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| Candidate surname | Other names |
|---|---|
| | |

Centre Number | Candidate Number

# Pearson Edexcel International Advanced Level

## Thursday 16 October 2025

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** It has been estimated that the marginal propensity to consume for China is 0.6.

Which **one** of the following is the value of the multiplier for China?

☒ **A** 0.40

☒ **B** 0.60

☒ **C** 1.67

☒ **D** 2.50

**(Total for Question 1 = 1 mark)**

**2** Which **one** of the following is a supply-side policy that is most likely to shift the LRAS curve to the right?

☒ **A** An increase in the level of government regulation applied to firms

☒ **B** An increase in the rate of tax on profits made by firms

☒ **C** A reduction in government spending on benefit payments

☒ **D** A reduction in government spending on health care

**(Total for Question 2 = 1 mark)**

**3** In 2023 the value of Mexico's imports was $678bn. This represented a 1.5% increase compared with 2022.

Which **one** of the following is most likely to lead to an increase in spending on a country's imports?

☒ **A** A rise in the rate of unemployment

☒ **B** A fall in the value of the country's exchange rate against other currencies

☒ **C** A reduction in income tax rates

☒ **D** A rise in the reserve asset requirements that commercial banks need to hold

**(Total for Question 3 = 1 mark)**

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**4** In 2021 the value of foreign direct investment (FDI) to Singapore was $176 bn. In 2022 this value of FDI increased to $195 bn.

Which **one** of the following is the most likely impact of an increase in investment in an economy?

- ☒ **A** An increase in the rate of economic growth
- ☒ **B** An increase in the rate of unemployment
- ☒ **C** A decrease in the rate of employment
- ☒ **D** A decrease in aggregate demand

**(Total for Question 4 = 1 mark)**

**5** The table shows population data and index numbers for CPI inflation and nominal GDP for an economy in 2023 and 2024.

| Year | Population (millions) | CPI inflation | Nominal GDP |
|---|---|---|---|
| 2023 | 20 | 100 | 100 |
| 2024 | 21 | 110 | 105 |

When comparing 2024 to 2023, which **one** of the following can be deduced from the information provided?

- ☒ **A** Real GDP increased
- ☒ **B** Real GDP per capita decreased
- ☒ **C** The population increased at a faster rate than prices
- ☒ **D** Nominal GDP increased by 10%

**(Total for Question 5 = 1 mark)**

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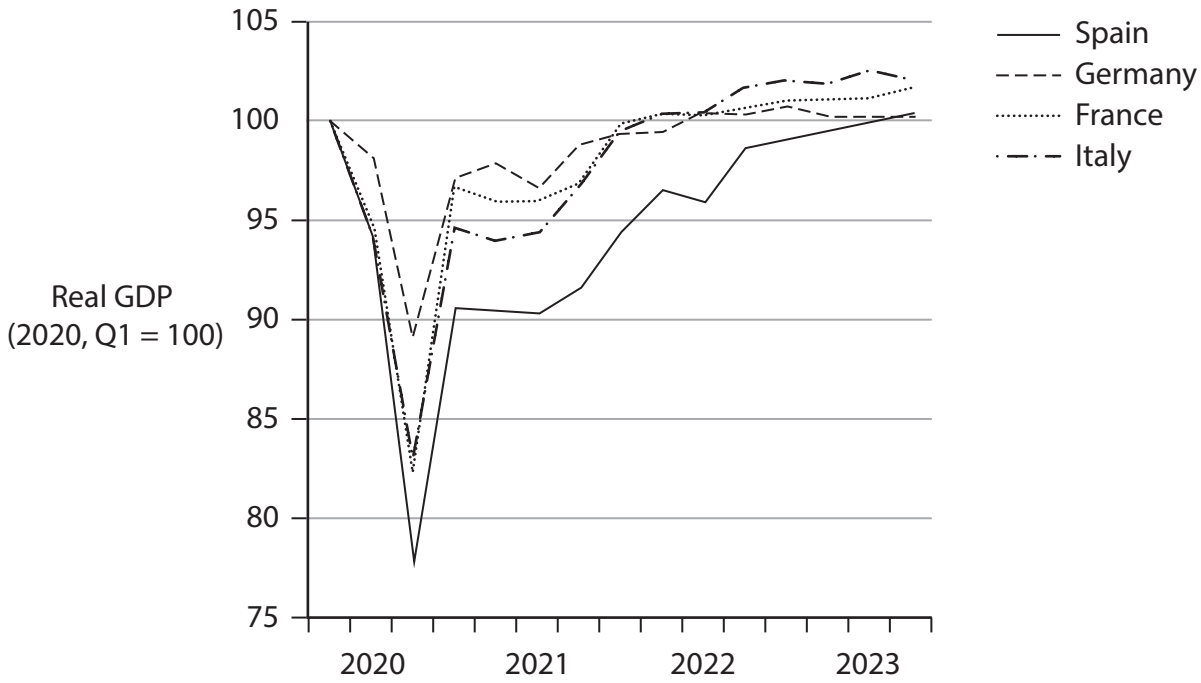
**6** The chart shows **index numbers of** real GDP in selected countries between 2020 and 2023 (2020, Q1 = 100).




Which **one** of the following statements is correct?

- ☒ **A** France's real GDP was lower in 2023 than it was in 2020
- ☒ **B** Spain experienced a smaller recession than Italy in 2020
- ☒ **C** Between 2020 and 2023, inflation was lower in France than in Germany
- ☒ **D** Between 2020 and 2023, economic growth was higher in Italy than in Spain

**(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 spaces provided.**

**7** In 2023 Pakistan experienced a negative output gap.

Draw an aggregate demand and aggregate supply diagram to show a negative output gap.

**(Total for Question 7 = 4 marks)**

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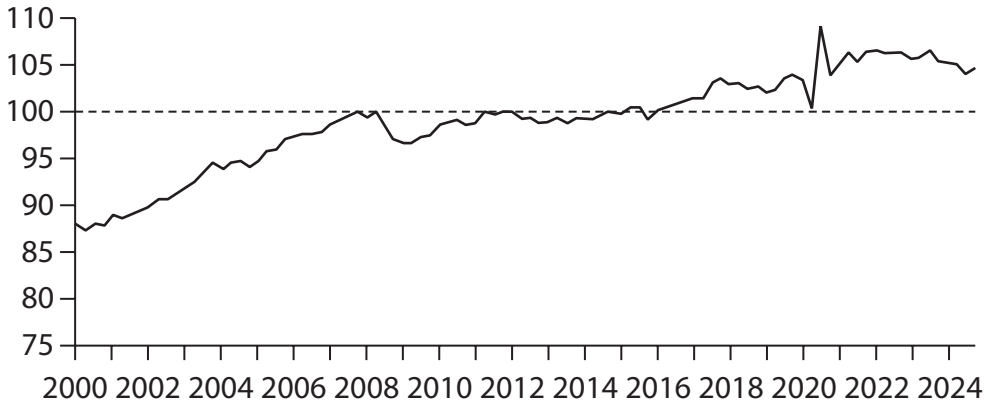
**8** The chart shows index numbers for UK productivity between 2000 and 2024, (2007 = 100).




With reference to the chart, explain what is meant by the term 'productivity'.

**(Total for Question 8 = 4 marks)**

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**9** The table shows the pattern of spending for one person who only buys bread and milk.

| | Price in Year 1 ($) | Price in Year 2 ($) | Percentage of total spending (Weight) | Percentage price change | Weight x percentage price change |
|---|---|---|---|---|---|
| Bread | 2.00 | 2.50 | 80 | | |
| Milk | 1.00 | 1.20 | 20 | | |
| | | | | | |

Calculate the rate of inflation for this person between Year 1 and Year 2. Show your workings. You may wish to use the extra columns in the table.

**(Total for Question 9 = 4 marks)**

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**10** The table shows the value of exports and imports of goods and services for Botswana in 2021 and 2022.

| | **Exports ($m)** | **Imports ($m)** |
|---|---|---|
| 2021 | 7 475 | 8 463 |
| 2022 | 8 415 | 8 115 |

With reference to the table, explain the impact of these changes in the value of exports and imports on the circular flow of income.

**(Total for Question 10 = 4 marks)**

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**11** Between 2020 and 2022 Cambodia's savings ratio increased from 25.1% to 31.1%.

With reference to the data, explain **one** likely cause of this change in the savings ratio.

**(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 spaces provided on the following pages.**

**12** (a) Define the term 'inflation target'. (Extract B, line 7)

**(2)**

(b) With reference to Figure 1 and Extract A, explain what is meant by the term 'a balanced government budget'.

**(4)**

(c) With reference to Figure 2 and the first paragraph of Extract A, analyse **two** factors that have caused a 'slowdown in the rate of economic growth' in India.

**(6)**

(d) With reference to Extract B, examine how a rise in the price of imports may affect India's real GDP.

**(8)**

(e) With reference to Figure 2, Extract B and your own knowledge, discuss the likely effects of the reduction in the base interest rate on the rate of inflation in India.

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**12** (a) Define the term 'inflation target'. (Extract B, line 7)

**(2)**

(b) With reference to Figure 1 and Extract A, explain what is meant by the term 'a balanced government budget'.

**(4)**

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(c) With reference to Figure 2 and the first paragraph of Extract A, analyse **two** factors that have caused a 'slowdown in the rate of economic growth' in India.

**(6)**

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(d) With reference to Extract B, examine how a rise in the price of imports may affect India's real GDP.

**(8)**

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(e) With reference to Figure 2, Extract B and your own knowledge, discuss the likely effects of the reduction in the base interest rate on the rate of inflation in India.

**(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** Between 2000 and 2023, it is estimated that world GDP has doubled. Over the same time period, global greenhouse gas emissions increased by 32%.

Evaluate the view that the pursuit of economic growth must always conflict with other macroeconomic objectives.

**(Total for Question 13 = 20 marks)**

**OR**

**14** Between 2020 and 2024, the rate of unemployment in China increased from 3.6% to 4.2%.

Evaluate the possible causes of a rise in the rate of unemployment. 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

# Thursday 16 October 2025

Morning (Time: 1 hour 45 minutes)

Paper reference **WEC12/01**

# Economics

## International Advanced Subsidiary

## UNIT 2: Macroeconomic performance and policy

**Source Booklet**

**Do not return this Booklet with the question paper.**

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## Sources for use with Section C

### The economy of India

**Figure 1 Budget balance (as a percentage of real GDP), 2020 to 2024**

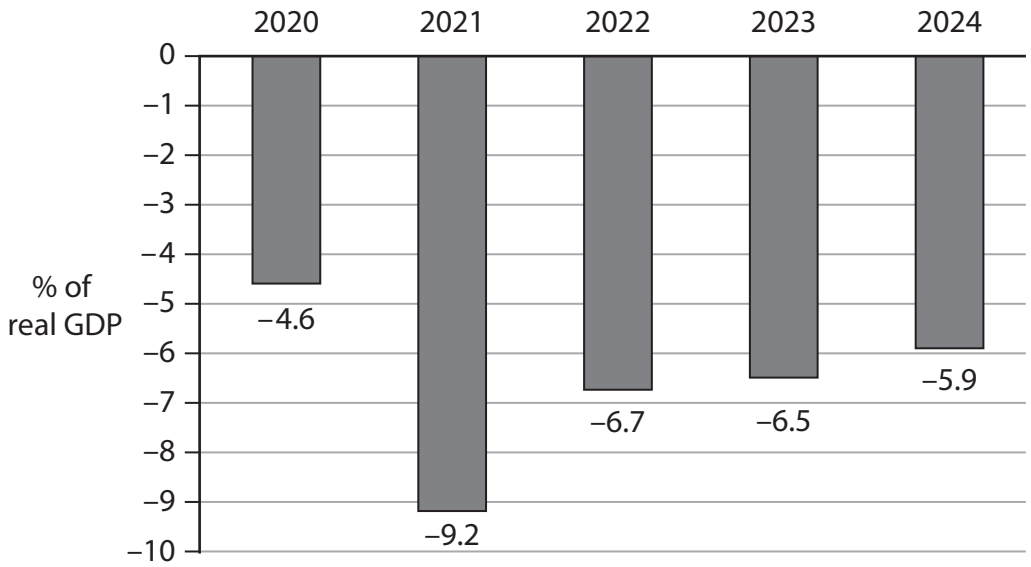
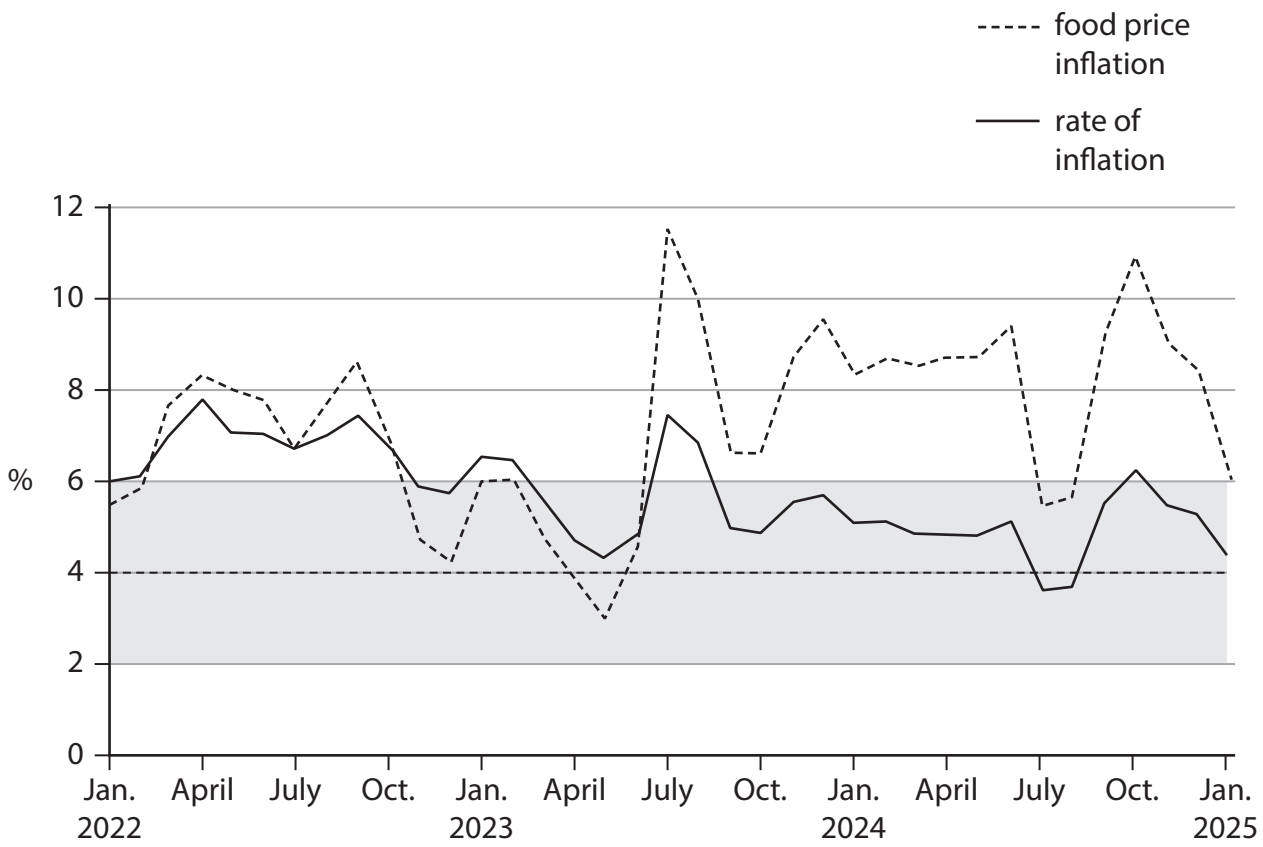



**Figure 2 Food price inflation and the rate of inflation (as measured by the CPI), January 2022 to January 2025**



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**Extract A Economic growth**

India's rate of economic growth was 5.9% in 2024. This was the slowest rate since 2022 and lower than 6.5% in 2023. Food price inflation, stagnant wages and high unemployment have caused this slowdown in the rate of economic growth.

The most recent government budget attempted to boost domestic consumption by reducing taxes for middle-income households. However, the majority of workers are employed in the informal sector and are therefore unlikely to benefit from these tax changes. These tax changes may also prevent the achievement of a balanced government budget.

**Extract B Monetary policy and inflation**

In February 2025 India's central bank cut its base interest rate for the first time in almost five years by 0.25 percentage points to 6.25%. The aim of this policy change was to stimulate the rate of economic growth.

The Governor of India's central bank said: "We felt the time has come to be more supportive of growth because inflation is coming down." He said that the rate of inflation was expected to continue to fall from 5.2% in December 2024. India's inflation target is 4% with a tolerance of 2 percentage points on either side of this target.

However, the Indian currency, the rupee, fell by around 2% against the US dollar in 2024. This raised concerns that the price of imports would increase, especially as India has a balance of trade deficit. In addition, some economists believe that uncertainties in the global economy may cause a rise in oil prices. For example, a $10 increase in the price of a barrel of oil could reduce India's nominal GDP by 0.4% a year.

The Government provides subsidies on fuel for consumers. Consequently, a rise in the price of oil is likely to increase government spending on these subsidies. This would reduce the impact of the higher cost of fuel.

Rising import prices could reduce investment by firms and cause consumers to delay spending on higher-priced goods, such as cars.

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**Acknowledgements**

Figure 1 adapted from: https://tradingeconomics.com/india/government-budget

Figure 2 adapted from: https://www.reuters.com/world/india/indias-retail-inflation-january-slows-431-yy-2025-02-12/#:~:text=The%20central%20bank%20targets%20inflation,4.31%25%20and%206.02%25%20respectively

Extracts A and B adapted from:
https://www.ft.com/content/1b02e266-ac02-4a35-9d93-cbc247108960

https://www.reuters.com/world/india/indias-retail-inflation-january-slows-431-yy-2025-02-12/#:~:text=The%20central%20bank%20targets%20inflation,4.31%25%20and%206.02%25%20respectively

https://www.ft.com/content/a0fb6ad1-4e1f-4fc8-9706-f1eb408ad443

https://www.business-standard.com/economy/news/at-4-3-in-fy25-inflation-may-head-lower-than-rbi-forecast-estimates-cmie-124030400389_1.html