Oxford Cambridge and RSA

AS Level in Economics

H060/02 Macroeconomics

Monday 22 May 2017 – Morning

Time allowed: 1 hour 30 minutes

You must have:
- a calculator

First name	
Last name	
Centre number	
Candidate number	

INSTRUCTIONS
- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Sections A and B: Answer **all** the questions in each of these sections.
- Section C: Answer **one** question in this section.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the barcodes.

INFORMATION
- The total mark for this paper is **60**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **16** pages.

SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

1 Which of the following would **not** be included in the national income figures?

A A teacher's pay
B Rent paid by tenants to a landlord
C Taxable interest on any savings
D Unemployment benefits

Your answer [ ] **[1]**

2 Which factor would be most likely to lead to an increase in the size of the labour force?

A An increase in income tax levels
B An increase in inward migration
C An increase in unemployment benefits
D A reduction in the retirement age

Your answer [ ] **[1]**

3 In which circumstance will structural unemployment arise?

A A bricklayer leaves his employment voluntarily
B A construction worker is laid off during a period of bad weather
C An increase in the base rate of interest reduces demand for all goods
D Automation results in factory workers being made redundant

Your answer [ ] **[1]**

4 Which of the following is an injection into the circular flow of income?

A Consumer expenditure
B Exports
C Savings
D Taxation

Your answer [ ] **[1]**

5 The size of a country's multiplier is 2.5. Its marginal rate of taxation is 0.1 and its marginal propensity to save is 0.1. What is the value of its marginal propensity to import?

A 0.05
B 0.2
C 0.4
D 2.3

Your answer ☐ **[1]**

6 What will cause the public sector net cash requirement (PSNCR) in the UK to decrease in the short run?

A More workers paying the higher rate of income tax
B The economy entering a recession
C The government embarking on a programme of capital spending
D The government reflating the economy through cuts in direct taxation

Your answer ☐ **[1]**

7 The Monetary Policy Committee decides to raise the UK base rate of interest by 1%. Which combination of effects is this likely to cause?

	Investment	**Exchange rate**
A	Decrease	Appreciate
B	Decrease	Depreciate
C	Increase	Appreciate
D	Increase	Depreciate

Your answer ☐ **[1]**

8 Which of the following is a supply side policy measure?

A Deregulation
B Devaluation
C The imposition of higher rates of income tax
D The introduction of an inflation rate target

Your answer ☐ **[1]**

9 The table shows the prices of a country's imports and exports over 4 successive years. In which year was there the most favourable terms of trade?

Year	Index of export prices	Index of import prices
1	100	100
2	106	111
3	108	114
4	118	114

A Year 1
B Year 2
C Year 3
D Year 4

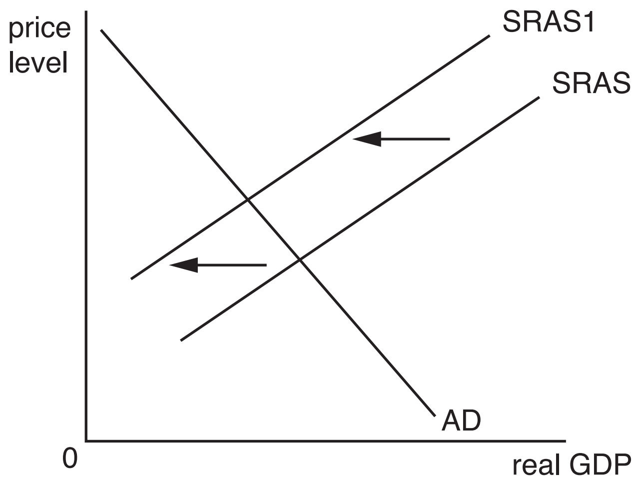
Your answer ☐ **[1]**

10 A government may reduce the national minimum wage in order to

A achieve a more equal distribution of income.
B cut firms' costs.
C lower voluntary employment.
D reduce government spending on benefits.

Your answer ☐ **[1]**

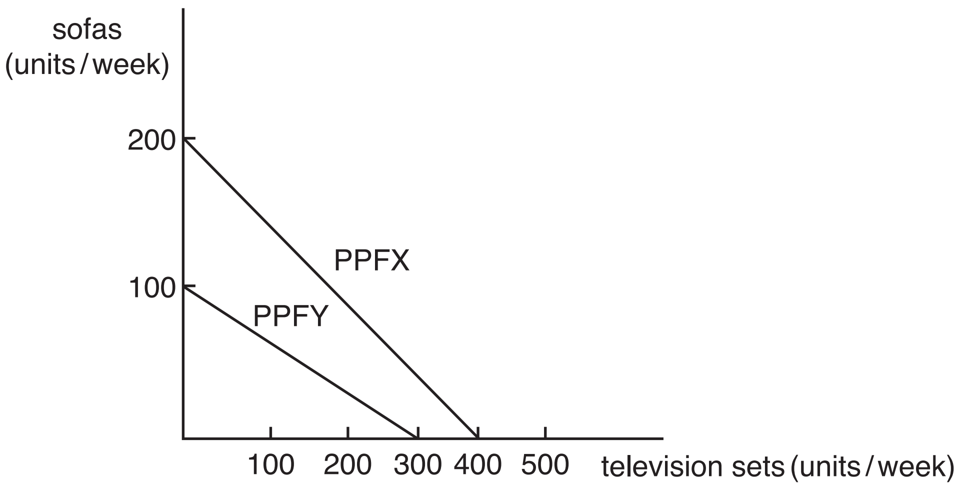
11 What could cause the shift in the short-run aggregate supply curve from SRAS to SRAS1 shown in the diagram below?



A A fall in the money supply
B A fall in the rate of interest
C A rise in government spending
D A rise in wage rates

Your answer ☐ **[1]**

12 In the diagram below PPFX represents the production possibility curve for Country X and PPFY represents Country Y.



Which of the following is correct?

A Country X has a comparative advantage in the production of sofas
B Country X has a comparative advantage in the production of television sets
C Country Y has an absolute advantage in the production of sofas
D Country Y has an absolute advantage in the production of television sets

Your answer ☐ **[1]**

13 Which of the following will increase the size of the current account deficit on the UK's balance of payments in the short run?

A An increase in loans by UK banks to Polish firms
B An increase in the number of French tourists taking UK holidays
C An increase in UK foreign direct investment in the USA
D An increase in UK foreign aid given to Ethiopia

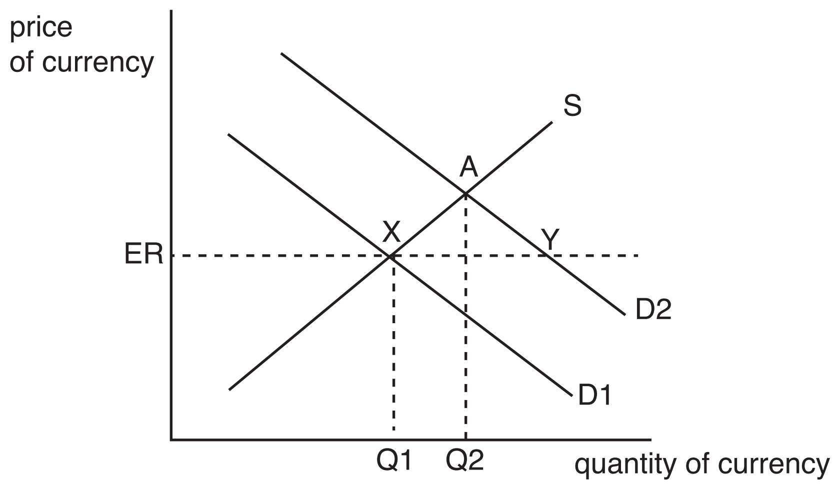
Your answer ☐ **[1]**

14 A country experiences a decline in its exports and its imports. Which of the following is most likely to have caused these changes?

A A decrease in the country's exchange rate
B A decrease in the extent to which the country specialises
C An increase in both incomes at home and abroad
D An increase in trade liberalisation policies adopted at home and abroad

Your answer ☐ **[1]**

15 The diagram below shows the demand for and supply of a currency on the foreign exchange market. The country is committed to maintaining the foreign exchange rate at ER. If the demand for the currency shifts to D_2 which one of the following policies could be pursued to maintain the fixed exchange rate ER?



A A cut in domestic interest rates
B A cut in unemployment benefits
C A subsidy given to domestic producers
D The purchase of the domestic currency on the foreign exchange markets

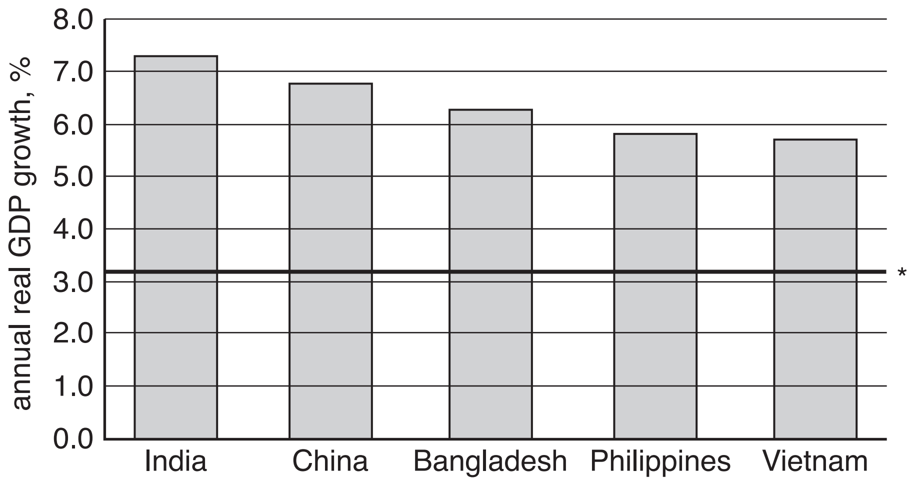
Your answer ☐ **[1]**

SECTION B

Answer **all** the questions in this section.

India's rise to the top

Economists are predicting that India will be the third biggest economy by 2030. Economic growth across emerging and developing countries in Asia has been aided by low international oil and commodity prices. However, any changes to global prices could slow down the rate of economic growth in these countries. Furthermore, slower than expected growth in China and Japan and increases in US interest rates may reverse flows of foreign direct investment to Asia affecting the growth of some of the fastest growing Asian economies. The rates of real GDP growth in five major Asian economies are shown in Fig. 1 below:



*The solid line represents annual average GDP growth rate for the global economy in 2015.

Fig. 1 Changes in real GDP in the top five fastest-growing Asian Economies: 2015 (forecast)

India's annual growth rate was predicted to reach 7.3% in 2015, higher than predicted figures for the other countries shown. India's economic growth was credited to increases in public and private investment in infrastructure, simplifying income tax bands and reducing corporation tax rates, which have helped to boost investor confidence. Lower oil import prices were expected to help increase household real disposable income and help to drive down the rate of inflation. The average inflation rate in India in 2015 was 5.9%, compared to an average rate of 6.4% in 2014.

India's inflation rate is influenced by changes in the country's exchange rate. Fig. 2 shows that the number of units of India's currency, the rupee, that had to be sold to purchase one US dollar has changed over the period 2011 to 2015.

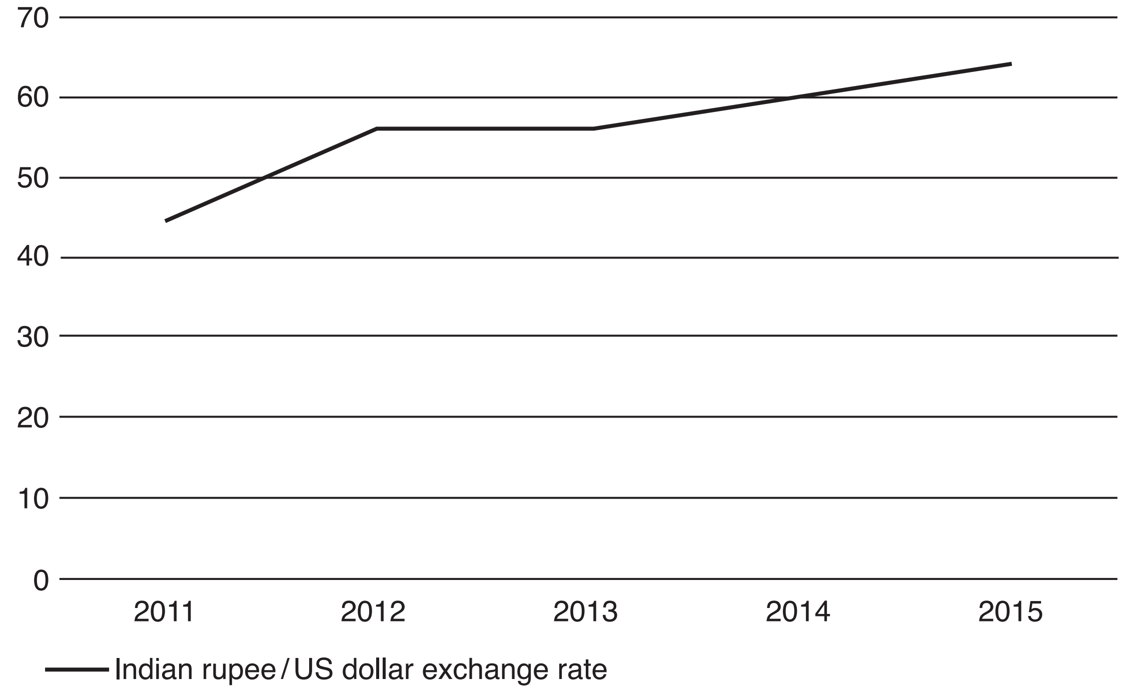


Fig. 2 Indian currency units (rupees) per US$ 2011 – 2015

Changes in the country's exchange rate influences the current account position on its balance of payments. In turn, changes in the current account position can affect the country's unemployment rate. Fig. 3 shows the balance on India's current account and the country's unemployment rate over the period 2011 and 2015.

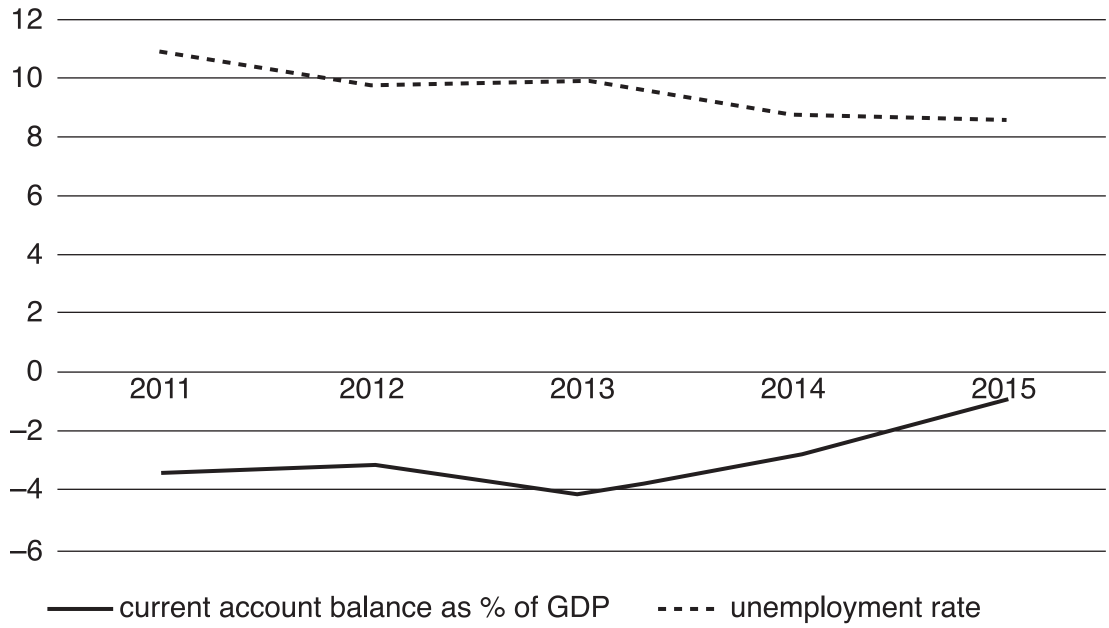


Fig. 3 India's current account balance and unemployment 2011 – 2015

16 **(a)** Using Fig. 1, compare the average economic growth rate of the five countries with the average global economic growth rate.

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(b) Using information from the case study, explain **one** benefit of lower oil prices in India.

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(c) Using Fig. 2, explain what happened to the value of the Indian rupee between 2011 and 2015.

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(d) Using Fig. 3:

(i) Describe the relationship between India’s current account balance and its unemployment rate over the period shown.

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(ii) Explain how the change in India's current account balance between 2013 and 2015 may have influenced the country's unemployment rate.

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(e) Using a diagram, explain how an increase in spending on infrastructure in India could lead to economic growth.

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(f)* Evaluate the consequences of a fall in the rate of inflation in India on the performance of the Indian economy.

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SECTION C

Answer Question 17 **or** Question 18.

17* In the March 2016 budget the Chancellor of the Exchequer increased both the threshold at which people pay income tax and the threshold at which people pay the top rate of income tax.

Evaluate, using an appropriate diagram(s), the effectiveness of the use of fiscal policy as a method of achieving the UK's macroeconomic objectives. **[20]**

OR

18* In the period September – December 2015 the rate of unemployment in the UK fell to its lowest level in more than ten years to 5.1%. The number of people out of work fell by 99,000 to 1.68 million in the same three-month period.

Evaluate, using an appropriate diagram(s), the consequences of a fall in the rate of unemployment for the UK economy. **[20]**

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END OF QUESTION PAPER

ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).