



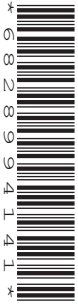
Oxford Cambridge and RSA

A Level Economics

H460/02 Macroeconomics

Tuesday 13 June 2017 – Afternoon

Time allowed: 2 hours



You may use:

- 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.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided. If additional space is required, 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 **80**.
- 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 **20** pages.

2
SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

Lowflation

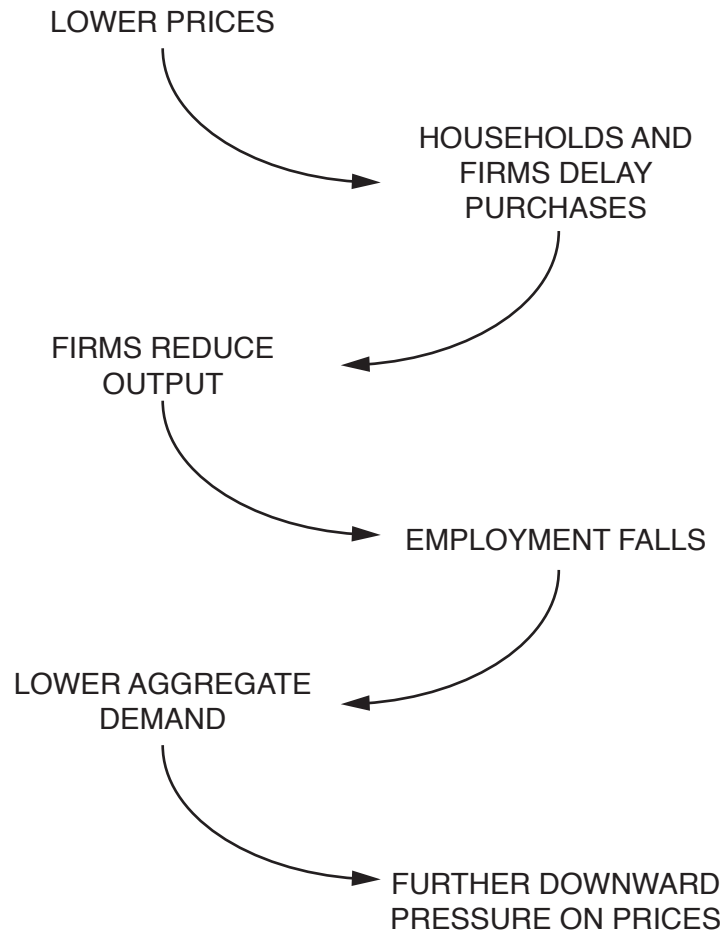
5 In 2014 a new term 'lowflation' was invented by Simon Kennedy of Bloomberg News. He defined it as a situation where prices are rising but not fast enough to provide the benefits delivered by higher inflation. A number of economists and economic institutions now use the term. The International Monetary Fund, for instance, employs the term to describe disinflation with a risk of deflation.

Lowflation may mean that inflation is below any target set by the government or central bank of a country. Table 1 shows the target rate for inflation, the inflation rate and the nominal interest rate of five countries in 2015.

Table 1 – Inflation target, inflation rate and interest rate for selected countries, 2015

Country	Inflation target (%)	Inflation rate (%)	Interest rate (%)
Mexico	3 +/- 1	2.6	6.1
Russia	4.5	15.3	10.2
South Africa	3 – 6	4.7	9.6
Turkey	5 +/- 2	7.6	11.1
UK	2 +/- 1	0.1	1.8

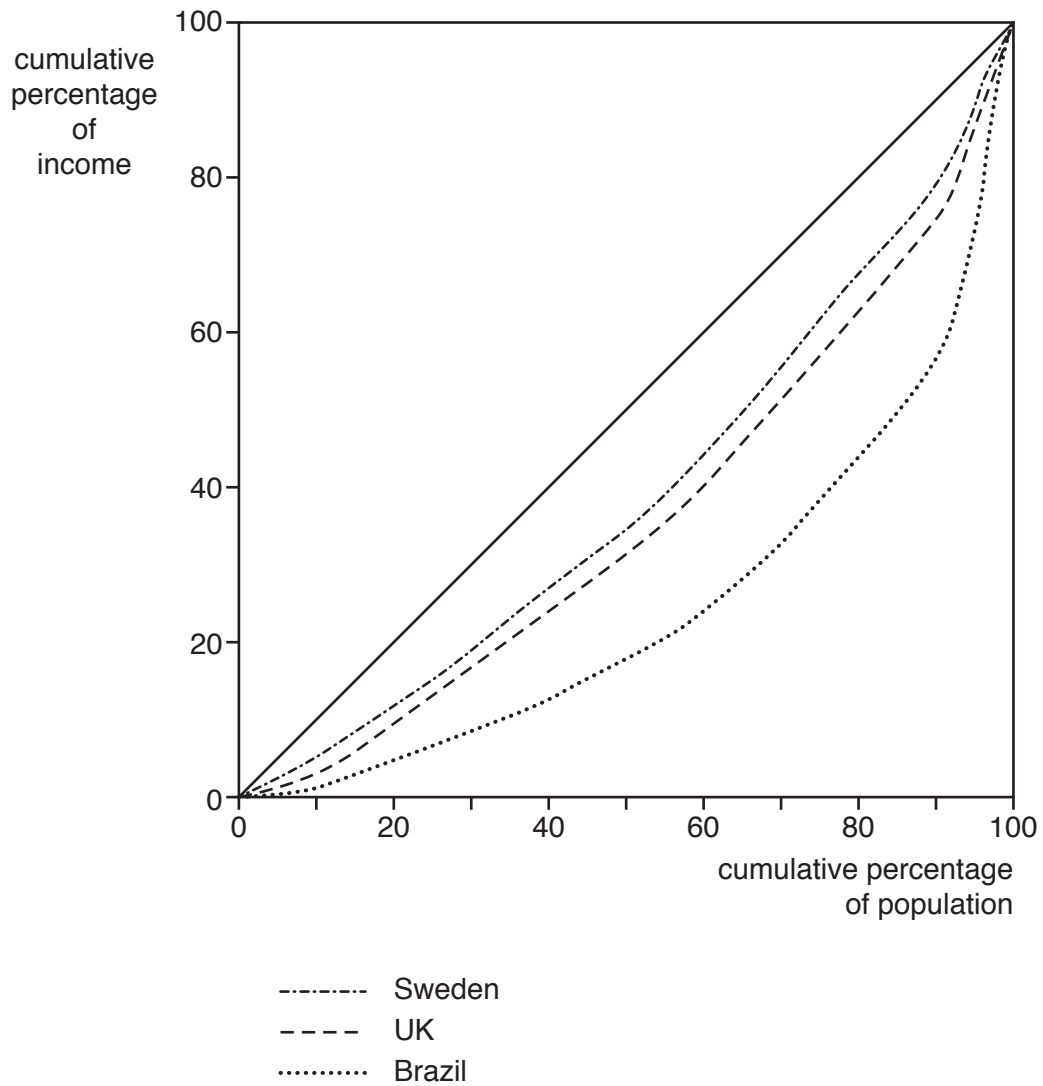
- The main policy tool used by central banks to keep inflation within target is the rate of interest.
- 10 In some circumstances, central banks use quantitative easing to inject money directly into the economy and to help firms find it easier and cheaper to borrow from a range of financial institutions. A possible effect of quantitative easing is to increase the amount of money in commercial banks and so banks' ability to lend. The Bank of England has also used forward guidance to influence expectations about future levels of interest rates.
- 15 As Table 1 shows the rate of inflation experienced varied between countries in 2015. A number of countries, including Japan, the UK and the USA experienced lowflation. There was concern in these countries that they might experience a deflationary spiral such as that shown in Fig. 1.

Fig. 1 – The deflationary spiral

20 Other countries experienced high inflation in 2015. A number of these were commodity exporters which were affected by the fall in the price of commodities which tend to have price inelastic demand. For instance, several oil exporting countries saw their price level rise as a result of the fall in the price of oil and the resulting impact this had on their exchange rates.

Inflation can have a number of effects on an economy. One of these is that it can redistribute income. Fig. 2 shows the Lorenz curves for three countries in 2014.

Fig. 2 – Lorenz curves for Brazil, Sweden and the UK, 2014



1 (a) Distinguish between disinflation and deflation.

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..... [2]

(b) (i) Using Table 1, calculate which country had the highest real interest rate in 2015.

Country

..... [1]

(ii) Using Table 1, explain which central bank would have been most likely to have engaged in quantitative easing.

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(c) (i) Using Fig. 2, explain which country had the most even distribution of income.

Country

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(ii) Using Fig. 2, calculate what percentage of income the second lowest 20% of income earners received in the UK. Show your workings.

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..... [2]

SECTION B

Answer EITHER question 2 OR question 3.

EITHER

2* At the start of 2016, Singapore had an unemployment rate of only 3.4%. This compared with an unemployment rate of 10.7% for the Eurozone.

Evaluate, with the use of an appropriate diagram(s), whether achieving full employment will always benefit an economy. [25]

OR

3* It was estimated that Greece had an output gap equivalent to 10% of potential GDP in 2015.

Evaluate, with the use of an appropriate diagram(s), whether fiscal policy will always reduce a negative output gap. [25]

Question No

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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).

A large area of lined paper for writing, consisting of 25 horizontal dotted lines. A solid vertical line runs down the left side of the page, creating a margin. The rest of the page is open for writing.

A large area of the page is reserved for writing, featuring a vertical solid line on the left side and horizontal dotted lines extending across the page.



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