



Oxford Cambridge and RSA

Friday 09 October 2020 – Afternoon

AS Level in Economics

H060/02 Macroeconomics

Time allowed: 1 hour 30 minutes



You can use:

- a scientific or graphical calculator



Please write clearly in black ink. **Do not write in the barcodes.**

Centre number

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Candidate number

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First name(s)

Last name

INSTRUCTIONS

- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. You can use extra paper if you need to, but you must clearly show your candidate number, the centre number and the question numbers.
- Answer **all** the questions in Section A and Section B and **one** question in Section C.

INFORMATION

- The total mark for this paper is **60**.
- The marks for each question are shown in brackets [].
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **16** pages.

ADVICE

- Read each question carefully before you start your answer.

SECTION A

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

Write your answer for each question in the box provided.

1 Crowding out means:

- A fluctuations in tax revenue and government spending due to the economic cycle
- B government spending leads to a fall in private sector spending
- C households and firms saving part of their income
- D mismatch of skills between the unemployed and available jobs

Your answer

[1]

2 What does a Laffer curve show?

- A Difference between government spending and tax revenue
- B Difference between the value of imports and exports for a country
- C Level of supply in a country
- D Relationship between the tax rate and the amount of tax revenue

Your answer

[1]

3 If the Bank of England increases interest rates, which of these is **most** likely to occur?

- A Increase in consumer spending
- B Less investment by firms
- C Less saving in the economy
- D More borrowing in the economy

Your answer

[1]

4 A budget deficit for the UK means that:

- A exports are greater than imports
- B government spending is greater than tax revenue received by the government
- C government tax revenue is greater than government spending
- D imports are greater than exports

Your answer

[1]

5 Disinflation is when:

- A price levels in an economy continue to increase at a moderate rate
- B price levels in an economy fall
- C price levels in an economy increase at a slower rate than previously
- D price levels increase at a very fast rate

Your answer

[1]

6 You earn £15000 in a year. The first £10000 is tax free and any other income is taxed at 20%. What is the average rate of income tax you have paid?

- A 6.67%
- B 13.33%
- C 20.00%
- D 33.33%

Your answer

[1]

7 The table shows the real GDP and population for a country.

Year	Real GDP (2000 prices)	Population
2005	\$60 million	3 million
2015	\$80 million	5 million

What is the percentage change in real GDP per capita from 2005 to 2015?

- A Increase of 20%
- B Increase of 25%
- C Reduction of 20%
- D Reduction of 25%

Your answer

[1]

8 Which of the following is likely to cause a fall in a country's level of economic growth in the short term?

- A Appreciation of the country's currency relative to its major trading partners
- B Fall in the inflation rate relative to its major trading partners
- C Increase in the country's budget deficit
- D Reduction in government regulations

Your answer

[1]

- 9 A UK retailer purchases agricultural products from Europe which cost the retailer €12 500. The retailer sells these items for a total of £14 000. How much profit or loss has the retailer made, if the exchange rate at the time of purchase was £1 = €1.25?

A Loss of £1625
B Loss of £1825
C Profit of £1500
D Profit of £4000

Your answer

[1]

- 10 Which of the following is a feature of a regressive tax system?

A Tax paid as a percentage of income decreases when income increases
B Tax paid as a percentage of income increases when income increases
C Tax paid as a percentage of income is the same for all income levels
D Tax paid does not change as a percentage of income

Your answer

[1]

- 11 Which of the following will cause aggregate supply to shift to the right?

A Increase in corporation tax rates
B Increase in marginal propensity to import
C Increase in national minimum wage
D Increase in subsidies for research and development

Your answer

[1]

- 12 When the Bank of England uses quantitative easing it:

A buys government bonds
B buys sterling
C sells government bonds
D sells sterling

Your answer

[1]

- 13 Which of the following is a supply side policy?

A Changes to the overall level of income tax
B Exchange rate manipulation
C National minimum wage
D Quantitative easing

Your answer

[1]

- 14 The table shows the retail price index for a country.

Year	Retail price index
Year 1	93.4
Year 2	99.5
Year 3	100.0

What is the inflation rate in Year 2?

- A** 0.5%
B 6.1%
C 6.5%
D 6.6%

Your answer

[1]

- 15 The table shows the value of the main components of the UK's balance of payments in 2018.

	£m
Current account	-92 457
Financial account	+77 182
Net errors and omissions	+18 497

What is the value of the capital account?

- A** £0 m
B -£3222 m
C -£15 275 m
D +£95 679 m

Your answer

[1]

SECTION B

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

Rising discontent in Iran

Iran's economy was badly affected for several years by trade restrictions imposed by the international community. In 2016 most sanctions were lifted, the economy recovered quickly and GDP grew 12.3%, according to the Central Bank of Iran. Much of that growth was attributed to the oil and gas industry. The International Monetary Fund (IMF) said growth had begun to spread to the non-oil sector and predicted that GDP would expand by 4.2% in the 2017/18 financial year. However, the recovery has not been as significant as many Iranians had hoped. 5

Inflation has fluctuated greatly in Iran since 1979. In 2013 inflation reached 31%, as the economic sanctions reduced Iran's oil revenue, but has steadily decreased since then. The World Bank expects inflation to remain around 12% over the next three years.

The Iranian government has proposed a budget for the financial year starting in March 2018 that would see its expenditure increase by about 6% to \$104bn. However, that would represent a cut in real terms. 10

The official unemployment rate is 12.4%, but in some parts of the country it is more than 60%. Young people – more than half of the population of 79.9 million is under 30 – are among the worst affected. The International Labour Organisation (ILO) estimates that 26.7% of 15–24 year olds are unemployed. Underemployment is also high at 12.4% among 15–24 year olds. 15

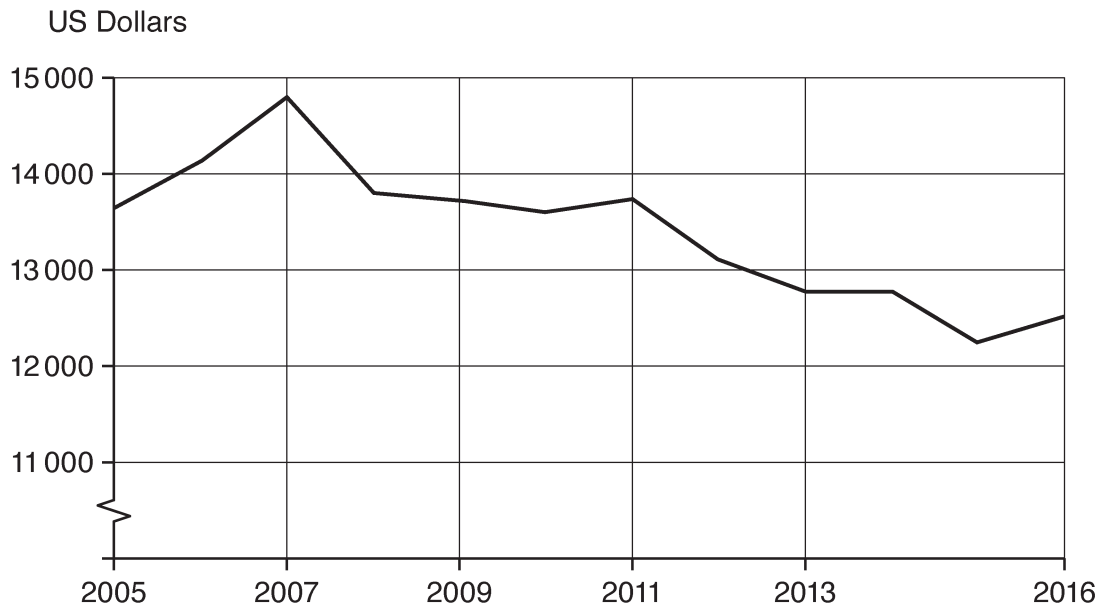
The IMF has warned that, despite the high economic growth rate, not enough jobs are being created to absorb the large number of people entering the labour market. Analysts say that is because most of the recovery can be attributed to the oil industry, which is not labour-intensive. Iran's currency, the Rial, has also fallen in value by more than 450%. 20

The World Bank says that poverty in Iran fell between 2009 and 2013 to about 8%, although it increased to 10.5% in 2014. It estimates that 8.2 million people were living on less than \$5.50 per day in 2014. About 2%, or 196 000 people, were living on less than \$1.90.

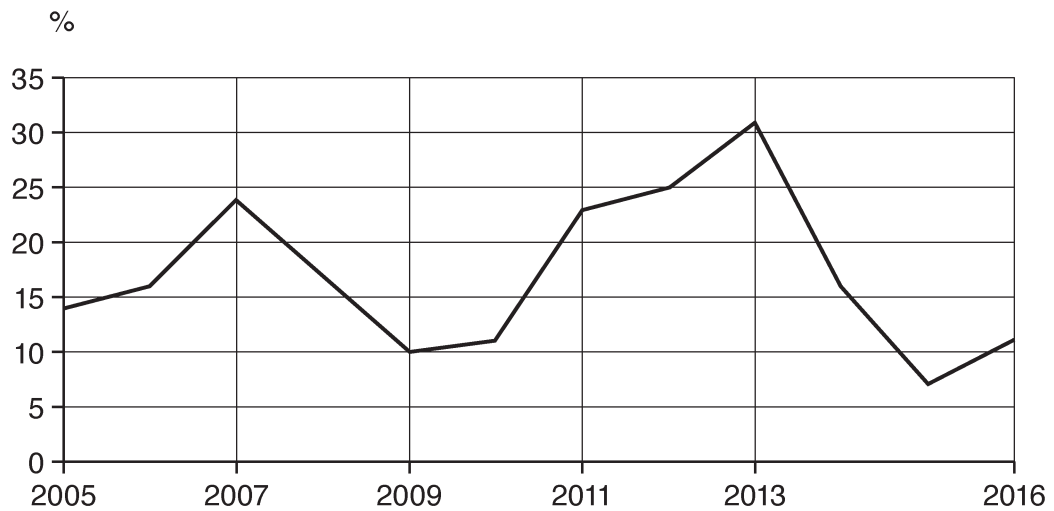
Most families are dependent on a monthly cash payment from the government worth about \$13 received by 77 million Iranians. The proposed budget would cut these payments by \$5.3bn in total, which would reportedly affect 30 million people. Proposals also exist to raise the price of petrol by 50%. 25

The consumption of bread, milk and red meat in Iranian households has decreased by between 30% and 50% over the past 10 years. With Iranians becoming poorer in real terms, and the prices of many basic foodstuffs increasing by about 40% in the past year, many people simply cannot afford to buy as much food. 30

Source: Adapted from BBC News

Fig. 1 Real household income in Iran 2005–2016

Source: Central Bank of Iran

Fig. 2 Changes in prices in Iran 2005–2016

Source: Central Bank of Iran

- 16 (a) (i)** Using Fig. 1, explain the change in real household income in Iran from 2007 to 2016.

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..... [2]

- (ii)** Government expenditure is likely to increase from March 2018 by 6% (lines 10–11).

State why this increase represents “a cut in real terms”.

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..... [1]

- (b)** Using Fig. 2, explain what happened to inflation in Iran between 2009 and 2013.

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..... [2]

- (c) The case study refers to high levels of unemployment and cash payments being reduced to families.

Using a diagram, explain what impact these factors may have on economic growth in Iran.

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- (d) Using information from the case study, explain possible reasons why the Iranian currency, the Rial, has fallen in value by more than 450%.

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..... [4]

..... [2]

(f)* Evaluate the advantages of international trade to an emerging country, such as Iran, if it were allowed to trade freely. [10]

This image shows a full page of white paper with horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.

17* In Japan, the government introduced a fiscal tax reform plan in 2018, including increased taxes for high-income earners and smokers, as well as the creation of a 'departure tax' targeting tourists leaving Japan.

OR

In China, as a result of an acceleration in import growth, the current account surplus fell to \$28.8 billion in April 2018.

Evaluate, using an appropriate diagram(s), whether a large current account imbalance should be a concern for any government. **[20]**

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