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I declare this is my own work.

# AS ECONOMICS

## Paper 2 The National Economy in a Global Context

Monday 20 May 2024

Morning

Time allowed: 1 hour 30 minutes

### Materials

For this paper you must have:

- the Insert
- a calculator.

### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Section A**.
- Answer **either** Context 1 **or** Context 2 in **Section B**.
- You will need to refer to the Insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

### Information

- The maximum mark for this paper is 70.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use

Section

Mark

A

B

**TOTAL**



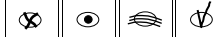
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**7135/2**

**Section A**Answer **all** questions in this section.Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD WRONG METHODS If you want to change your answer you must cross out your original answer as shown. If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. **0 1** Which one of the following is a measure of productivity?**[1 mark]**

- A** Employment divided by output 
- B** Output of goods per worker 
- C** Production multiplied by quantity of labour 
- D** Volume of goods produced 

**0 2** Between 2021 and 2022, the weight applied to the restaurant and hotels sector in the Consumer Prices Index rose from 97 to 102.

As a result of this change, it must be true that

**[1 mark]**

- A** average prices in the restaurant and hotels sector rose by just over 5% between 2021 and 2022. 
- B** restaurant and hotel prices rose by less than the overall average for consumer prices in 2021. 
- C** the proportion of average consumer expenditure relating to restaurants and hotels rose in 2022. 
- D** total consumer expenditure on restaurant and hotel services was higher in 2022 than in 2021. 



**0 3****Table 1** shows selected data for a country for 2022 and 2023.**Table 1**

|                            | 2022 | 2023 |
|----------------------------|------|------|
| Exports (\$bn)             | 10   | 12   |
| Government spending (\$bn) | 12   | 14   |
| Investment (\$bn)          | 40   | 38   |

The country's national income was in equilibrium in 2022 and 2023. All other things being equal, which one of the following is most likely to have occurred in this country in 2023 to maintain equilibrium national income?

**[1 mark]****A** A decrease in tax revenue☐**B** A fall in the value of imports☐**C** A rise in the budget deficit☐**D** An increase in savings☐**0 4**

An aggregate demand and short-run aggregate supply diagram is used to illustrate the effect of a rise in imports of goods and services into an economy. All other things being equal, which one of the following would be shown on the diagram?

**[1 mark]****A** A leftward movement along the aggregate demand curve☐**B** A leftward movement along the short-run aggregate supply curve☐**C** A rightward shift of the aggregate demand curve☐**D** A rightward shift of the short-run aggregate supply curve☐**Turn over ►**

**0 5**

All other things being equal, which one of the following is the most likely cause of a reduction in a country's surplus on its balance of payments on current account?

**[1 mark]****A** A depreciation in the exchange rate☐**B** Contractionary fiscal policy☐**C** Falling labour productivity☐**D** Growth in export markets☐**0 6**

Disinflation exists when

**[1 mark]****A** an economy experiences a fall in the cost of living.☐**B** deflation has occurred for two or more successive quarters.☐**C** nominal incomes are rising more slowly than prices.☐**D** the price level is rising less quickly than previously.☐**0 7**

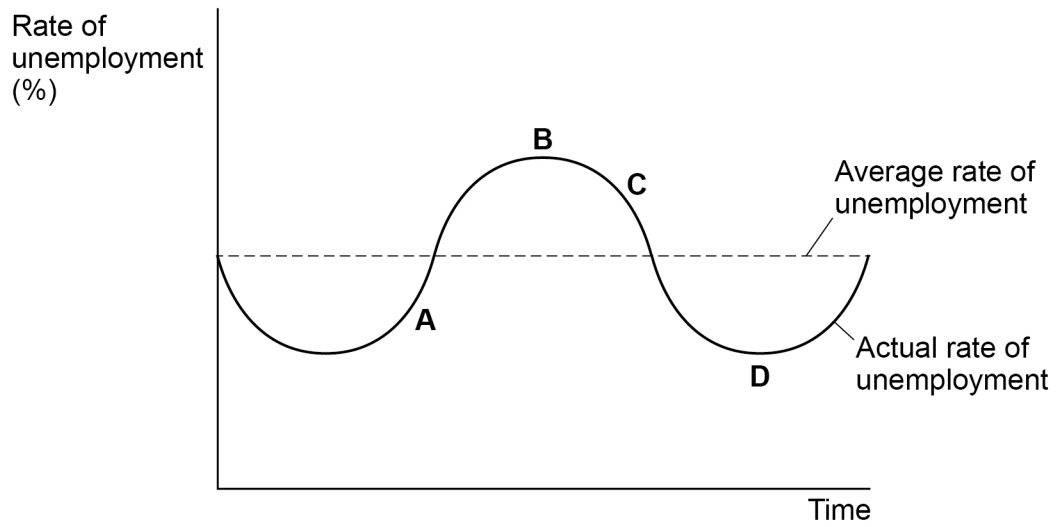
Which one of the following is most likely to cause a rightward shift of the long-run aggregate supply curve?

**[1 mark]****A** A fall in the supply of credit☐**B** A reduction in geographical immobility of labour☐**C** A rise in the cost of new technology☐**D** An increase in welfare benefit payments☐

0 8

**Figure 1** shows the rate of unemployment in an economy over a period of time.

**Figure 1**



At which one of the following points was the economy most likely to be in the recovery phase of the economic cycle?

**[1 mark]**

**A** Point A

☐

**B** Point B

☐

**C** Point C

☐

**D** Point D

☐

**Turn over for the next question**

**Turn over ►**



**0 9**

Which type of unemployment is caused by a fall in aggregate demand leading to a fall in the demand for labour?

**[1 mark]****A** Cyclical☐**B** Frictional☐**C** Seasonal☐**D** Structural☐**1 0**

Country W is operating at its normal capacity level of output. When one of its trading partners experiences economic growth, this leads to a rise in demand for Country W's exports.

All other things being equal, what is the most likely consequence of this for Country W?

**[1 mark]****A** A fall in employment and a reduction in cost-push inflation☐**B** A negative output gap and a period of disinflation☐**C** A positive output gap and an increase in demand-pull inflation☐**D** An increase in unemployment and a fall in the price level☐

**1 1**

Which one of the following explains the operation of the accelerator process in an economy?

**[1 mark]**

**A** Increasing investment leads to a rise in aggregate demand

☐

**B** National income increases as a result of rising investment

☐

**C** National income rises as a result of an increase in aggregate demand

☐

**D** Rising national income leads to an increase in investment

☐**1 2**

A government is considering how to fund additional spending on healthcare. One option is to raise the rate of tax charged on the whole of firms' profits from 19% to 25%.

All other things being equal, for every 10 firms earning profits of £1 million, by how much could the government increase its spending on healthcare without affecting the budget balance?

**[1 mark]**

**A** £60 000

☐

**B** £250 000

☐

**C** £600 000

☐

**D** £2 500 000

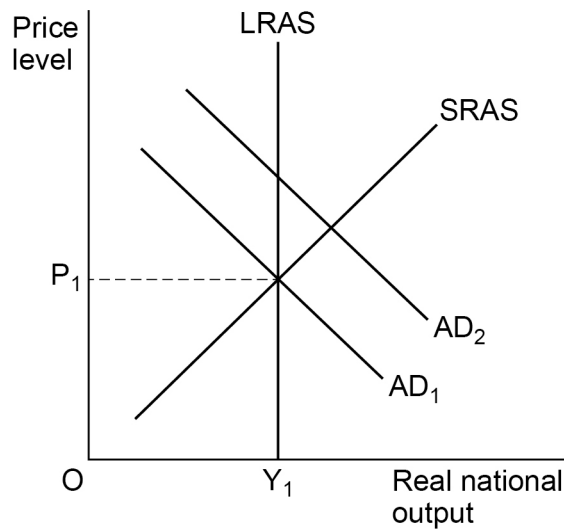
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**Turn over ►**

1 3

**Figure 2** shows the aggregate demand (AD), short-run aggregate supply (SRAS) and long-run aggregate supply (LRAS) curves for an economy.

**Figure 2**

All other things being equal, which one of the following is the most likely consequence for firms if an increase in government spending shifts the aggregate demand curve from  $AD_1$  to  $AD_2$ ?

**[1 mark]**

- A** Increase in spare capacity
- B** Less corporation tax is paid
- C** More goods are exported
- D** Shortages of skilled labour

☐☐☐☐

1 4

Which one of the following statements regarding UK monetary policy is true?

**[1 mark]**

- A** The central bank considers the government's fiscal policy when setting Bank Rate.
- B** The central bank is responsible for setting the rate of corporation tax.
- C** The central bank sets the target rate of inflation as measured by the Consumer Prices Index.
- D** The central bank's decisions do not affect the government's budget balance.

☐☐☐☐

**1 5**

A firm spent £12m on capital goods and its exports increased by £8m. As a result, national income increased by £24m.

All other things being equal, what is the value of the multiplier?

**[1 mark]**

- A** 0.8 ☐
- B** 1.2 ☐
- C** 2 ☐
- D** 3 ☐

**1 6**

A government is concerned that aggregate demand is growing faster than the productive capacity of the economy. In addition, the deficit on its balance of payments on current account has worsened.

Which one of the following policies is most likely to both reduce aggregate demand and help improve the balance of payments position?

**[1 mark]**

- A** A reduction in interest rates to cut mortgage repayments and lower the exchange rate ☐
- B** A reduction in taxes on company profits to encourage more innovation and investment ☐
- C** An increase in government borrowing to fund infrastructure spending and improve productivity ☐
- D** An increase in tax rates and a reduction in welfare payments to create a budget surplus ☐

**Turn over for the next question**

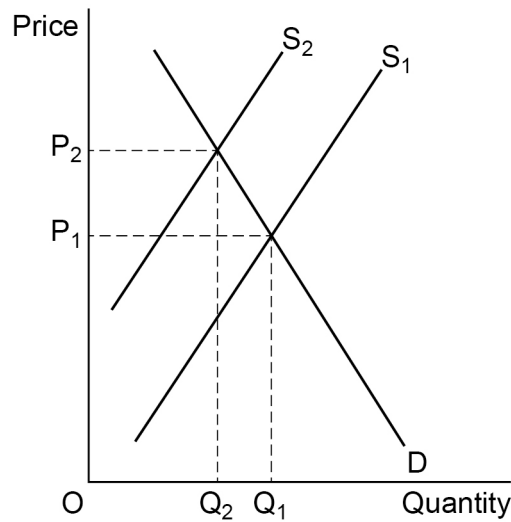
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1 7

**Figure 3** shows the demand (D) and supply (S) curves for a good in a market.

**Figure 3**



The diagram shows a shift of the supply curve for the good from  $S_1$  to  $S_2$  caused by the removal of a subsidy. All other things being equal, which one of the following is the most likely consequence of this action?

**[1 mark]**

- A** A change in the pattern of economic activity
- B** A decrease in the budget surplus
- C** A reduction in the balance of payments deficit
- D** An increase in direct tax revenue

☐
☐
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**1 8**

Between October 2022 and July 2023, the value of the US Dollar (US\$) in terms of the Swiss Franc (CHF) changed from US\$ 1 = CHF 1 to US\$ 1 = CHF 0.87.

All other things being equal, this means that

**[1 mark]**

- A** the Swiss Franc and the US Dollar are no longer in equilibrium. ☐
- B** the Swiss Franc has become weaker against the US Dollar. ☐
- C** the volume of exports from Switzerland to the USA is likely to increase. ☐
- D** the volume of imports to Switzerland from the USA is likely to increase. ☐

**1 9**

**Table 2** shows the indices of labour productivity and real GDP for Country A and Country B for 2 years.

**Table 2**

|                  | Index of labour productivity |        | Index of real GDP |        |
|------------------|------------------------------|--------|-------------------|--------|
|                  | Year 1                       | Year 2 | Year 1            | Year 2 |
| <b>Country A</b> | 100                          | 110    | 100               | 120    |
| <b>Country B</b> | 100                          | 105    | 100               | 110    |

Which one of the following can be concluded from the data?

**[1 mark]**

- A** In Year 2, labour productivity and real GDP were higher in Country A than Country B. ☐
- B** In Year 2, real GDP per capita was higher in Country A than Country B. ☐
- C** Labour productivity and real GDP grew more quickly in Country A than Country B over the period. ☐
- D** Real GDP per capita grew more quickly in Country A than in Country B. ☐

**Turn over ►**

**2 0**

Which one of the following is most likely to bring about a supply-side improvement in an economy?

A fall in

**[1 mark]**

**A** company profits

☐

**B** incentives for enterprise

☐

**C** income tax rates

☐

**D** labour productivity

☐

**20**

**END OF SECTION A**



**Section B**

Look at the Insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

**OR**

Questions 27 to 32 on pages 24 to 32 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

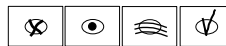
Context **0** **1** ☐

Context **0** **2** ☐

CORRECT METHOD



WRONG METHODS



**EITHER**

**Context 1**

**Total for this context: 50 marks**

**TROUBLING TIMES FOR THE UK ECONOMY**

Use the Insert provided to study **Questions 21 to 26** and **Extracts A, B and C**, and then answer the questions in the spaces which follow.

**2** **1** Define 'Regressive taxes' **Extract C** (line 12).

**[3 marks]**

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**Turn over ►**



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A homeowner has an interest-only mortgage of £225 000. The annual interest rate paid on their mortgage has increased from 2% to 4.3%.

Calculate the increase in the amount of interest paid per month to the **nearest pound (£)**.  
**[4 marks]**

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**2 3**

Use **Extract A** to identify **two** significant points of comparison between inflation and the growth in average weekly real earnings over the period shown.

**[4 marks]**

Point 1 \_\_\_\_\_

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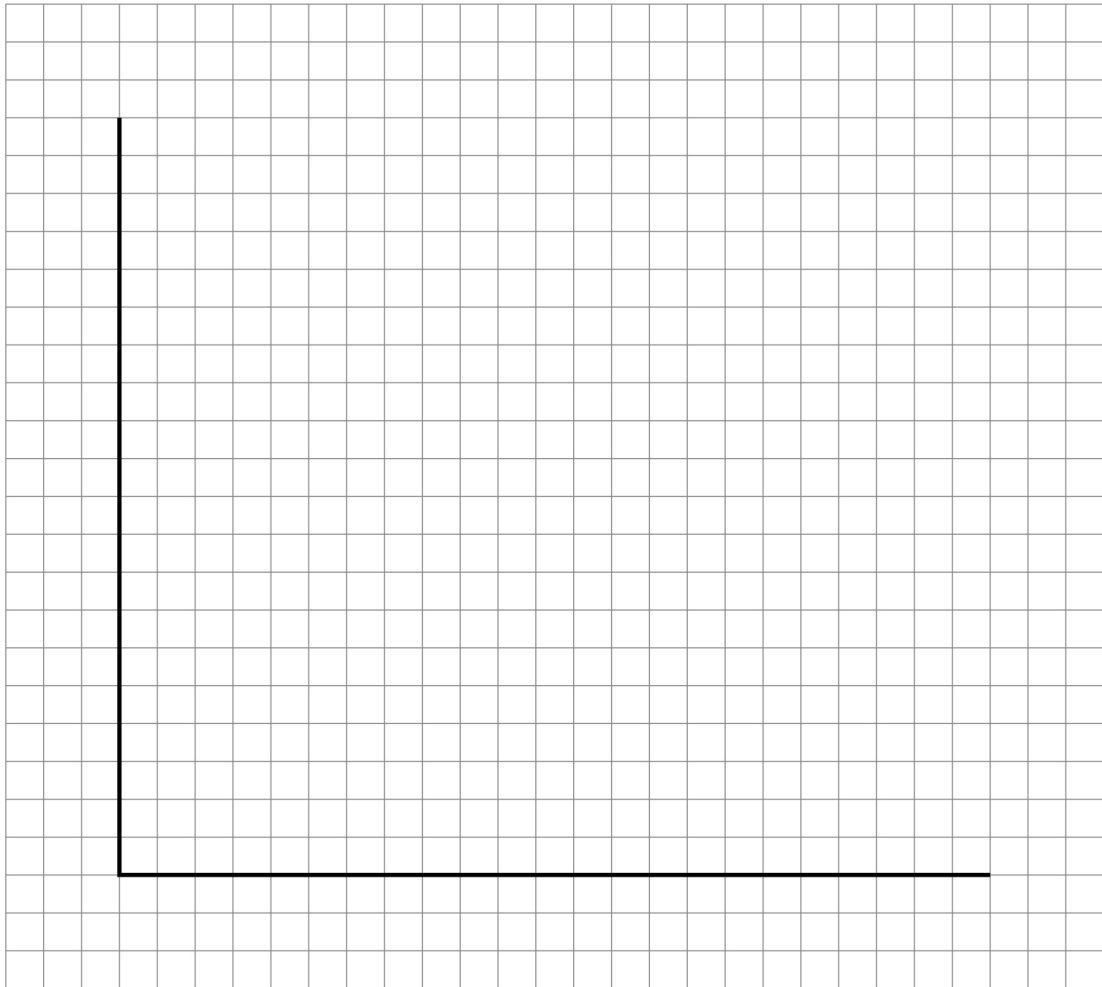
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**2 4**

**Extract B** (lines 1–3) states: ‘...rapid increases in the price of commodities, such as gas and wheat...led to a 40-year high inflation rate...’.

Draw an AD/AS diagram to show how rising commodity prices are likely to affect the macroeconomy.

**[4 marks]**

**[10 marks]**

[illegible]

[illegible]

**Extract C** (lines 17–18) states: ‘These policies could restrict economic growth in the short term and increase the likelihood of the economy going into recession.’

**[25 marks]**

[illegible]

[illegible]

[illegible]

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Handwriting practice area with 25 horizontal lines.

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Do **NOT** answer Context 2 if you have answered Context 1.

**OR**

**Context 2**

**Total for this context: 50 marks**

**THE LEVELLING-UP AGENDA**

Use the Insert provided to study **Questions 27 to 32** and **Extracts D, E and F**, and then answer the questions in the spaces which follow.

**2 7** Define 'GDP per capita' **Extract E** (line 3).

**[3 marks]**

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**2 8** Use **Extract D** to calculate, as a percentage, how much nominal GDP per capita in the poorest region would need to rise, to equal nominal GDP per capita in the richest region.

Give your answer to the **nearest whole percent (%)**.

**[4 marks]**

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**2 9**

Use **Extract D** to identify **two** significant points of comparison between employment rates and inactivity rates in selected regions of the UK.

**[4 marks]**

Point 1 \_\_\_\_\_

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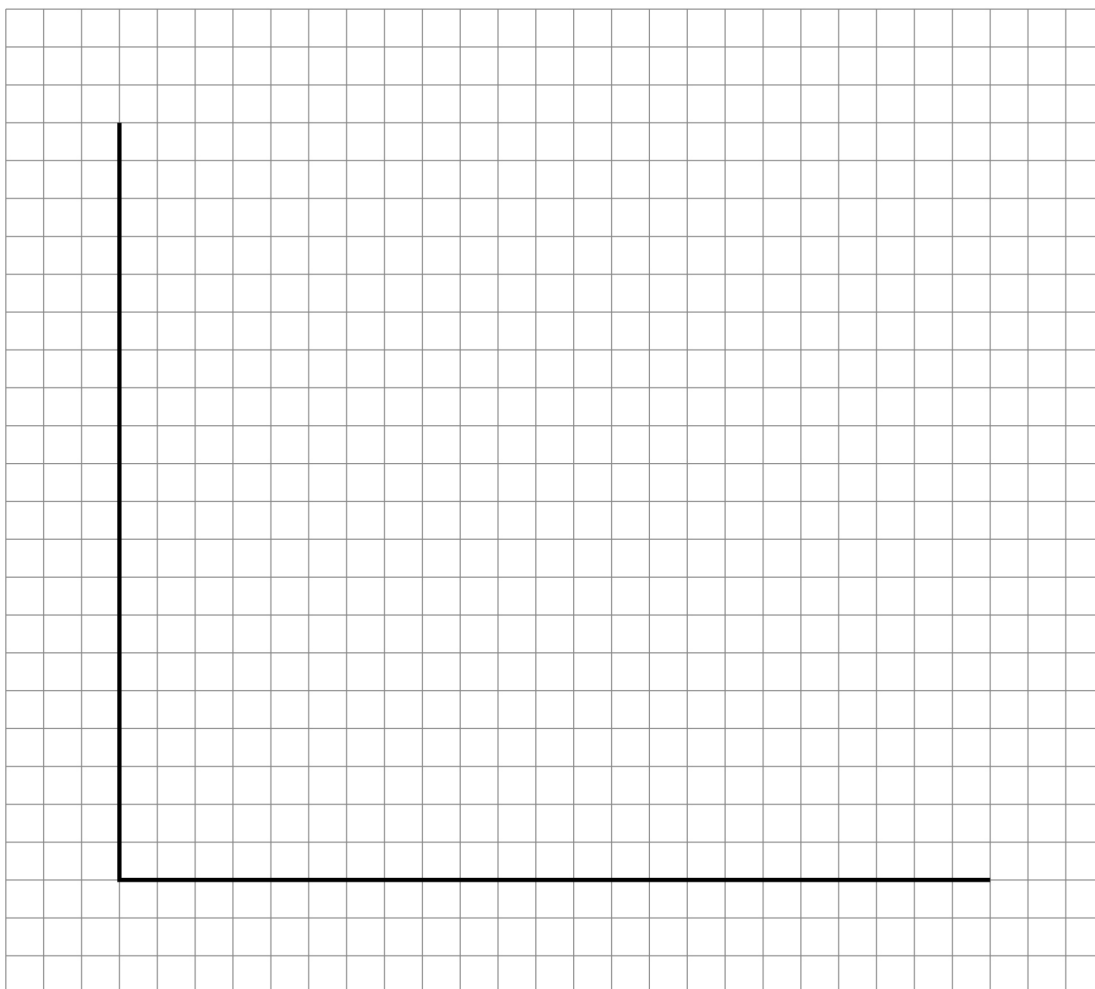
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**3 0**

**Extract E** (lines 20–21) states: ‘...the government intends to cut the budget deficit to reduce borrowing’.

Draw an AD/AS diagram to show the most likely short-run effect of reducing the budget deficit on the macroeconomy.

**[4 marks]**

1

Explain why some regions of the UK suffer from structural unemployment.

[illegible]

[illegible]

**Extract F** (lines 5–6) states: ‘As part of its long-term plan, the government has 12 levelling-up ‘missions’ or objectives. These include raising pay, employment and productivity throughout the UK’.

**[25 marks]**

[illegible]

[illegible]

[illegible]

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ANSWER IN THE SPACES PROVIDED**



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