a) Define the term 'GDP growth rate' (Extract A, line 23).

(2)

(b) With reference to Figure 1, explain the difference between a balance of trade deficit and a balance of trade surplus.

(4)

(c) Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9).

(6)

(d) Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7).

(8)

(e) With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy.

(14)

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(c) Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9).

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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 In 2022 Japan's productivity was approximately 30% lower than that of the USA.

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

(Total for Question 13 = 20 marks)

OR

14 Many economists are expecting several of the world's leading economies to enter a recession in 2023.

Evaluate the likely costs of a recession on an economy of your choice.

(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

Monday 15 May 2023

Afternoon (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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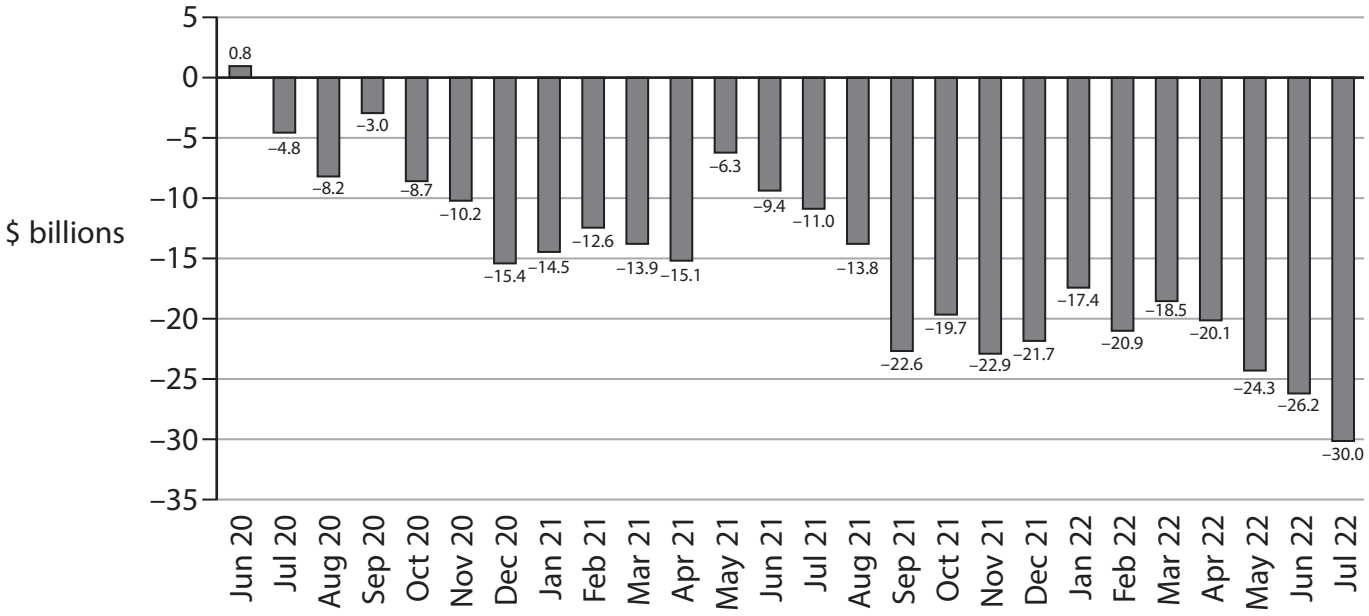
Sources for use with Section C

The Indian economy

Figure 1 Balance of trade, June 2020 to July 2022



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Extract A Balance of trade, inflation and economic growth

In 2022 the Indian economy was experiencing several challenges following the global health crisis. In particular, there was a rising rate of inflation caused by its dependence on imported oil. Oil accounts for 30% of India's imports by value. This is more than double the average of 14.7% for other major Asian economies, such as China, Japan and South Korea. In July 2022 India reported a record balance of trade deficit of $30 billion, largely caused by the increased expenditure on imported oil. This deficit was one of the largest of all the Asian economies. Economists expect the rate of inflation to increase which will have a further negative impact on India's balance of trade.

The rate of inflation was 7.01% in June 2022 compared with June 2021. This was the second highest rate of inflation of the larger Asian economies. This higher rate of inflation reduced the purchasing power of consumers in India. As a result, many consumers were struggling to afford basic necessities. According to economists there were increasing signs that consumer expenditure would increase at a slower rate in the second half of 2022 than in the first half of 2022. This was likely to cause a fall in the rate of economic growth.

During 2022, India's currency, the rupee, fell in value against the US dollar. In order to prevent the rupee from falling further, and to control the rising rate of inflation, India's central bank raised the country's base rate of interest to 4.9% in June 2022. This represented an increase of 0.5 percentage points from the previous month.

Unlike several other Southeast Asian countries, exports of services contribute more to India's economic growth rate than exports of goods.

The Asian Development Bank (ADB) decreased its projected GDP growth rate for India to 6.7% for 2022. This was as a result of the high rate of inflation in India and the deflationary monetary policy adopted by India's central bank. The ADB predicted a small increase in consumer expenditure in the second half of 2022. However, it believed that this increase in consumption will not be sufficient to maintain India's rate of economic growth.

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Acknowledgements

Figure 1 adapted from https://tradingeconomics.com/india/balance-of-trade

Extract A adapted from https://www.ft.com/content/30a87a08-6ca6-40a7-9372-16c8e0cee323