

Please write clearly in block capitals.

Centre number

Candidate number

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I declare this is my own work.

# INTERNATIONAL AS ECONOMICS

## Unit 2 The National Economy in a Global Environment

Friday 19 May 2023

07:00 GMT

Time allowed: 1 hour 45 minutes

### Materials

For this paper you must have:

- the Source Booklet, provided as an insert (enclosed)
- a calculator, which you are expected to use where appropriate.

### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do **not** write outside the box around each page or on blank pages.
- Do **not** write in the Source Booklet.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You may use a bilingual dictionary for this exam.
- You may **not** use an English dictionary.

For Examiner's Use	
Question	Mark
1–15	
16	
17	
18	
19	
20	
21	
<b>TOTAL</b>	



## Section A

Answer **all** questions in the spaces provided.

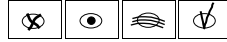
Only **one** answer per question is allowed.

For each question completely fill in the circle 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**

A central bank reduces the base rate of interest. The bank hopes aggregate demand will rise as a result.

This is an example of

[1 mark]

**A** contractionary fiscal policy.

**B** contractionary monetary policy.

**C** expansionary fiscal policy.

**D** expansionary monetary policy.

**0 2**

Which one of the following is an example of frictional unemployment?

[1 mark]

**A** A bus driver loses their job because of a recession.

**B** A farm worker is replaced by a new machine.

**C** A hotel worker does not have a job for part of the year.

**D** A teacher starts a job two months after leaving their old job.



0 3

**Table 1** shows the impact of a rise in national income of \$100m in an open economy with a government sector.

**Table 1**

Items in the circular flow of income	Increase
Saving	\$10m
Imports	\$8m
Tax	

If the economy has a multiplier of 4, what is the increase in tax?

**[1 mark]**

- A \$4m
- B \$7m
- C \$18m
- D \$82m

0 4

**Table 2** shows an index that measures a country's exchange rate compared to other currencies.

**Table 2**

Year	2019	2020	2021	2022
Exchange rate index	102	97	96	92

All other things being equal, what is the most likely impact on inflation of the changes shown in **Table 2**?

**[1 mark]**

- A Cost-push inflation will decrease.
- B Cost-push inflation will increase.
- C Demand-pull inflation will decrease.
- D There will be no effect on inflation.

**Turn over ►**

0 5

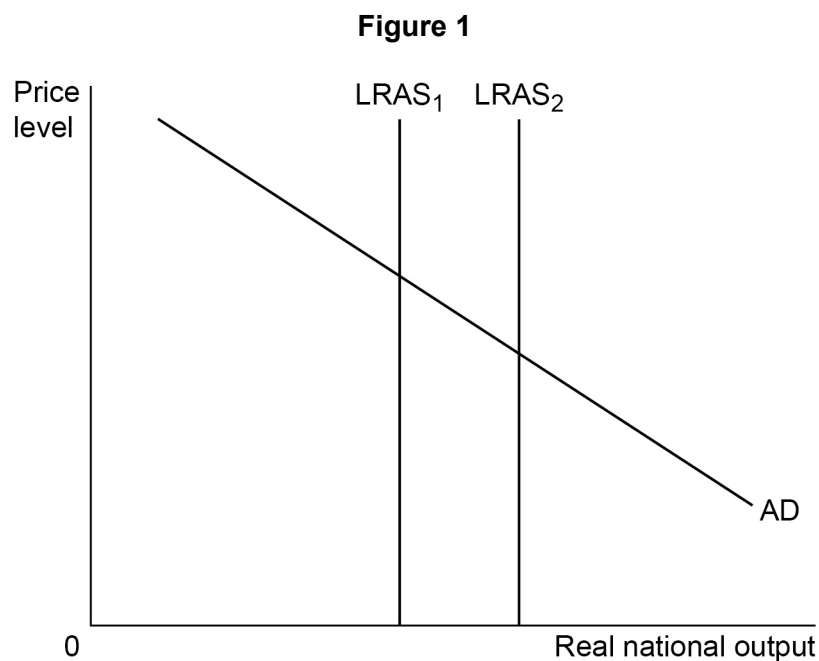
Which one of the following is an example of secondary income on the current account of the balance of payments?

[1 mark]

- A Aid received from foreign countries
- B Interest people earn on their savings abroad
- C Profits earned in another country by firms
- D Revenue from exports of manufactured goods

0 6

Figure 1 shows aggregate demand (AD) and long-run aggregate supply (LRAS) curves in an economy.



Which one of the following is the most likely cause of the shift from LRAS<sub>1</sub> to LRAS<sub>2</sub>?

[1 mark]

- A A fall in the marginal propensity to save
- B A rise in indirect taxes
- C The discovery of oil in the country
- D The rate of unemployment has fallen



07

Which one of the following is an injection into the circular flow of income?

**[1 mark]**

- A** Consumption
- B** Exports
- C** Profits
- D** Savings

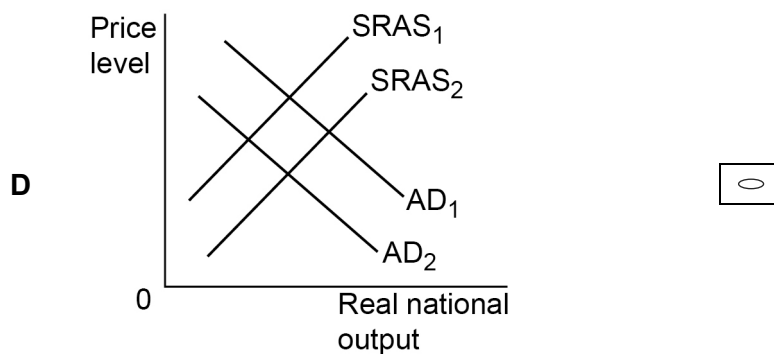
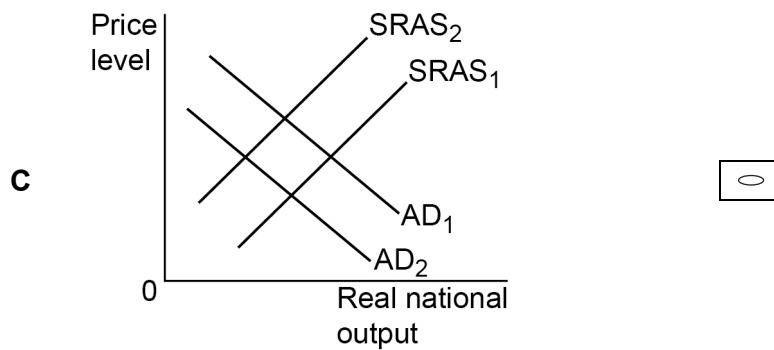
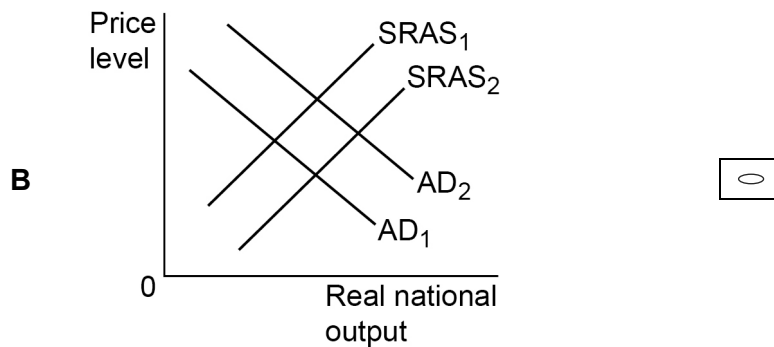
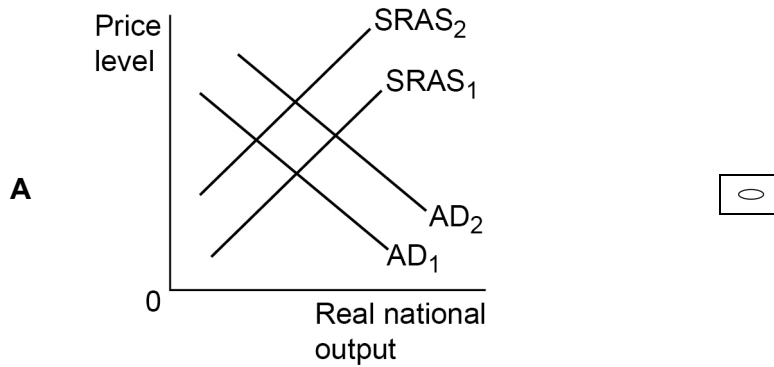
**Turn over for the next question**

**Turn over ►**

**0 8**

The diagrams show aggregate demand (AD) and short-run aggregate supply (SRAS) curves in an economy.

There has been a fall in energy prices and a cut in interest rates. All other things being equal, which diagram is most likely to show the impact of these changes?

**[1 mark]**

0 9

**Table 3** shows real GDP per capita and the Gini coefficient for four countries.

All other things being equal, which country has the most **unequal** distribution of income?

[1 mark]

Table 3

	Country	Real GDP per capita (\$)	Gini coefficient	
<b>A</b>	<b>A</b>	10 000	0.4	<input type="radio"/>
<b>B</b>	<b>B</b>	12 000	0.6	<input type="radio"/>
<b>C</b>	<b>C</b>	14 000	0.3	<input type="radio"/>
<b>D</b>	<b>D</b>	22 000	0.2	<input type="radio"/>

1 0

A government cuts income tax rates as part of its supply-side policy.

Which one of the following is most likely to be the objective of this policy?

[1 mark]

- A** A fall in demand-pull inflation
- B** A larger budget deficit
- C** An increased incentive to work
- D** More spending on imports

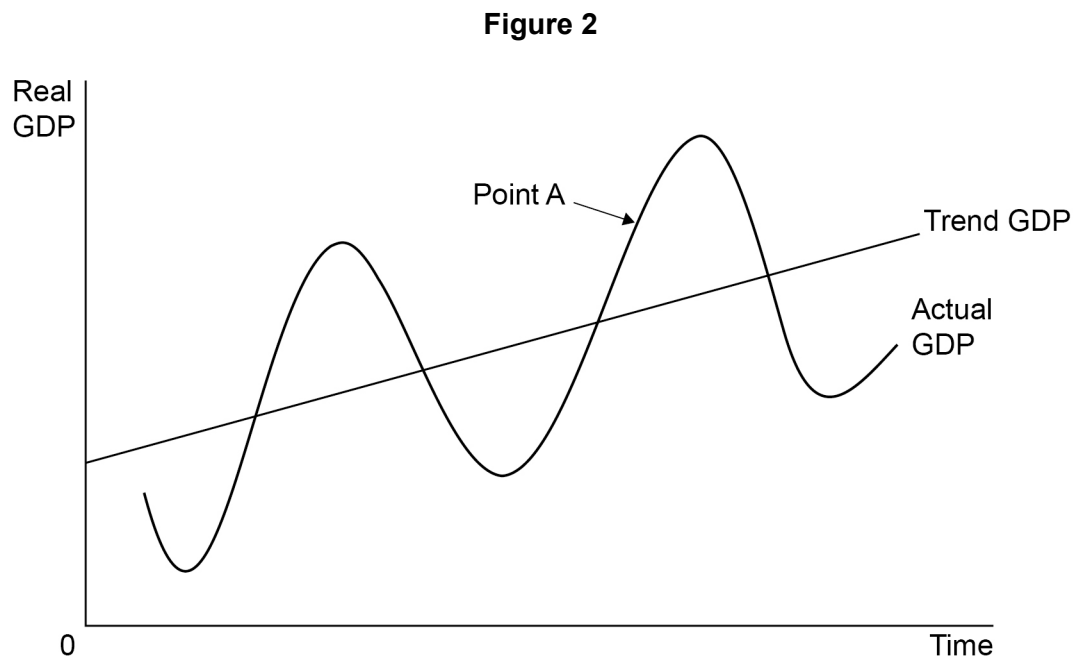
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**Turn over ►**



1 1

Figure 2 shows a diagram of the economic cycle.



All other things being equal, at Point A the economy is most likely to experience

[1 mark]

- A** consumption rising and employment falling.
- B** imports falling and exports rising.
- C** inflation rising and incomes falling.
- D** unemployment falling and investment rising.








**1 2**

**Table 4** shows the proportion of income spent on a good by different groups of the population.

**Table 4**

	Low-income group	Middle-income group	High-income group
Proportion of income spent on the good	10%	5%	2%

The government puts a new tax on the good.

Which one of the following best describes the tax?

**[1 mark]**

- A** Direct
- B** Progressive
- C** Proportional
- D** Regressive

**1 3**

Which one of the following is most likely to be a macroeconomic policy objective for a government?

**[1 mark]**

- A** Falling average price level
- B** High level of taxation
- C** Low unemployment
- D** Positive output gap

**Turn over for the next question**

**Turn over ►**



**1 4**

Which one of the following explains how a rise in national income leads to a rise in investment?

**[1 mark]**

**A** Accelerator process

**B** Demand-side shock

**C** Multiplier process

**D** Supply-side shock

**1 5**

**Table 5** shows real GDP growth, government spending and total tax revenue for an economy, for the years 2018 to 2022.

**Table 5**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Real GDP growth (%)</b>	2.3	-1.7	-1.5	1.5	1.8
<b>Government spending (\$bn)</b>	115	120	125	130	135
<b>Total tax revenue (\$bn)</b>	103	104	105	106	107

It can be concluded from **Table 5** that the country has

**[1 mark]**

**A** a rising structural budget deficit.

**B** a worsening current account deficit.

**C** an improving current account deficit.

**D** an increasing cyclical budget deficit.

**15**

**Section B**

Look at the Source Booklet and answer **all** questions in the spaces provided.

Do **not** write in the Source Booklet.

**1 6 . 1** Define 'inflation' (**Extract B**, line 4).

**[3 marks]**

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**1 6 . 2** Define 'investment' (**Extract C**, line 12).

**[3 marks]**

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**6**

**Turn over for the next question**

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1 7

**Extract A** shows the balance of payments on current account, as a percentage of GDP, and productivity for selected countries.

You are advised to show your working for the calculations.

1 7 . 1

In 2020, Argentina's GDP was \$389.59bn.

Use **Extract A (i)** to calculate the value of Argentina's balance of payments on current account in 2020.

Give your answer in \$bn to **two** decimal places.

**[3 marks]**


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1 7 . 2

An index of productivity for Kenya has 2016 as the base year.

Use **Extract A (ii)** to calculate the value of this index in 2018.

Give your answer to **one** decimal place.

**[3 marks]**


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6



1 8

**Extract B** (lines 3–4) states: 'Higher productivity can improve a country's balance of payments on current account.'

1 8 . 1

Explain how higher productivity can lead to an improvement in a country's balance of payments on current account.

**[6 marks]**

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**Question 18 continues on the next page**

**Turn over ►**



1 8 . 2

To what extent do the data suggest that higher productivity leads to an improvement in a country's balance of payments on current account?

Use the data in **Extract A** to help support your answer.

[6 marks]

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2 0

**Extract C** (lines 6–7) states: ‘Higher saving can provide more funds for businesses to borrow and invest.’

Analyse the determinants of saving in an economy.

**[12 marks]**

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**12**

**Turn over for the next question**

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**Extract C** (lines 14–15) states: ‘However, governments can use supply-side policies to improve an economy’s macroeconomic performance’.

Use the extracts and your knowledge of economics to assess the extent to which supply-side policies are likely to improve an economy’s macroeconomic performance.

**[20 marks]**

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Question number	<b>Additional page, if required. Write the question numbers in the left-hand margin.</b>

