

Paper Reference 9EC0/02
Pearson Edexcel
Level 3 GCE

Total Marks

Economics A
Advanced
Paper 2: The National and Global Economy

Thursday 23 May 2019 – Morning

Time: 2 hours plus your additional time allowance.

In the boxes below, write your name, centre number and candidate number.

Surname					
Other names					
Centre Number					
Candidate Number					

You do not need any other materials.

YOU WILL BE GIVEN

Data Book

INSTRUCTIONS

There are three sections in this question paper. Answer ALL questions from Section A and Section B. Answer ONE question from Section C.

Answer the questions in the spaces provided in this question paper or in the Data Book – there may be more space than you need.

INFORMATION

The total mark for this paper is 100

The marks for EACH question are shown in brackets – use this as a guide as to how much time to spend on each question.

Calculators may be used.

There may be spare copies of some data sheets.

Turn over

ADVICE

Read each question carefully before you start to answer it.

Check your answers if you have time at the end.

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions are multiple choice. Write the letter(s) of your chosen answer(s) in the box(es) provided.

You are advised to spend 30 minutes plus some of your additional time allowance on this section.

Use the data to support your answers where relevant.

You may annotate and include diagrams in your answers.

1. Refer to the diagram for Question 1 in the Data Book.
It shows a chart.

(a) Which ONE of the following would be MOST likely to cause an increase in credit card lending?

- A A fall in interest rates
- B A fall in investment
- C An increase in the deficit on the current account of the balance of payments
- D An increase in savings

Answer

(1 mark)

(continued on the next page)

Turn over

1. continued.

(b) Using the chart in the Data Book, calculate an index number for additions to credit card lending in March **2017**, using January **2016** as the base. You are advised to show your working.

(2 marks)

Answer lines continue on the next page.

1. (b) continued.

(continued on the next page)

1. continued.

(c) Explain ONE possible link between an increase in credit card lending and the rate of inflation.

(2 marks)

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(Total for Question 1 = 5 marks)

Turn over

- 2. The International Monetary Fund has called on the **G20** group of large industrialised countries to boost government spending on infrastructure.**

(Source: <https://www.theguardian.com/business/2016/jul/23/imf-calls-for-more-government-spending-as-rate-cuts-lose-their-impact>)

- (a) Refer to the diagram for Question 2 in the Data Book.**

Draw an aggregate demand and aggregate supply diagram to show the likely impact of an increase in government spending on infrastructure on a country's price level and real output.

(4 marks)

(continued on the next page)

2. continued.

(b) Which ONE of the following would be an example of government spending on infrastructure?

An increase in:

- A construction work on new railway lines**
- B interest payments on the national debt**
- C salaries for teachers**
- D unemployment benefit payments**

Answer

(1 mark)

(Total for Question 2 = 5 marks)

Turn over

- 3. Refer to the table for Question 3 in the Data Book. It shows unit labour costs for selected European countries, 2017, base year 2010 = 100**

(a) Explain ONE likely reason for Estonia's unit labour costs rising faster than in other European countries.

(2 marks)

Answer lines continue on the next page.

3. (a) continued.

(continued on the next page)

Turn over

3. continued.

(b) Explain how Estonia's competitiveness could be affected by rising unit labour costs.

(2 marks)

[illegible]

(continued on the next page)

Turn over

3. continued.

(c) The increase in Austria's unit labour costs between **2010** and **2017** is:

A **3%**

B **11·3%**

C **13%**

D **113%**

Answer

(1 mark)

(Total for Question 3 = 5 marks)

Turn over

4. The UK Government is planning to cut the rate of corporation tax on all pre-tax profits of companies to 17% by 2020

(Source: adapted from <https://www.ft.com/content/7579f124-5742-11e7-9fed-c19e2700005f>)

(a) This would be an example of:

- A a contractionary monetary policy
- B an exchange rate policy
- C an expansionary monetary policy
- D a supply-side policy

Answer

(1 mark)

(continued on the next page)

Turn over

4. continued.

(b) If a company makes £500 000 pre-tax profit in 2020, calculate how much corporation tax it will pay. Assume that the government cuts the rate of corporation tax as planned.

(2 marks)

Answer lines continue on the next page.

[illegible]

Turn over

4. (b) continued.

(continued on the next page)

4. continued.

(c) Explain ONE possible reason why the revenue from corporation tax could increase if the government cuts the rate of tax.

(2 marks)

[illegible]

(Total for Question 4 = 5 marks)

Turn over

5. According to the charity Oxfam, the combined wealth of the **62** richest people in the world is the same as the wealth of the poorest half of the world's population. The value of the combined wealth of the poorest half of the world's population has fallen by **38%** between **2010** and **2016**

(Source: adapted from <https://www.oxfam.org/en/pressroom/pressreleases/2016-01-18/62-people-own-same-half-world-reveals-oxfam-davos-report>)

- (a) Explain the distinction between income and wealth.

(2 marks)

Answer lines continue on the next page.

5. (a) continued.

(continued on the next page)

5. continued.

(b) Explain ONE likely reason why global wealth inequality has increased.

(2 marks)

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5. continued.

(c) Which ONE of the following would be most likely to reduce a country's Gini coefficient?

An increase in:

- A import tariffs
- B progressive taxes
- C regressive taxes
- D value added tax

Answer

(1 mark)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

Turn over

SECTION B

Read Figure 1, Extract A, Extract B and Extract C in the Data Book before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour plus some of your additional time allowance on this section.

6. The UK economy since the financial crisis

(a) With reference to Extract A, explain the role of forward markets in currencies.

(5 marks)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8 marks)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10 marks)

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12 marks)

(continued on the next page)

Turn over

6. continued.

- (e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.
(15 marks)**

(continued on the next page)

6. continued.

(a) With reference to Extract A, explain the role of forward markets in currencies.

(5 marks)

Answer lines continue on the next two pages.

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Turn over

6. (a) continued.

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6. (a) continued.

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Turn over

6. continued.

**(b) With reference to Extract A and Figure 1,
examine the likely impact of the change in the
sterling exchange rate on the UK economy.**

(8 marks)

Answer lines continue on the next three pages.

6. (b) continued.

[illegible]

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6. (b) continued.

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6. (b) continued.

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6. continued.

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10 marks)

Answer lines continue on the next five pages.

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6. (c) continued.

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6. (c) continued.

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6. (c) continued.

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Turn over

6. continued.

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12 marks)

Answer lines continue on the next five pages.

[illegible]

Turn over

6. (d) continued.

[illegible]

Turn over

6. (d) continued.

[illegible]

Turn over

6. (d) continued.

[illegible]

Turn over

6. (d) continued.

[illegible]

Turn over

6. (d) continued.

(continued on the next page)

Turn over

6. continued.

- (e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.
(15 marks)

Answer lines continue on the next seven pages.

Turn over

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

[illegible]

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6. (e) continued.

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

Turn over

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes plus some of your additional time allowance on this section.

EITHER

7. Three of Africa's main trading blocs have agreed to form the Tripartite Free Trade Agreement (TFTA). This will create one of the world's largest free trade areas, stretching across **26** countries with a combined GDP of around **£1** trillion.

(Source: <https://uk.reuters.com/article/uk-africa-trade/mega-african-trade-bloc-paves-way-for-continental-commerce-idUKKBN0OR28M20150611>)

Evaluate the effects of the growth of trading blocs such as the TFTA on global trading patterns.

(Total for Question 7 = 25 marks)

OR

8. Japan's budget deficit for **2017/18** is expected to be **4.6%** of GDP. Its national debt is forecast to increase to above **250%** of GDP by **2019**

Evaluate the impact of a large fiscal deficit and national debt on a country's economy.

(Total for Question 8 = 25 marks)

Turn over

Indicate which question you are answering by marking a cross in the box. If you change your mind, put a line through the box and then indicate your new question with a cross.

Chosen question number:

Question 7

☐

Question 8

☐

Write your answer here:

Answer lines continue on the next eleven pages.

Turn over

Section C continued.

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Section C continued.

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Section C continued.

[illegible]

Turn over

Section C continued.

[illegible]

Turn over

Section C continued.

[illegible]

TOTAL FOR SECTION C = 25 MARKS

TOTAL FOR PAPER = 100 MARKS

END OF PAPER