



Oxford Cambridge and RSA

AS Level in Economics

H060/02 Macroeconomics

Monday 23 May 2016 – 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 What is a recession?

- A** a decrease in a current account deficit over a sustained period
- B** a decrease in the price of the currency over a sustained period
- C** a decrease in the price level over a sustained period
- D** a decrease in real gross domestic product over a sustained period

Your answer

[1]

2 Which of the following would cause a shift to the right of the aggregate demand curve?

- A** a decrease in investment
- B** a decrease in the price level
- C** an increase in exports
- D** an increase in labour productivity

Your answer

[1]

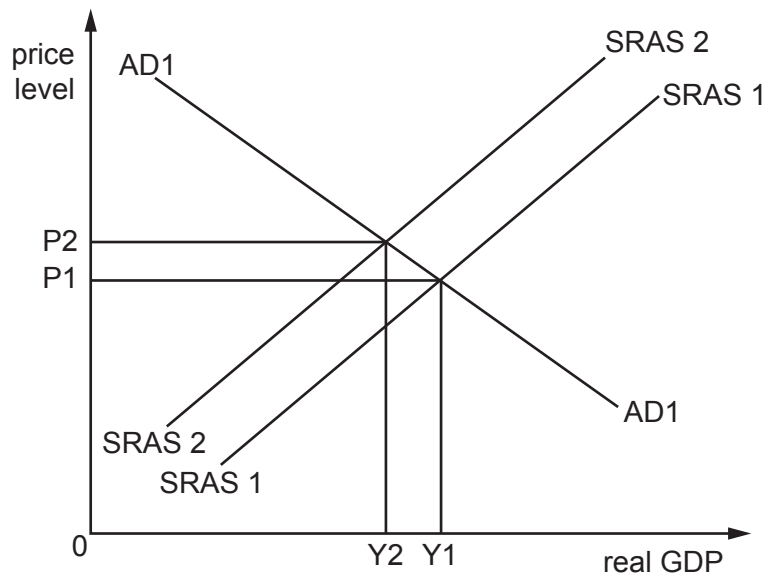
3 Which of the following is a cause of cost-push inflation?

- A** an increase in bank lending
- B** an increase in a budget deficit
- C** an increase in the price of raw materials
- D** an increase in the value of exports sold

Your answer

[1]

- 4 The diagram below shows a change in a country's macroequilibrium price level and real GDP. Which of the following might have caused this change?



- A a decrease in business taxes, not matched by a cut in government spending
- B a decrease in raw material costs, not matched by an increase in corporate taxes
- C an increase in exports, not matched by an increase in imports
- D an increase in wages, not matched by an increase in labour productivity

Your answer ☐

[1]

- 5 Which of the following consists only of injections into the circular flow of income?

- A exports, government spending and investment
- B government spending, investment and savings
- C imports, investment and taxation
- D imports, savings and taxation

Your answer ☐

[1]

- 6 Which of the following is an example of current government expenditure?

- A government spending on building new hospitals
- B government spending on improving mobile network coverage in rural areas
- C government spending on increasing the number of lanes on a motorway
- D government spending on teachers' salaries

Your answer ☐

[1]

- 7 Christine initially has a disposable income of £500 a week and spends £400. Christine's disposable income then rises to £750 a week and her spending to £500. What is Christine's marginal propensity to consume?

A 0.4
 B 0.6
 C 0.67
 D 1.0

Your answer

[1]

- 8 What do the weights in the Consumer Price Index show?

A changes in the price of the goods and services purchased
 B changes in the quality of the goods and services purchased
 C the proportion of total expenditure spent on different categories of goods and services
 D the seasonal fluctuations in the price of clothing, food and fuel

Your answer

[1]

- 9 Which of the following is **not** a feature of a 'good' tax?

A certainty
 B convenience
 C durability
 D equity

Your answer

[1]

- 10 The table below shows the inflation rate for an economy between 2012 and 2015. What can be concluded from the information?

Year	Inflation rate (%)
2012	4.2
2013	2.1
2014	-0.5
2015	1.2

A The price level was lowest in 2012.
 B The price level was lowest in 2014.
 C The economy experienced deflation over the whole period.
 D The value of money rose over the whole period.

Your answer

[1]

- 11 Which of the following would appear as a credit item in the trade in services balance of the UK's balance of payments?

- A earnings on German shares owned by UK citizens
- B expenditure by US tourists in the UK
- C the payment by a UK firm to a Japanese firm to transport its goods
- D the purchase of a UK firm by an Indian multinational company

Your answer

[1]

- 12 The table below shows the price indices for a country's exports and imports in 2015 and 2016.

	2015	2016
Exports	100	105
Imports	100	120

What was the country's terms of trade in 2016?

- A 0.875
- B 1.143
- C 87.5
- D 114.3

Your answer

[1]

- 13 Two countries X and Y both produce mobile phones and corn. The quantity of the two goods produced by both countries when they divide their resources equally between the two goods is shown in the table below.

Country	Mobile phones	Corn (units)
X	10	40
Y	5	20

What can be concluded from this information?

- A Country X has the comparative advantage in the production of corn.
- B Country Y has the absolute advantage in the production of corn.
- C Trade would benefit Country Y but not Country X.
- D Trade would not benefit either country.

Your answer

[1]

- 14** The exchange rate between the pound sterling and the US dollar is initially £1 = \$1.5. A UK firm sells a product in the USA for \$300. The exchange rate changes to £1 = \$1.2 and the firm keeps the dollar price unchanged. What will be the price of the product in pounds?

- A** £200
B £250
C £300
D £360

Your answer

[1]

- 15** Which of the following combination of changes is likely to increase the international competitiveness of a country's products?

	Labour productivity	Country's currency
A	decreases	appreciates
B	decreases	depreciates
C	increases	appreciates
D	increases	depreciates

Your answer

[1]

SECTION B

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

China joins the elite

At the end of 2015, China's currency, the renminbi, was added to the International Monetary Fund's elite basket of international currencies. It joined the US dollar, the European Union's euro, the UK's pound and the Japanese yen as a currency that can be used to settle debts between countries.

China is the world's second largest economy in terms of gross domestic product (GDP). Fig. 1 shows the GDP and GDP per capita, measured by the output method, for five countries in 2014. Four of these countries have reserve currency status. Germany is the leading economy in the eurozone. 5

Country	GDP in US dollars (trillions)	GDP per capita (US \$)
China	10.36	13 200
Germany	3.87	46 200
Japan	4.60	37 500
UK	2.95	39 800
USA	17.35	54 400

Fig. 1 GDP and GDP per capita in selected countries in 2014

In 2014, the US economy accounted for 22% of global GDP. China's contribution to global GDP was 12.2% and it is growing. In addition, the performance of the Chinese economy is having an increasing influence on the global economy. It is for this reason that a number of governments showed concern about the slowdown in China's economic growth in 2014 and 2015. It was thought that this slowdown might have an impact on employment and unemployment in other countries. Fig. 2 shows the number of people employed and unemployed in five countries in 2014. 10

	China	Germany	Japan	UK	USA
Number employed (millions)	768.00	42.75	62.73	30.08	146.64
Number unemployed (millions)	32.00	2.25	2.28	1.92	9.36

Fig. 2 Numbers employed and unemployed in millions in selected countries in 2014

China's investment overseas has been increasing. In 2014, China invested \$1.6 billion in Germany and more than three times that amount in the UK. China is also becoming more involved in international trade. Fig. 3 provides information on exports to China in 2014. 15

	Exports to China as a % of the country's total exports
Germany	5.8
Japan	18.3
UK	4.7
USA	7.6

Fig. 3 Selected countries' exports to China in 2014

In 2014, China overtook the USA to become the largest economy in terms of GDP adjusted for differences in the cost of living. It is uncertain, however, how the two economies will compare in the future. In 2015, US economic performance did improve. The USA's unemployment rate fell to a seven-year low and was expected to continue on a downward trend into 2016. The strengthening of the US domestic economy led the Federal Reserve Bank (the central bank for the USA) to increase the rate of interest in December 2015. 20

One of the reasons why China may perform better than the USA is the proportionately greater amount that China spends on capital goods. A cut in direct taxes in the USA could, however, increase investment in the USA. 25

16 (a) State **one** method, other than the output method, of measuring GDP.

..... [1]

(b) Explain what is meant by 'GDP per capita'. (line 6)

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..... [2]

(c) Using Fig. 2, calculate Germany's unemployment rate in 2014.

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(d) Using information from the case study, compare how Germany and the UK are likely to be affected by a slowdown in the growth of the Chinese economy.

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- (e) Show, using a diagram, the effect of an increase in China's exports on China's exchange rate.

[4]

- (f) Using information from the case study, explain **one** reason why total saving was expected to rise in the USA in 2016.

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..... [2]

[10]

SECTION C

Answer Question 17 **or** Question 18.

- 17*** In 2015, the Turkish economy experienced an unemployment rate of 9.3% and an inflation rate of 7.4%.

Evaluate, using an appropriate diagram(s), the extent to which it is possible for a government to reduce unemployment without causing a rise in the price level. **[20]**

OR

- 18*** The UK government planned to reduce the budget deficit of £87.3bn in 2014–15 to £75.3bn in 2015–2016, mainly through reduced government spending.

Evaluate, using an appropriate diagram(s), the effect of a reduction in the budget deficit on an economy. **[20]**

Question no.

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