Pearson Edexcel International Advanced Level

Wednesday 16 October 2024

Afternoon (Time: 1 hour 45 minutes)

Paper reference **WEC12/01**

Economics
International Advanced Subsidiary
UNIT 2: Macroeconomic performance and policy

You must have:
Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **ALL** questions in Sections A, B and C.
- Answer **ONE** question in Section D.
- Answer the questions in the spaces provided
  – *there may be more space than you need*.

Information

- The total mark for this paper is 80.
- 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.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 Which **one** of the following represents net investment?

☒ **A** Gross investment minus corporation tax

☒ **B** Gross investment minus capital depreciation

☒ **C** Gross investment minus the rate of inflation

☒ **D** Gross investment minus money supply

(Total for Question 1 = 1 mark)

2 In Chad unemployment is higher in the winter months than in the summer months. This is because the demand for agricultural labour is lower in the winter months.

Which **one** of the following best describes the cause of this unemployment in Chad?

☒ **A** Frictional unemployment

☒ **B** Real wage inflexibility

☒ **C** Seasonal unemployment

☒ **D** Structural unemployment

(Total for Question 2 = 1 mark)

3 Between 2020 and 2022 Qatar's GNI increased from $141.37 billion to $229.01 billion.

Which **one** of the following is the ratio of Qatar's GNI in 2022 to its GNI in 2020?

☒ **A** 1 : 0.62

☒ **B** 1 : 1.62

☒ **C** 1 : 61.99

☒ **D** 1 : 87.64

(Total for Question 3 = 1 mark)

4 Which **one** of the following would cause a leftward shift in a country's short-run aggregate supply (SRAS) curve?

⊠ **A** A decrease in bank lending to consumers

⊠ **B** A decrease in the rate of indirect tax

⊠ **C** An increase in the price of natural gas

⊠ **D** An increase in investment in healthcare

(Total for Question 4 = 1 mark)

5 In 2022 the Czech Republic's economy was operating below its productive potential as a result of a fall in its manufacturing production.

Which **one** of the following is most likely to be associated with a negative output gap?

⊠ **A** An increase in house prices

⊠ **B** An increase in the rate of inflation

⊠ **C** An increase in business confidence

⊠ **D** An increase in unemployment

(Total for Question 5 = 1 mark)

6 The table shows Mexico's consumer confidence index (CCI), April 2021 to April 2023.

Year	CCI
April 2021	101.5
April 2022	102.8
April 2023	103.4

The CCI is a measure of consumers' willingness to spend.

With reference to the above table, which **one** of the following is most likely to result from this change in consumer confidence between April 2021 and April 2023?

		Price level	Real output
☒	**A**	Fall	Fall
☒	**B**	Fall	Rise
☒	**C**	Rise	Fall
☒	**D**	Rise	Rise

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B

Answer ALL questions in this section in the space provided.

7 Between quarter 2 2022 and quarter 2 2023 average house prices in Canada decreased by 8.5%.

With reference to the information above, explain **one** likely macroeconomic impact of this decrease in house prices on existing homeowners.

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(Total for Question 7 = 4 marks)

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8 Croatia experienced a positive output gap in 2022.

Draw an AD/AS diagram to illustrate a positive output gap.

(Total for Question 8 = 4 marks)

9 The table shows selected macroeconomic data for an economy in 2023.

Macroeconomic data	$ billion
Aggregate demand	32.91
Investment	4.57
Government spending	9.22
Imports	5.89
Exports	7.64

Calculate the value of consumption for this economy in 2023.
Show your workings.

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(Total for Question 9 = 4 marks)

10 In the USA 11.2% of graduates were working in low-skilled jobs in June 2023. At the same time, 25.7 million people were working part-time. Many of these part-time employees wanted to work more hours.

With reference to the information above, explain the term 'underemployment'.

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(Total for Question 10 = 4 marks)

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11 The chart shows Colombia's net balance of trade in goods and services, 2010–2022.

With reference to the chart, explain **one** likely cause of the deficit in Colombia's balance of trade in goods and services.

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(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figure 1, Figure 2, Figure 3 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'living standards'.

(2)

(b) With reference to Figure 2, explain the difference between disinflation and inflation.

(4)

(c) With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.

(8)

(d) With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

(6)

(e) With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula.

(14)

12 (a) Define the term 'living standards'.

(2)

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(b) With reference to Figure 2, explain the difference between disinflation
and inflation.

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(c) With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.

(8)

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(d) With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

(6)

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(e) With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula.

(14)

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 India's unemployment rate increased from 7.1% in January 2023 to 8.5% in June 2023.

Evaluate the likely effects of an increase in the unemployment rate on workers **and** public finances. Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

14 Germany experienced a recession in the first six months of 2023. The country's rate of economic growth was −0.4% in quarter 1 2023 and was −0.1% in quarter 2 2023.

Evaluate the likely effects of a recession. Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

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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 13** ⊠   **Question 14** ⊠

Write your answer here:

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TOTAL FOR SECTION D = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

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Source Booklet
Do not return this Booklet with the question paper.

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Sources for use with Section C

The economy of Brazil

Figure 1 Real GDP growth rate, 2018 to 2023
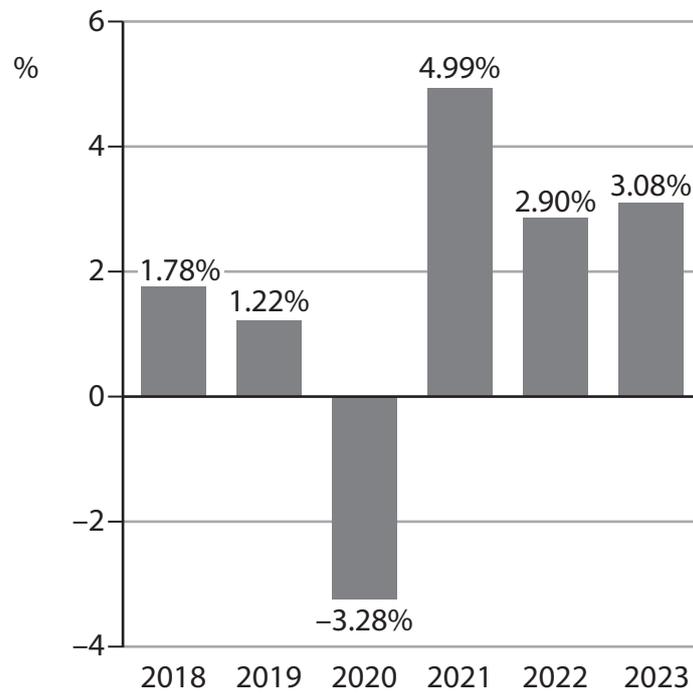
Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2021 to January 2023
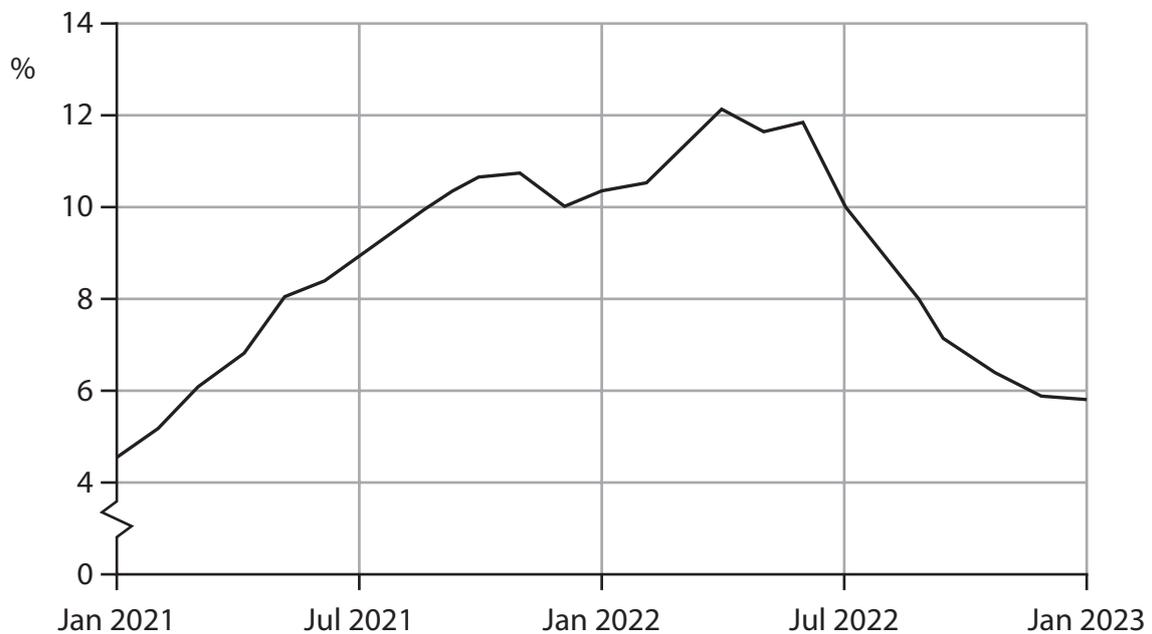
*This is the year-on-year inflation rate calculated monthly.

Figure 3 Government monthly budget balance, *real** billion, January 2021 to December 2022
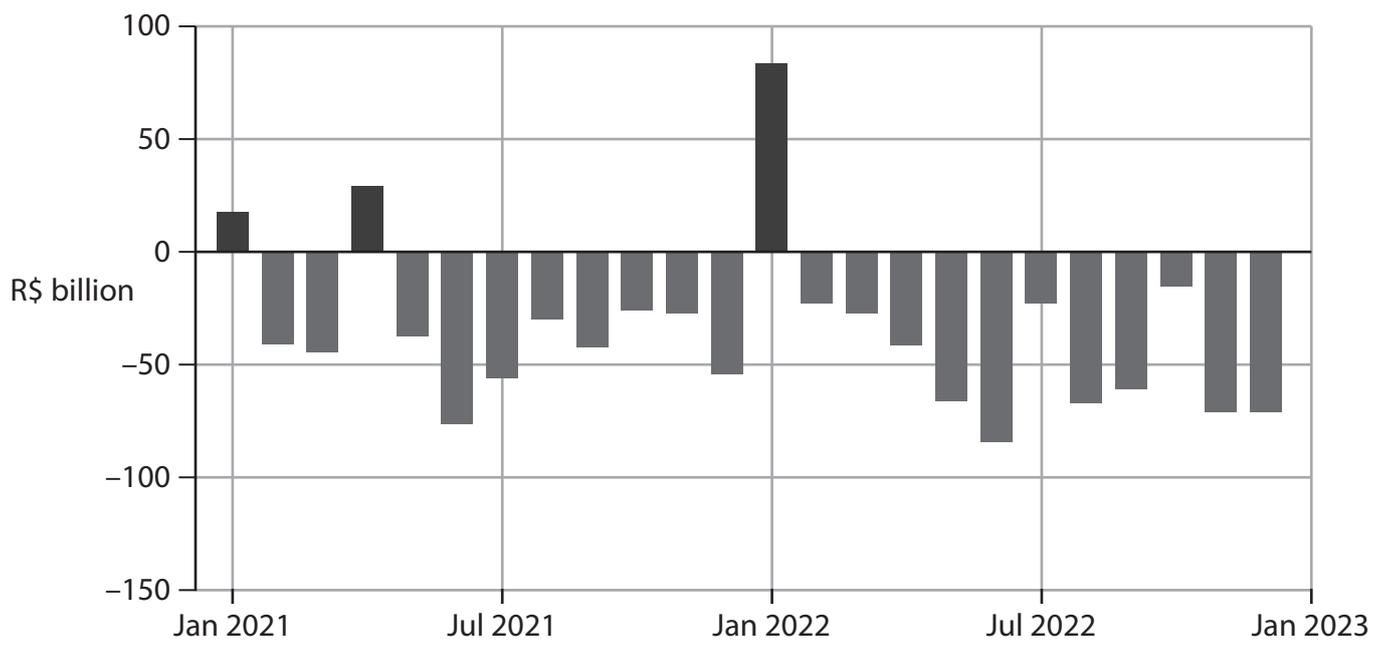
real is the currency of Brazil and is denoted as R$.

Extract A Economic growth

Brazil's rate of economic growth fell between 2021 and 2022. This weaker economic performance was as a direct result of a significant decrease in industrial output and a slowdown in the services sector in 2022.

Many economists indicated that this slower rate of economic growth resulted from the Central Bank of Brazil's deflationary monetary policy to control the rising rate of inflation. Between January 2021 and June 2022 the Central Bank raised the country's base interest rate from an all-time low of 2% to 13.25%. This significantly affected consumer spending and business investment, both of which are major contributors to economic growth. As a result, economists predicted that Brazil's annual increase in real GDP would be below 1% in 2023.

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The slowdown in economic growth will limit the Government's ability to improve living standards. In mid-2022 President Lula had promised to raise the real incomes of the country's population and create new jobs. He suggested that he was going to achieve his objective by increasing:

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• the level of welfare payments

• investment in healthcare provision

• investment in infrastructure development

• investment in education, training and skills.

President Lula aimed to introduce these supply-side policies in 2023. These policies would cost R$371 billion over four years. However, the Government has insufficient tax revenues to finance its spending and investment. Previously, many large-scale investments in similar projects were not successful and represented a waste of resources.

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Consequently, the Government proposed tax increases and cuts in government expenditure to achieve a balanced budget. This deflationary fiscal policy aims to increase tax revenues by R$190 billion and reduce government expenditure by R$50 billion.

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