

Please check the examination details below before entering your candidate information

Candidate surname

Other names

Pearson Edexcel
International
Advanced Level

Centre Number

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Thursday 16 May 2019

Morning (Time: 1 hour 30 minutes)

Paper Reference **WEC02/01**

Economics

International Advanced Subsidiary

Unit 2: Macroeconomic Performance and Policy

You do not need any other materials.

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** the questions in Section A and **one** question from Section B.
- 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.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of expression.
- 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 ►

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Pearson

SECTION A

Answer ALL questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 In the first quarter of 2017, Brazil's rate of real economic growth was 0.4%.

(a) Which one of the following is a monetary policy measure that could be used to increase the rate of economic growth? (1)

- A** Increasing direct tax rates
- B** Decreasing interest rates
- C** Decreasing direct tax rates
- D** Increasing interest rates

Answer

(b) Explanation (3)

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2 In 2016, the Czech Republic budget (fiscal) surplus was 0.7% of GDP.

(a) As a result of this there was a (1)

- A decrease in the marginal propensity to import
- B net injection from the government sector into the circular flow of income
- C decrease in the marginal propensity to save
- D net withdrawal by the government sector from the circular flow of income

Answer

(b) Explanation (3)

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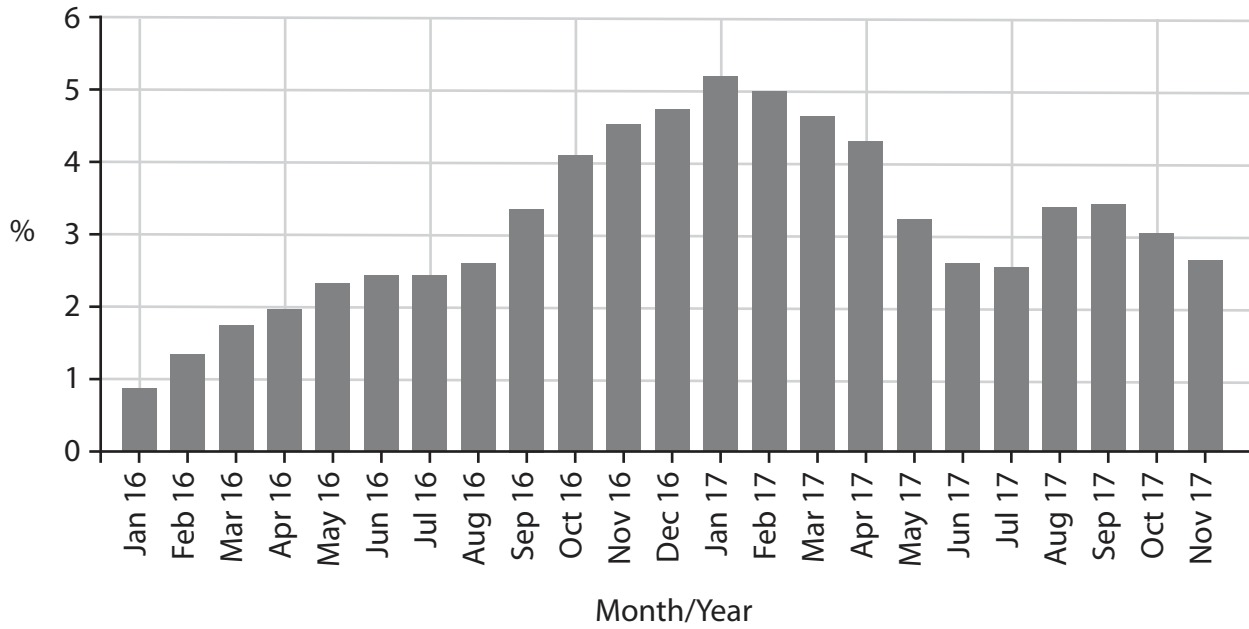
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3 The chart shows the monthly percentage change in the annual rate of inflation for Vietnam, between January 2016 and November 2017.



(Source: <https://tradingeconomics.com/vietnam/inflation-cpi>)

(a) From the chart it can be deduced that

(1)

- A there was deflation from January 2017 to April 2017
- B the average price level was lower in June 2017 than in March 2017
- C the average price level was higher in October 2017 than in September 2017
- D there was disinflation from January 2016 to April 2016

Answer

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(b) Explanation

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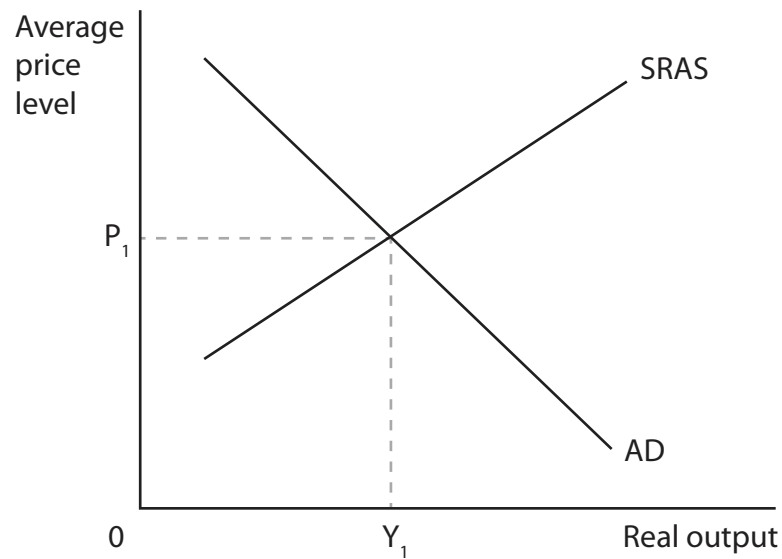
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- 4 The aggregate demand (AD) and short-run aggregate supply (SRAS) diagram represents the economy of South Korea in January 2017. The equilibrium level of real output is Y_1 and the average price level is P_1 .



- (a) Ceteris paribus, which of the following are most likely to have resulted from an increase in the value of imports to South Korea between January 2017 and January 2018?

(1)

	Real output	Average price level
A	Increase	Increase
B	Decrease	Decrease
C	Decrease	Increase
D	Increase	Decrease

Answer



(b) Explanation

(3)

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(Total for Question 4 = 4 marks)

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5 The table shows the annual percentage change in the real GDP of Canada between 2013 and 2016. The long-term trend rate of growth for the economy is estimated to be 2.4%.

Year	Change in real GDP (annual %)
2013	2.6
2014	2.8
2015	2.7
2016	2.4

(a) From this data it can be deduced that (1)

- A the positive output gap increased between 2013 and 2014
- B there was a negative output gap in 2015
- C the positive output gap increased between 2014 and 2015
- D there was a recession in 2016

Answer

(b) Explanation (3)

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6 In the United Kingdom in 2017, average nominal wage growth was 2.0% and the rate of inflation was 2.6%.

(a) This data indicates that in 2017 real wage growth was

(1)

- A -2.6%
- B -0.6%
- C 0.6%
- D 4.6%

Answer

(b) Explanation

(3)

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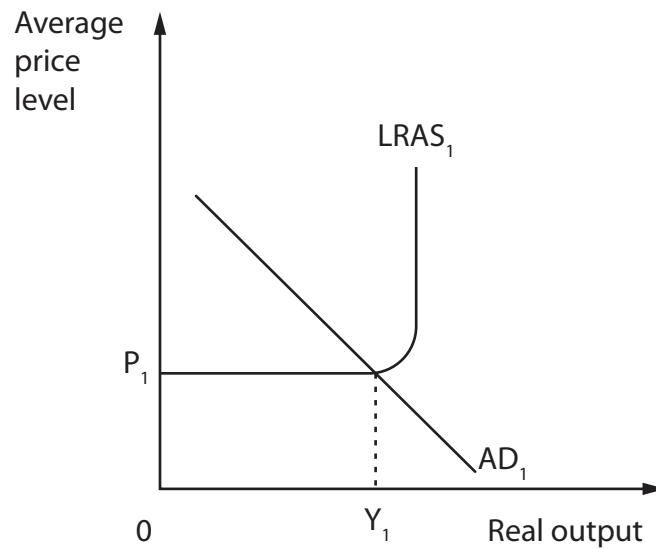
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- 7 The aggregate demand (AD) and long-run aggregate supply (LRAS) diagram represents the economy of Japan. The equilibrium level of real output is Y_1 and the average price level is P_1 .



- (a) *Ceteris paribus*, which of the following are most likely to result from a significant increase in business investment in 2017?

(1)

	LRAS curve	AD curve
A	Leftward shift	Rightward shift
B	Rightward shift	Leftward shift
C	Rightward shift	Rightward shift
D	Leftward shift	Leftward shift

Answer



(b) Explanation

(3)

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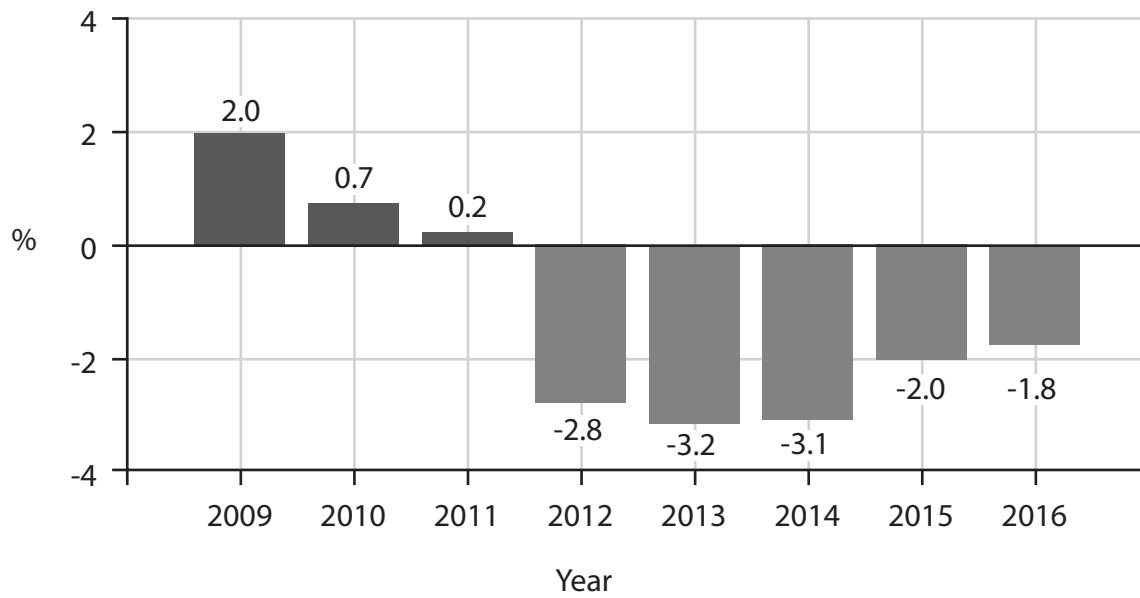
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8 The chart shows the current account of the balance of payments as a percentage of GDP for Indonesia, between 2009 and 2016.



(a) From this chart it can be deduced that

(1)

- A there was a current account surplus in 2011
- B the value of exports exceeded the value of imports in 2015
- C the value of imports exceeded the value of exports in 2009
- D there was a current account surplus in 2016

Answer



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(b) Explanation

(3)

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TOTAL FOR SECTION A = 32 MARKS



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SECTION B

Answer EITHER Question 9 OR Question 10.

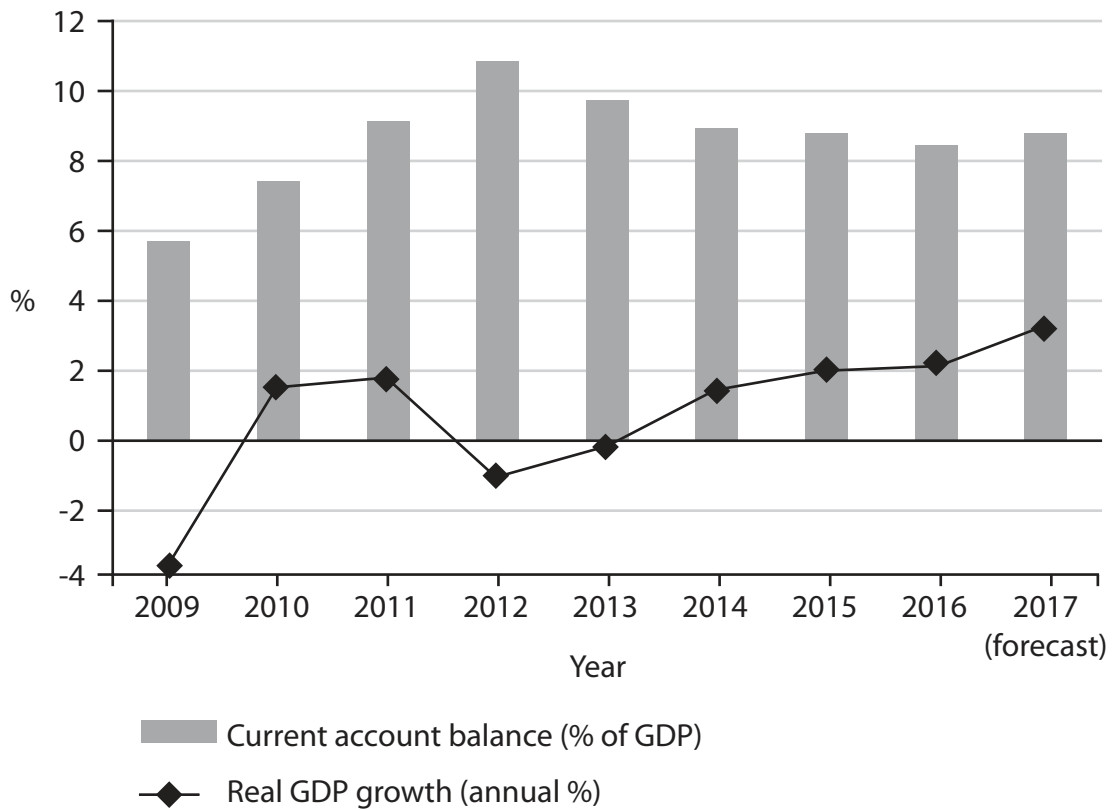
You are advised to spend 55 minutes on this question.

If you answer Question 9 put a cross in the box .

Question 10 starts on page 28.

9 The economy of the Netherlands

Figure 1 The current account on the balance of payments as a percentage of GDP and the annual percentage change in real GDP, 2009–2017



(Source: <https://data.worldbank.org/country/netherlands> and https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/netherlands/economic-forecast-netherlands_en)

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Figure 2 The rate of inflation as measured by the consumer price index (CPI) and the unemployment rate, 2009–2017



(Source: adapted from <https://data.worldbank.org/country/netherlands> and https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/netherlands/economic-forecast-netherlands_en)

Extract 1 Economy expands at fastest rate since joining the euro

In 2017, the Netherlands had one of the fastest growing western European economies. Rising exports helped the economy expand at its fastest pace since the introduction of the euro on 1st January 1999.

Exports were the best performing part of the economy, with investment and household consumption also growing. The improvement in the economy is expected to cause the unemployment rate to decrease rapidly to 4.3% in 2018. Furthermore, the increasing budget surplus and a significant fall in government debt will improve public finances.

(Source: adapted from <https://www.ft.com/content/e1f11df4-926e-34fb-ab9a-b7c1c86f9a7f> and <https://www.cpb.nl/en/pressrelease/strong-acceleration-of-economic-growth>)

5



Extract 2 Economic growth and protection of the environment

The Netherlands' agriculture sector has the lowest impact on the environment of all the countries in the world, according to a recent study. Per kilo of agricultural product, the Netherlands had very low levels of carbon dioxide (CO₂), energy use, pesticides and antibiotics. 5

In addition very little food is wasted. For example, many leftovers in the food industry are used to feed livestock. Furthermore, biomass is used in agriculture as a source of energy which reduces CO₂ emissions. Plant waste is used as raw materials for building, textiles, cardboard, chemicals and plastics. The CO₂ released by the Shell refinery in Rotterdam is redirected through pipes to greenhouses in Westland, where it is used for plant growth. 10

Government policy also plays a role in reducing the impact that the Netherlands' agriculture sector has on the environment. Laws and regulations are stricter than in many other countries. For example, the use of antibiotics in livestock fell by 64% between 2009 and 2016. In 2015 the use of pesticides decreased to less than half the level of the 1980s. 15

(Source: adapted from <https://nltimes.nl/2017/08/01/dutch-farmers-lowest-environmental-impact-world-abn-amro>)

- (a) With reference to Figure 2, explain what is meant by the term *unemployment rate*. (4)
- (b) With reference to Figure 1, Figure 2 and Extract 1, evaluate the likely causes of the changes in the rate of unemployment in the Netherlands since 2014. (14)
- (c) Assess the likely causes of the Netherlands' current account surplus. (10)
- (d) With reference to Figure 2, explain the effects of low and stable inflation on competitiveness **and** on investment. (6)
- (e) With reference to the information provided and your own knowledge, evaluate the view that the Netherlands is successfully avoiding a conflict between the protection of the environment and other macroeconomic objectives. (14)

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(a) With reference to Figure 2, explain what is meant by the term *unemployment rate*.

(4)

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(b) With reference to Figure 1, Figure 2 and Extract 1, evaluate the likely causes of the changes in the rate of unemployment in the Netherlands since 2014.

(14)

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(c) Assess the likely causes of the Netherlands' current account surplus.

(10)

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(d) With reference to Figure 2, explain the effects of low and stable inflation on competitiveness **and** on investment.

(6)

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(e) With reference to the information provided and your own knowledge, evaluate the view that the Netherlands is successfully avoiding a conflict between the protection of the environment and other macroeconomic objectives.

(14)

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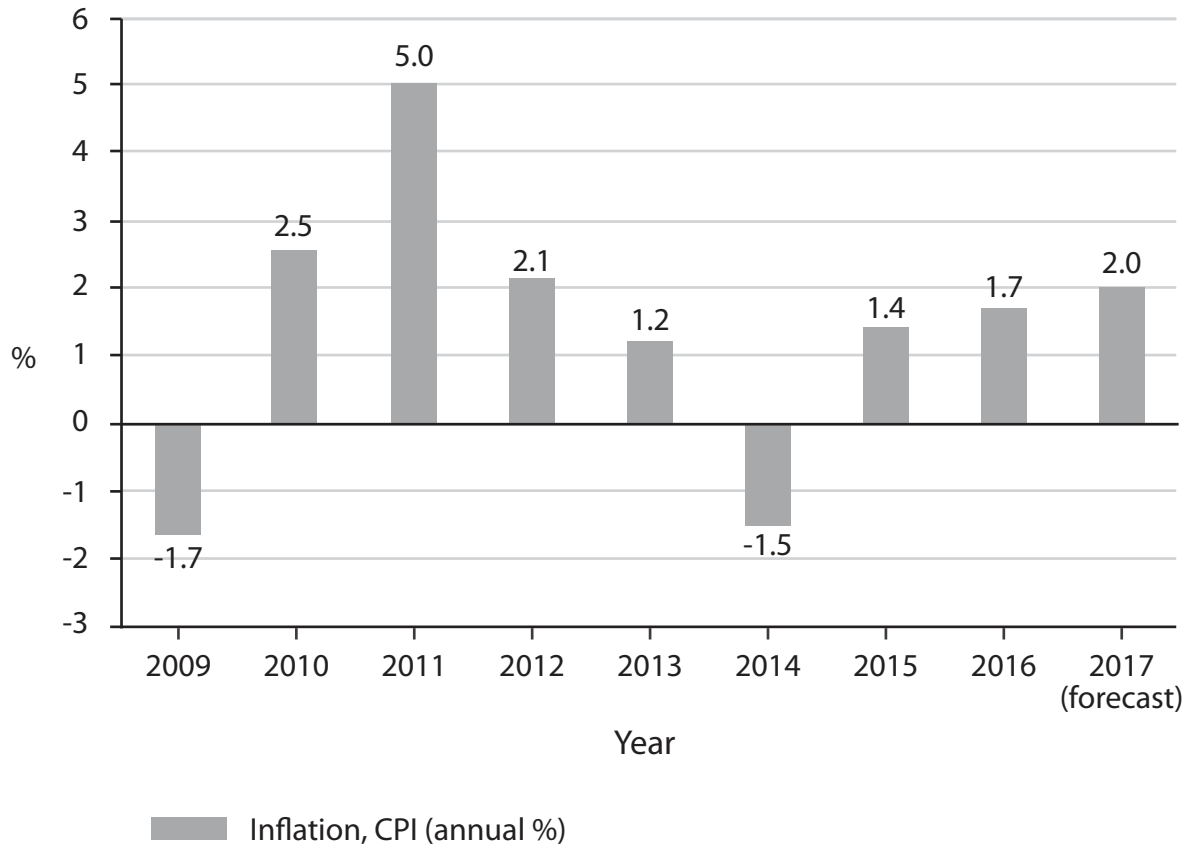
QUESTION 10 BEGINS ON THE NEXT PAGE.



If you answer Question 10 put a cross in the box .

10 The economic performance of Guinea-Bissau

Figure 1 The rate of inflation as measured by the consumer price index (CPI), 2009–2017



(Source: adapted from <https://data.worldbank.org/country/guinea-bissau>)

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Figure 2 GDP data and Human Development Index (HDI) for Madagascar and Guinea-Bissau, 2010–2015

YEAR	Madagascar				Guinea-Bissau			
	HDI	HDI rank	GNI per capita (current US\$)	GDP (current US\$bn)	HDI	HDI rank	GNI per capita (current US\$)	GDP (current US\$bn)
2010	0.504	151	420	8.73	0.410	175	547	0.85
2011	0.506	154	420	9.89	0.416	176	689	1.11
2012	0.508	155	430	9.92	0.415	177	604	1.00
2013	0.509	155	440	10.61	0.419	177	622	1.03
2014	0.511	154	440	10.67	0.421	178	611	1.11
2015	0.512	158	420	9.74	0.424	178	586	1.06

(Source: <https://countryeconomy.com/hdi/guinea> and tradingeconomics.com)

Extract 1 Agriculture

Guinea-Bissau is a small country located in West Africa experiencing political and economic instability. This instability affects the economy. Public services including education and healthcare are inadequate and wages are low. Also there is very little regulation of the economy including the agricultural sector. 5

Most of the country's agricultural sector is focused on the production and export of cashew nuts. The cashew nut industry provides 85% of all jobs, so when output of this product falls the number of jobs available decreases. The quantity of exports has declined because of competing countries that export the same commodity. The cashew nut industry in Guinea-Bissau lacks competitiveness as a result of under-investment. In particular, investment in new infrastructure and technology is required. The decline in exports of cashew nuts causes many economic difficulties. 10

Most roads outside of the capital are unpaved making transport slow. There are also no railways in the country, although there are plans for a mining company to build a railway to facilitate the export of iron ore. Agricultural competitiveness could be improved with investment in modern infrastructure that improves transport links. 15

(Source: adapted from © The Borgen Project <https://borgenproject.org/causes-of-poverty-in-guinea-bissau/>)



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Extract 2 Education reform

Low school enrolment and attainment levels in Guinea-Bissau contribute to low rates of economic growth and low GDP per capita. Evidence suggests that most workers in the country have an educational level lower than that reached by pupils completing their primary school education. This situation is undesirable both for individuals and the country's economy as it fails to provide for any improvement in productivity, which is essential for an increase in economic growth.

5

In response to this situation, the national education authorities have begun a ten-year strategy with the aim of increasing investment in education and reforming the education system.

10

(Source: adapted from <http://unesdoc.unesco.org/images/0024/002470/247043e.pdf>)

- (a) With reference to Figure 2, explain the components of HDI. (4)
- (b) With reference to Figure 2, assess the limitations of using GDP to compare living standards between countries. (10)
- (c) With reference to Extract 2, explain **two** effects on the Guinea-Bissau economy of low levels of educational attainment. (6)
- (d) With reference to Extract 1, evaluate constraints on economic growth for Guinea-Bissau. (14)
- (e) With reference to the information provided and your own knowledge, evaluate macroeconomic policies that the Government of Guinea-Bissau could use to increase the country's HDI. (14)

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(a) With reference to Figure 2, explain the components of HDI.

(4)

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(b) With reference to Figure 2, assess the limitations of using GDP to compare living standards between countries.

(10)

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(c) With reference to Extract 2, explain **two** effects on the Guinea-Bissau economy of low levels of educational attainment.

(6)

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(d) With reference to Extract 1, evaluate constraints on economic growth for Guinea-Bissau.

(14)

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(e) With reference to the information provided and your own knowledge, evaluate macroeconomic policies that the Government of Guinea-Bissau could use to increase the country's HDI.

(14)

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TOTAL FOR SECTION B = 48 MARKS

TOTAL FOR PAPER = 80 MARKS

