AS
ECONOMICS
7135/2

Paper 2 The national economy in a global context

Specimen 2014 Morning Time allowed: 1 hour 30 minutes

Materials

For this paper you must have:

- the source booklet
- the use of a calculator.

Instructions

- Use a black ball-point pen. Do **not** use pencil.
- Answer **all** questions in **Section A**.
- Answer **EITHER** Context 1 **OR** Context 2 in **Section B**.
- You will need to refer to the source booklet provided to answer **Section B**.
- Do all rough work in this answer book. Cross through any work you do not want to be marked.
- You must answer the question in the spaces provided. Do not write outside the box around each page or on blank pages.

Information

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

Please write clearly, in block capitals, to allow character computer recognition.

Centre number ☐☐☐☐☐ Candidate number ☐☐☐☐

Surname ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Forename(s) ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Candidate signature _____

Section A

Answer **all** questions in this section

Only **one** answer per question is allowed.

For each answer completely fill in the lozenge 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 Fiscal policy involves the use of

A interest rates. ⬭

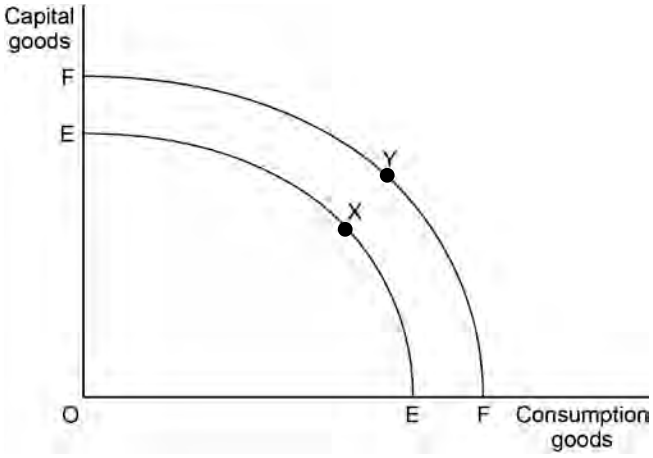
B direct and indirect taxes. ⬭

C the money supply. ⬭

D exchange rates. ⬭

[1 mark]

0 2 The diagram below shows two production possibility frontiers for an economy.
The economy is initially producing at point X on production possibility frontier EE.



The outward movement of the production possibility frontier from EE to FF, with increased production of both types of good at point Y, is most likely to be the result of

A a decrease in unemployment in the economy. ⬭

B the implementation of supply-side policies. ⬭

C an increase in the rate of inflation. ⬭

D the elimination of a negative output gap. ⬭

[1 mark]

0 3 Which one of the following combinations is correct regarding the rate of inflation and the responsibilities of the UK Government and Monetary Policy Committee (MPC) of the Bank of England?

	Inflation target set by	Interest rate set by	
A	Government	Government	⬭
B	Government	MPC	⬭
C	MPC	MPC	⬭
D	MPC	Government	⬭

[1 mark]

0 4 Which one of the following is most likely to cause demand-pull inflation?

A An increase in indirect taxation. ⬭

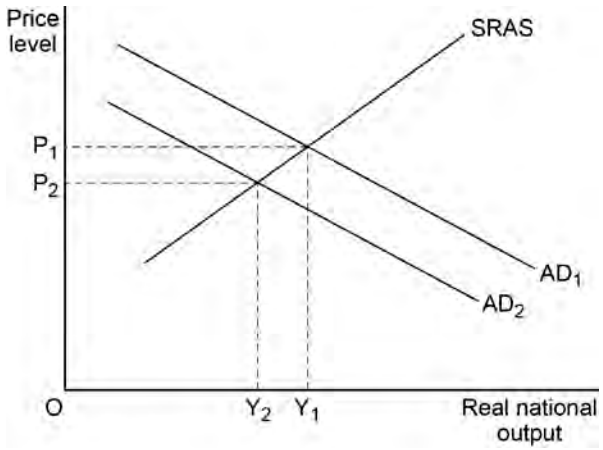
B An increase in productivity. ⬭

C A decrease in interest rates. ⬭

D A rise in oil prices. ⬭

[1 mark]

0 5 The diagram below shows two aggregate demand (AD) curves and the short-run aggregate supply (SRAS) curve for an economy.



All other things being equal, a fall in the price level from P_1 to P_2 could be explained by a fall in

A imports. ⬭

B interest rates. ⬭

C labour productivity. ⬭

D government spending. ⬭

[1 mark]

0 6 Which one of the following would be regarded as a supply-side shock for the UK economy?

A An economic downturn in the US economy affecting UK exports. ⬭

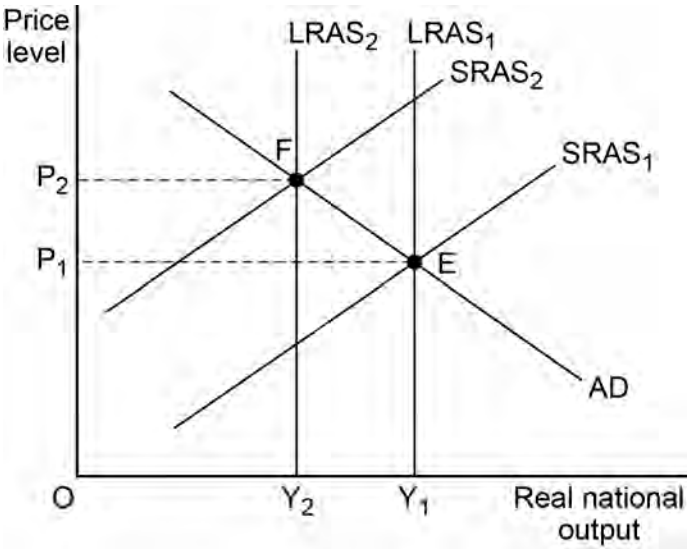
B A rise in interest rates discouraging borrowing. ⬭

C Rising oil and gas prices increasing the costs of UK firms. ⬭

D A rise in tax rates imposed on household incomes. ⬭

[1 mark]

0 7 The diagram below shows the aggregate demand (AD), short-run aggregate supply (SRAS) and long-run aggregate supply (LRAS) curves for an economy. The economy's initial equilibrium is at point E.



Which one of the following developments affecting the economy is most likely to account for the movement of macroeconomic equilibrium from E to F?

A An increase in labour productivity and wage rates. ⬭

B A decrease in the underlying trend rate of growth and an increase in world commodity prices. ⬭

C A decrease in government expenditure and an increase in indirect taxation. ⬭

D A fall in productivity and an increase in world commodity prices. ⬭

[1 mark]

0 8 A country has a slow rate of growth of productivity and rising cyclical unemployment. All other things being equal, which measures are most likely to increase the rate of growth of productivity and reduce cyclical unemployment?

A Increased investment and increased saving. ⬭

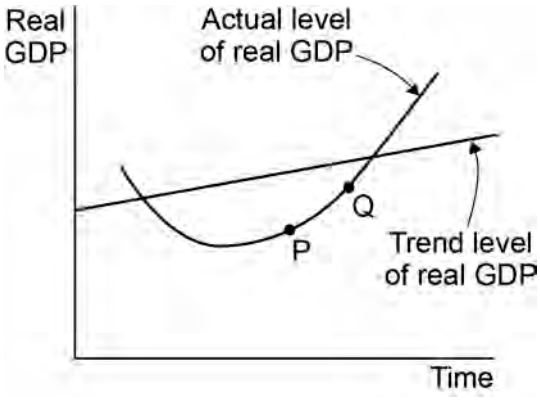
B More government spending on training and a higher exchange rate. ⬭

C Decreased benefit payments and a lower budget deficit. ⬭

D Lower taxation on businesses and lower interest rates. ⬭

[1 mark]

0 9 The diagram below shows the actual level of real GDP and the trend level of real GDP over time for an economy.



Between the points P and Q, which one of the following is most likely to be correct?

A The actual rate of economic growth is rising while the level of unemployment is falling. ⬭

B The actual rate of economic growth is negative while the rate of inflation is falling. ⬭

C The trend rate of economic growth is rising while the balance of payments on current account is deteriorating. ⬭

D The trend rate of economic growth and the output gap are both positive. ⬭

[1 mark]

1 0 Structural unemployment is most likely to be caused by

A a change in the pattern of demand. ⬭

B a fall in the exchange rate. ⬭

C a fall in unemployment benefits. ⬭

D an increase in interest rates. ⬭

[1 mark]

1 1 The table below shows the Consumer Price Index (CPI) of a country over a period of time.

Year	CPI
2009	98
2010	100
2011	110
2012	120
2013	125

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

A The inflation rate was the same in 2011 and 2012. ⬭

B There was deflation in 2009. ⬭

C The average price level increased each year. ⬭

D The inflation rate was highest in 2013. ⬭

[1 mark]

1 2 All other things being equal, a rise in a country's exchange rate is most likely to

A reduce unemployment and increase economic growth. ⬭

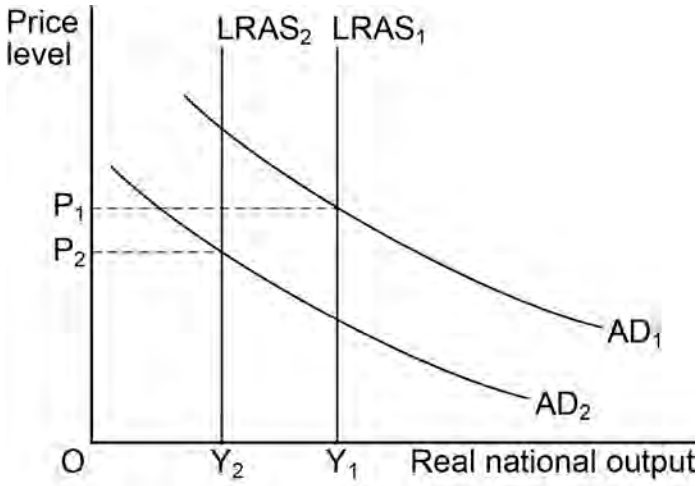
B reduce inflation and reduce a deficit on the current account of the balance of payments. ⬭

C reduce a positive output gap and reduce inflation. ⬭

D increase a negative output gap and reduce a deficit on the current account of the balance of payments. ⬭

[1 mark]

1 3 The diagram below shows an economy's aggregate demand (AD) and long run aggregate supply (LRAS) curves. OY_1 is the initial equilibrium level of real output.



Which one of the following combination of events is likely to lead to a new equilibrium level of output of OY_2?

	Event 1	Event 2	
A	A fall in the quantity and productivity of labour in the economy	An increase in imports relative to exports	⬭
B	Increased government spending on education and training	An increase in the cost of consumer credit	⬭
C	A decline in factor mobility in the economy	A fall in the exchange rate	⬭
D	Greater use of new technology across the economy	A rise in indirect taxes	⬭

[1 mark]

1 4 The accelerator principle illustrates the relationship between investment and the rate of change of

A unemployment. ⬭

B prices. ⬭

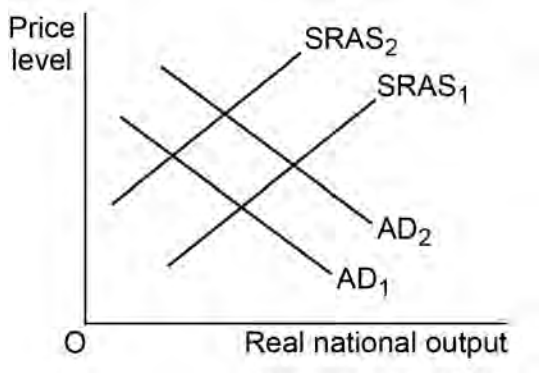
C government spending. ⬭

D national income. ⬭

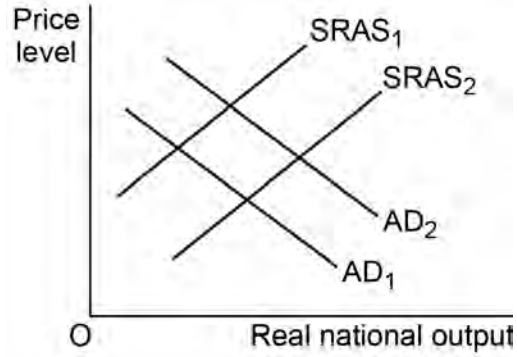
[1 mark]

1 5 The diagrams below show aggregate demand (AD) and short-run aggregate supply (SRAS) curves for the UK. All other things being equal, which one of the diagrams, **A**, **B**, **C** or **D**, shows the most likely effects of an increase in government spending financed by an increase in indirect tax?

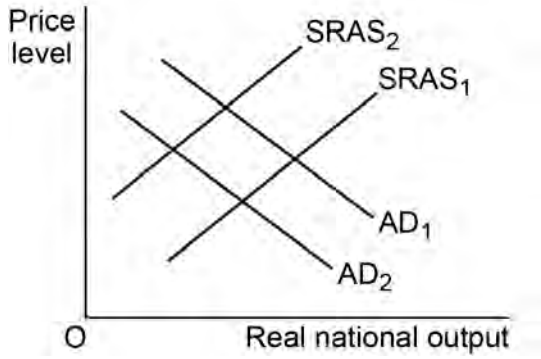
A



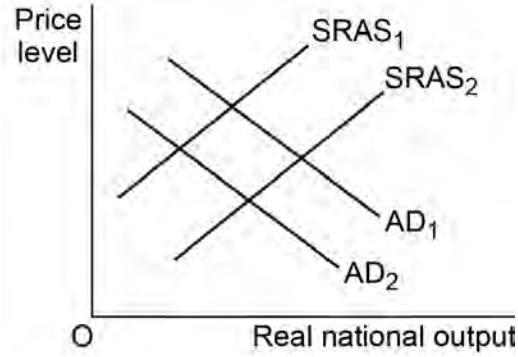
B



C



D



[1 mark]

1 6 Which one of the following is most likely to lead to a supply-side improvement in an economy? An increase in

A innovation by firms. ⬭

B the availability of imports. ⬭

C government spending on welfare benefits. ⬭

D company taxation to reduce the government's budget deficit. ⬭

[1 mark]

1 7 The table below shows values (£billion) for components of aggregate demand (AD) in an economy:

Components of AD	(£billion)
Consumption	500
Investment	50
Government spending	250
Exports	?
Imports	50
Aggregate demand	825

What is the value of exports in £ billion?

A 25 ⬭

B 75 ⬭

C 100 ⬭

D 125 ⬭

[1 mark]

1 8 Which one of the following is an example of expansionary monetary policy? An increase in

A interest rates. ⬭

B the money supply. ⬭

C the exchange rate. ⬭

D government expenditure. ⬭

[1 mark]

1 9 Which one of the following is most likely to result from a growing negative output gap?

A An increase in the rate of investment. ⬭

B A fall in business confidence. ⬭

C A rise in interest rates. ⬭

D A fall in government spending on welfare benefits. ⬭

[1 mark]

2 0 All other things being equal, which one of the following is most likely to increase the current account deficit on the balance of payments?

A A decrease in the rate of inflation. ⬭

B An increase in productivity. ⬭

C An increase in the exchange rate. ⬭

D A decrease in the level of consumption. ⬭

[1 mark]

QUESTION 20 IS THE LAST QUESTION IN SECTION A

Section B

Look at the source booklet 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 19 to 27 of this answer booklet.

There is a total of 50 marks for either context.

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

Context **0 1** ⬭ Context **0 2** ⬭

WRONG METHODS ⊗ ⦿ ≋ ✓ CORRECT METHOD ⬬

EITHER

Context 1 **Total for this Context: 50 marks**

UK ECONOMIC RECOVERY

Using the provided source booklet, study **questions 21 to 26** and **Extracts A**, **B and C**, and then answer the questions in the spaces which follow.

2 1 Define 'inflation' (**Extract C**, line 19).

[3 marks]

Extra space

2 2 In 2013, the average house price in the UK was £193 000. Using **Extract C** calculate the predicted average house price for 2014.

[4 marks]

2 3 Using **Extract A**, identify **two** significant features of the data, showing contribution to output and the construction industry breakdown for October 2013.

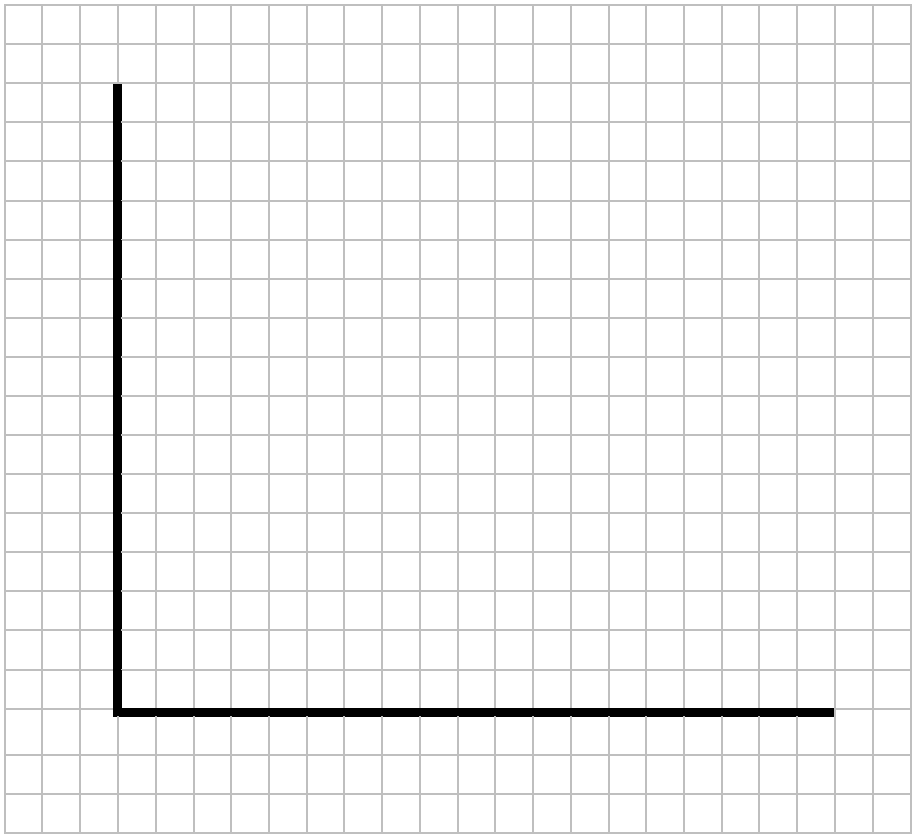
[4 marks]

Feature 1

Feature 2

2 4 With reference to **Extract B** (lines 7–14), draw an AD/AS diagram to illustrate the likely impact of a weaker pound on the price level and national output.

[4 marks]



2 5 **Extract B** (lines 15–17) states 'some economists argue that there is still a long way to go to improve the external performance of the economy. Improvements in productivity are absolutely vital'.

Explain how improvements in productivity can affect the UK's trade balance.

[10 marks]

Extra space

2 6 **Extract B** (lines 4–5) states, 'Yet there is so much more to an economy than this: the UK economy is open to a range of injections and withdrawals'.

Using the data in the extracts and your economic knowledge, assess the possible effects on UK macroeconomic performance if exports grow more quickly than imports.

[25 marks]

Extra space

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

OR

Context 2 **Total for this Context: 50 marks**

UK EMPLOYMENT AND UNEMPLOYMENT

Using the provided source booklet, study **questions 27 to 32** and **Extracts D**, **E and F** and then answer the questions in the spaces which follow.

2 7 Define 'multiplier effect' (**Extract E**, line 10).

[3 marks]

2 8 Using **Extract D**, calculate, to **two** decimal places, the percentage of people in employment who work part-time.

[4 marks]

Extra space

2 9 Using **Extract D**, identify **two** significant points of comparison between male and female Job Seeker's Allowance (JSA) claimants in September 2013.

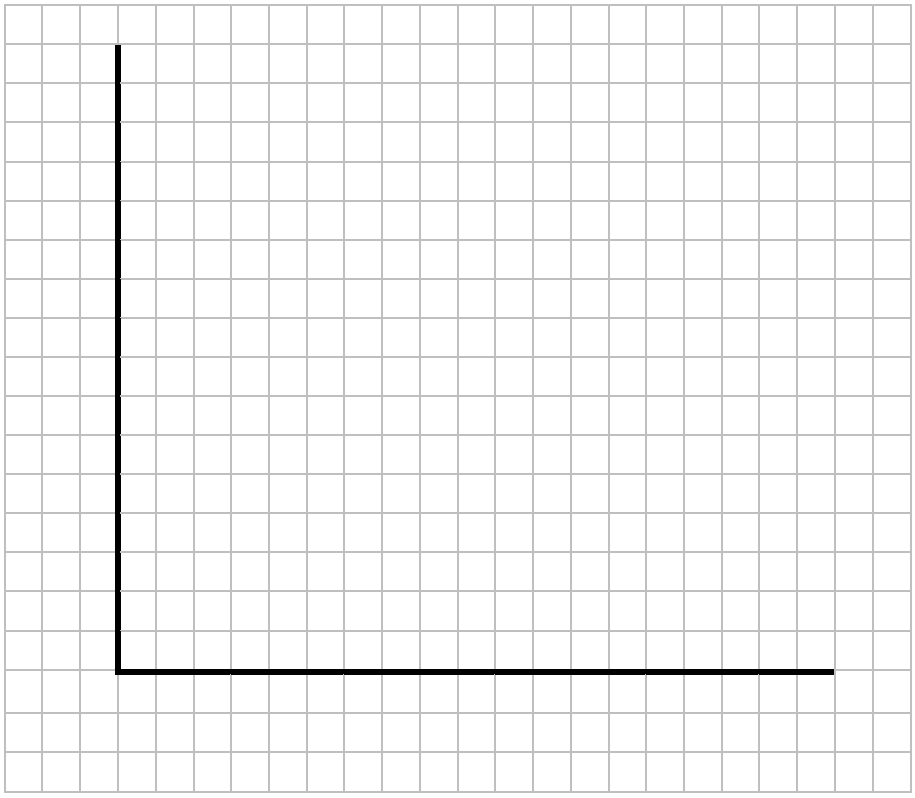
[4 marks]

Comparison 1

Comparison 2

3 0 Using **Extract F**, draw an AD/AS diagram to illustrate the likely short-run effects of a rise in confidence on the price level and national output.

[4 marks]



3 1 **Extract F** (line 7–8) states that 'This is a move away from the more familiar role of interest rates, which has been to control inflation.'

Explain how monetary policy can be used to control inflation.

[10 marks]

Extra space

3 2 **Extract E** (lines 11–12) states that 'the unemployment rate as measured by the Labour Force Survey remains stubbornly high at 7.7%.'

Using the data in the extracts and your economic knowledge, evaluate different policies that could be used to reduce the rate of unemployment in the UK.

[25 marks]

Extra space

END OF QUESTIONS

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