A-level
ECONOMICS
Paper 2 National and International Economy

Monday 19 May 2025 | Afternoon | Time allowed: 2 hours

Materials
For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front cover of your answer book.
  The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

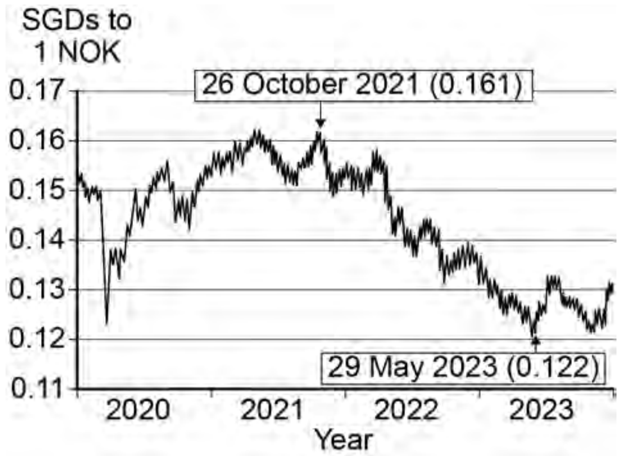
EITHER

Context 1 The value of the Norwegian krone and its effects on Norway's economy **Total for this context: 40 marks**

Study **Extracts A**, **B** and **C**, and then answer **all** parts of Context 1 which follow.

Extract A:

Figure 1: Norwegian krone (NOK) to Singapore dollar (SGD) exchange rate, January 2020 to December 2023



Source: Investing.com, 2024

Figure 2: Macroeconomic performance indicators for Germany, Norway and Singapore, average rates between 2020 and 2023

	Germany	Norway	Singapore
GDP growth (%)	0.2	1.5	2.7
Inflation rate (%)	4.0	4.0	3.3
Unemployment rate (%)	3.4	3.9	3.9
Current account balance (% of GDP)	6.5	15.9	17.6

Source: World Bank, 2024

Extract B: Norway's currency, the krone, has depreciated

The value of the Norwegian currency, the krone, has depreciated. Over the past 10 years, the krone has fallen by over 20% against the euro and the US dollar. Although a fall in the value of the krone may help some macroeconomic objectives, it can make others harder to achieve.

Inflation has decreased since its peak of 7.5% in October 2022. However, the depreciating krone means that it will take longer for inflation to reach its target rate as imported goods become more expensive. Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.

Norway's average CPI inflation rate for 2023 was 5.5%, with nominal wage growth of 5.1%. Thus, real wage growth was negative, reducing average living standards. Norway's economy is heavily reliant on the export of oil, which makes the krone sensitive to changes in oil prices. Sales of oil and gas helped Norway record a current account surplus of 17.5% of GDP in 2023.

Some economists argue that in a small open economy like Norway's, managing the exchange rate, by intervening in currency markets, is the best way to achieve economic and price stability. They believe that, over the medium-term, there is a stable and predictable link between the exchange rate and inflation. However, targeting the exchange rate means the central bank gives up control of interest rates.

Source: News reports, 2024

Extract C: Singapore's managed exchange rate

An economy that has seen considerable success by intervening in the foreign exchange market to manage its currency is Singapore. Rather than focusing on using interest rates, the Monetary Authority of Singapore (MAS) manages the country's exchange rate. Singapore does not peg its currency directly to another, such as the US dollar. Instead, the Singapore dollar (SGD) is allowed to fluctuate, within a band, against a trade-weighted basket of currencies.

This approach has several benefits for Singapore's economy. A managed floating exchange rate provides Singapore's government with the flexibility to respond to economic shocks and maintain stability. It allows the exchange rate to adjust gradually, reducing the risk of volatile currency movements. Also, by managing the SGD against a basket of currencies, Singapore's government can ensure that its economy remains competitive in international trade.

A stable economy and exchange rate is attractive to foreign investors, leading to large inflows of foreign direct investment (FDI). It is also crucial for Singapore's role as a global financial centre. However, by targeting the exchange rate, the ability to use other tools of macroeconomic policy is limited.

Source: News reports, 2024

0 1 Using the data in **Extract A** (**Figure 1**), calculate how the value of the Norwegian krone has changed compared to the Singapore dollar between 26 October 2021 and 29 May 2023.

Give your answer as a percentage and to **one** decimal place.

[2 marks]

0 2 Explain how the data in **Extract A** (**Figure 2**) show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.

[4 marks]

0 3 **Extract B** (lines 6–7) states: 'Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.'

With the help of a suitable diagram, explain how an appreciation of the krone could help Norway reduce inflation.

[9 marks]

0 4 **Extract C** (lines 1–2) states: 'An economy that has seen considerable success by intervening in the foreign exchange market to manage its currency is Singapore.'

Using the data in the extracts and your knowledge of economics, assess the view that an economy is likely to perform better with a managed exchange rate rather than a freely floating exchange rate.

[25 marks]

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2 The emergence of BRICS+ **Total for this context: 40 marks**

Study **Extracts D**, **E** and **F**, and then answer **all** parts of Context 2 which follow.

Extract D:

Figure 3: Development indicators of selected BRICS+ and G7 economies, 2001 and 2023

	GDP ($ billions)*		Population (millions)		Life expectancy at birth (years)		Expected years of schooling	
	2001	2023	2001	2023	2001	2023	2001	2023
Egypt	437	2123	75	115	67.6	71.6	10.9	12.9
Ethiopia	40	400	69	129	51.4	67.3	4.7	9.9
Japan	3439	6398	127	124	81.5	84.7	15.0	15.5
USA	10582	27720	284	343	76.9	79.3	15.8	16.4

Note: *GDP at current prices, using purchasing power parity exchange rates
some figures are estimated

Source: Official statistics, 2024

Extract E: BRICS+

The term 'BRIC' was first used by Jim O'Neill, an economist at Goldman Sachs, in a 2001 paper titled 'Building Better Global Economic BRICs'. The paper identified Brazil, Russia, India and China as the major emerging economies with the potential to significantly reshape the global economic landscape. This was due to their large populations, high economic growth rates and increasing influence in world affairs. By 2009, the group had adopted a formal identity, with their governments meeting annually.

South Africa joined in 2010, making it 'BRICS'. Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates were invited to join the BRICS in 2024, which is now referred to as 'BRICS+'. The group was designed to bring together the world's most important developing countries and to challenge the political and economic power of the G7 countries (a group of seven of the world's most advanced economies including the UK, Japan and the USA).

The middle-class populations of the BRICS+ countries are increasing fast, providing growing export markets for the G7. Firms based in the G7 can reduce their costs by outsourcing production to the BRICS+ countries. The G7 nations may benefit from investing in infrastructure, technology and energy industries in the BRICS+ economies. In recent years, some of the BRICS+ countries, including China and India, have been responsible for large foreign direct investment (FDI) inflows into the G7.

Source: News reports, 2024

Extract F: A new world order?

While some see the benefits of the emergence of the BRICS+ economies, others are more worried by their rapid economic growth. BRICS+ countries are using their vast resources, large markets and expanding technological capabilities to challenge the dominance of traditional economic powers like the USA and the European Union. Their competitive pricing in manufacturing, energy exports and technology services threatens industries in developed countries, potentially leading to job losses and a reallocation of global capital flows.

The BRICS+ economies' heavy reliance on resource extraction and industrialisation raises environmental concerns. Some argue that their pursuit of economic growth prioritises short-term gains over sustainable practices, contributing to global environmental problems. This may impose economic costs on other nations through climate change and resource scarcity, leading to increased commodity prices.

Recently, there has been a rise in protectionism which led to tensions between countries, increased economic uncertainty and affected the pattern of world trade. Even before the new members joined, the BRICS' share of global export of goods increased from 10.7% in 2000 to 23.3% in 2023. Meanwhile, the share of the G7's global export of goods fell from 45.1% to 28.9% over the same period.

Source: News reports, 2024

0 5 Using the data in **Extract D** (**Figure 3**), calculate the difference between the percentage increase in GDP for Japan and the USA between 2001 and 2023.

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

[2 marks]

0 6 Explain how the data in **Extract D** (**Figure 3**) show how Ethiopia has developed at a faster rate than Japan since 2001.

[4 marks]

0 7 **Extract E** (lines 15–17) states: 'In recent years, some of the BRICS+ countries, including China and India, have been responsible for large foreign direct investment (FDI) inflows into the G7.'

With the help of a suitable diagram, explain how increased inward foreign direct investment (FDI) can affect a country's level of employment.

[9 marks]

0 8 **Extract F** (lines 1–2) states: 'While some see the benefits of the emergence of the BRICS+ economies, others are more worried by their rapid economic growth.'

Using the data in the extracts and your knowledge of economics, assess the view that the continued rapid economic growth of the BRICS+ economies is likely to be damaging to the macroeconomic performance of G7 nations, such as the UK.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

By September 2024, the UK's national debt had risen to approximately £2 776 billion, which was equivalent to over 100% of GDP. To pay for an increase in its spending, the government may have to increase taxes.

0 9 Explain factors that may lead to an increase in a country's national debt as a percentage of GDP.

[15 marks]

1 0 Assess the view that raising direct taxes to finance an increase in government spending is better than raising indirect taxes.

[25 marks]

OR

Essay 2

In 2023, the UK government allocated £5.9 billion for supply-side policies to boost long-term growth and competitiveness. One aim of supply-side policies is to achieve a lower, stable rate of inflation.

1 1 Explain how supply-side policies can help to achieve a low, stable rate of inflation.

[15 marks]

1 2 Evaluate the view that a low rate of inflation is always beneficial for a country's macroeconomic performance.

[25 marks]

OR

Essay 3

Gross domestic product (GDP) is a widely used measure of economic activity, but it has several limitations when used as the sole indicator of living standards. Less economically developed countries (LEDCs) need to look at ways to not only boost their GDPs but also to develop their economies.

1 3 Explain the main limitations of using national income data to assess differences in living standards between countries.

[15 marks]

1 4 Assess the view that economic development in LEDCs is best achieved through interventionist strategies.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page