AQA

A-level ECONOMICS

Paper 2 National and international economy

Tuesday 13 June 2017 Afternoon Time allowed: 2 hours

Materials

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Context 1 **Total for this context: 40 marks**

Economic development in India

Study **Extracts A**, **B and C** and then answer **all** parts of Context 1 which follow.

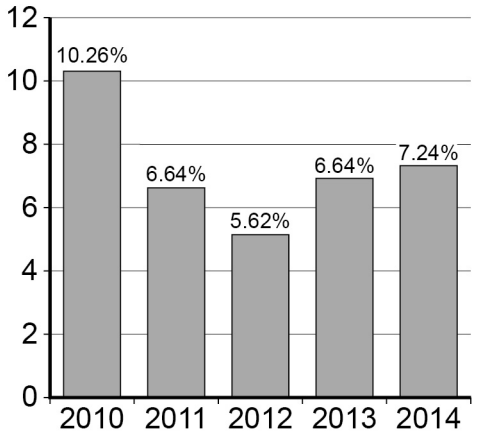
Extract A

Figure 1: India's Human Development Index (HDI) trends, 1980 to 2014

Year	Life expectancy at birth	Expected years of schooling	GNI per capita (2011 PPP $)	HDI value
1980	53.9	6.4	1 255	0.362
1990	57.9	7.7	1 754	0.428
2000	62.6	8.5	2 522	0.496
2010	66.5	11.1	4 499	0.586
2014	68.0	11.7	5 497	0.609

GNI = gross national income
PPP = purchasing power parity

Figure 2: India's real GDP growth rate, 2010 to 2014



Source: Official statistics, 2015

Extract B: Is India still a developing country?

Every region of the world has seen improvements in its HDI and India, in particular, has seen major changes. Job creation is a key aspect of development. However, 95% of all workers in India are in informal employment where there is no monitoring or taxation. Nearly 120 million more workers will enter the Indian labour force over the next 10 years seeking manufacturing jobs but, so far, these jobs have not appeared. Manufacturing still counts for less than 20% of all jobs and more than half of all workers are in low productivity agriculture. The large amount of informal employment also reduces tax receipts, which limits the amount the Indian government can spend to improve the economy.

India is still a very poor country with low per capita income, widespread destitution, hunger and malnutrition. Moreover, it has poor health facilities, housing and infrastructure as well as slowly expanding education and a strong reliance on foreign aid. Despite the emergence of a rising middle class, inequality is growing and the majority of the population lack basic social and economic rights. The Indian government must find a way to do more to provide for its citizens. However, when the government has intervened in the economy, it has often resulted in failure. Some say the Indian government should adopt the Chinese model of export-led industrialisation.

Until the early 1990s, India was a closed economy: average tariffs exceeded 200%, quotas on imports were extensive and there were restrictions on foreign investment. India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth. In the past, nearly all advanced economies have benefited from protectionist policies, why should India be any different? 20

Source: News reports, 2016

Extract C: 'Make in India' – the road to development?

India has steadily opened up its economy and reduced regulations that have sometimes held it back. More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation. These may be risky strategies as India lacks the infrastructure that most of its global competitors have. 1

Trade reforms do appear to have produced remarkable results. India's trade, as a percentage of GDP, has increased from 15% to 40% between 1990 and 2014, and the economy is now among the fastest growing in the world. In more recent years, the Indian government's stand on trade and investment policy has displayed a shift from protecting producers to benefiting consumers. 'Make in India' is an initiative to encourage multinational companies to manufacture their products in India and shift Indian employment from the unstable primary sector to the secondary sector. 5 10

Recently, there has been a promise by foreign companies to invest $222 billion in India. When foreign companies come to a 'Make in India' event, they see an economy that is growing at 7% annually with a large well-educated and skilled workforce. However, problems persist with regulation and tax. In the World Bank's Doing Business Index, which indicates how easy it is to set up and run a business, India is ranked 130th out of 189 countries. The question still remains, is the road to a more developed India one which involves the free market and liberalisation of trade, or one which involves government intervention and protectionism? 15

Source: News reports, 2016

0 1 Using the data in **Extract A (Figure 2)**, calculate, to **two** decimal places, the mean growth rate for India from 2010 to 2014.

[2 marks]

0 2 Explain why the data in **Extract A (Figure 1)** show that living standards in India have improved.

[4 marks]

0 3 **Extract B** (lines 17–19) states 'India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth.'

With the help of a diagram, explain how export subsidies may help promote economic growth in India.

[9 marks]

0 4 **Extract C** (lines 2–3) states 'More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that greater use of market-based strategies is the best way to improve the economic development of India.

[25 marks]

Turn over ►

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

OR

Context 2 **Total for this context: 40 marks**

Inflation, deflation and economic policy

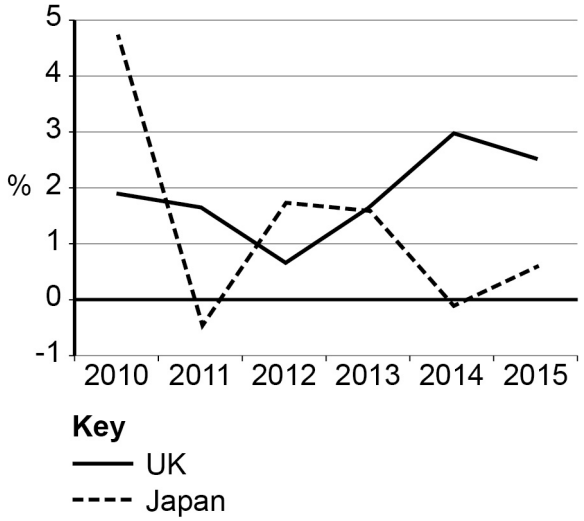
Study **Extracts D**, **E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: CPI inflation rates (%) for Japan and the UK, 2010 to 2015

Year	Japan	UK
2010	-0.72	3.29
2011	-0.28	4.48
2012	-0.03	2.83
2013	0.36	2.56
2014	2.75	1.46
2015	0.80	0.05

Figure 4: Real GDP growth rates (%) for Japan and the UK, 2010 to 2015



Source: Official Statistics

Extract E: Good and bad deflation

Deflation is bad when it is the result of falling aggregate demand. Consumers buy fewer goods and services and firms cut prices whilst consumption and investment decisions are delayed. This can lead to worsening company profits, cost cutting and job losses. Less spending damages economic growth and could lead to a deflationary spiral. However, this has not been the UK's recent experience. A glut in the supply of oil has driven down its price. This has had a positive effect on most businesses who face lower costs. In the retail sector, in particular, prices are lower because goods are cheaper to manufacture and transport. Businesses can also spend more on investment, hiring staff or offering pay rises. This has led to pay growth and productivity gains in the private sector after years of stagnation. Improvements in productivity on the supply side of the economy could actually lead to more deflation but this could be viewed as good deflation.

Professor Steve Keen believes even mild deflation is bad news. If the government continues with its programme of austerity, he is convinced the UK is heading for bad deflation. "Deflation is only benign, or even beneficial, in a world in which no one has any debt. Bizarrely, this is the world that conventional economists actually imagine we live in, since their models have ignored debt. Deflation increases the burden of people's debt, which is what happened in the 1930s, during the Great Depression."

The most immediate implication of continued deflation is that it makes a rise in interest rates less likely and, in the short term, this is good news for borrowers, but not for savers. This should also allow more time for the economy to recover, with low interest rates helping consumers and firms to access cheaper credit.

Source: News reports, 2016

Extract F: The Japanese problem

If the UK wishes to see another economy's experience of when deflation turns bad, then it only needs to look at Japan. Over the last two decades, Japan has used a variety of policies in an attempt to overcome deflation. For almost 20 years, the Bank of Japan's main interest rate has hovered around 0% and at times been negative. Japan has embarked on several fiscal stimulus programmes, although with a debt to GDP ratio of 245% in 2015, some see this as a worry. Furthermore, the Bank of Japan is currently carrying out quantitative easing equivalent to approximately £500bn per year. So far, the Japanese economy has not escaped from the risk of deflation.

So what can the UK learn from Japan? For much of 2015, CPI inflation in the UK was at, or very close to, 0%. Consumer spending is fairly robust at the moment but if economic agents anticipate falling prices, they may begin to factor this into their expectations. This could lead to bad deflation which can be very difficult to tackle effectively.

In recent times, the UK has arguably seen a stronger recovery than many other developed economies, although there is uncertainty over what should be done to maintain this in the future. After the financial crisis of 2007/08, UK Bank Rate was reduced to an historic low of 0.5%, and although it has since been cut to 0.25%, there is little scope to reduce it much further. The Bank of England has also used quantitative easing to try to stimulate the economy. However, the results of this are debatable. In terms of fiscal policy, the current government appears to be determined to continue with its austerity programme. What is not clear is what should be done if low inflation turns to bad deflation.

Source: News reports, 2016

0 5 Using the data in **Extract D (Figure 3)**, calculate, to **two** decimal places, the mean inflation rate for Japan from 2010 to 2015.

[2 marks]

0 6 Explain how the data in **Extract D (Figure 4)** show that Japan has been less successful than the UK in achieving a stable rate of economic growth.

[4 marks]

0 7 **Extract E** (lines 9–10) states 'Improvements in productivity on the supply side of the economy could actually lead to more deflation.'

With the help of a diagram, explain how improvements in productivity could cause deflation.

[9 marks]

0 8 **Extract F** (lines 19–20) states 'What is not clear is what should be done if low inflation turns to bad deflation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that monetary policy is the most effective way of tackling deflation in developed economies such as the UK and Japan.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER
Essay 1

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

0 9 Explain how government policies can reduce the natural rate of unemployment.

[15 marks]

1 0 Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

[25 marks]

OR

Essay 2

The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

1 1 Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world.

[15 marks]

1 2 Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments.

[25 marks]

OR

Essay 3

The Government has ruled out the possibility of a rise in VAT before 2020 but other indirect taxes may increase. It has also stated that the personal income tax allowance will be increased from £10 800 in 2015/16 to £12 500 by 2020, and plans to cut the main rate of corporation tax from 20% to 17%.

1 3 Explain how changes in both government spending **and** taxation might affect the level of economic activity.

[15 marks]

1 4 Evaluate the economic consequences for the UK economy of a significant shift in the burden of taxation from direct taxes to indirect taxes.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

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