

Please check the examination details below before entering your candidate information

Candidate surname					Other names				
Centre Number					Candidate Number				

Pearson Edexcel International Advanced Level

Friday 19 January 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 ►

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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 is an injection into the circular flow of income?

- ☐ A Investment
- ☐ B Savings
- ☐ C Imports
- ☐ D Consumption

(Total for Question 1 = 1 mark)

2 In 2022 Kuwait experienced an increase in real GDP of 8.7%.

Which **one** of the following is most likely to be a benefit of *actual* economic growth?

- ☐ A A decrease in profits for firms
- ☐ B A decrease in the rate of inflation
- ☐ C A decrease in the rate of unemployment
- ☐ D A decrease in government tax revenues

(Total for Question 2 = 1 mark)

3 In China, government expenditure was CN¥24.64 trillion in 2021 and CN¥20.37 trillion in 2022.

Which **one** of the following is the percentage decrease in China's government expenditure between 2021 and 2022?

- ☐ A 4.27
- ☐ B 17.33
- ☐ C 20.96
- ☐ D 82.67

(Total for Question 3 = 1 mark)



- 4 Between January 2023 and March 2023, Brazil's net monthly balance of trade in goods and services surplus increased from \$2 609 billion to \$10 956 billion.

Which **one** of the following is the most likely reason for this change in Brazil's balance of trade in goods and services surplus?

- ☐ A A decrease in income tax rates in Brazil
- ☐ B A decrease in the quality of Brazil's goods and services
- ☐ C A decrease in the savings ratio in Brazil
- ☐ D A decrease in the external value of Brazil's currency

(Total for Question 4 = 1 mark)

- 5 Governments use fiscal policies to meet their macroeconomic objectives.

Which **one** of the following is a fiscal policy instrument?

- ☐ A Changes in quantitative easing
- ☐ B Changes in taxation
- ☐ C Changes in lending criteria
- ☐ D Changes in liquidity requirements

(Total for Question 5 = 1 mark)



- 6 The table shows Vietnam's rate of inflation*, as measured by the consumer price index (CPI), between June 2022 and September 2022.

Month	Rate of inflation (%)
June	3.37
July	3.14
August	2.89
September	3.94

*This is the year-on-year inflation rate calculated monthly.

Which **one** of the following can be deduced from the table?

- ☐ A There was disinflation between June and July
- ☐ B There was deflation between July and August
- ☐ C The rate of inflation was at its lowest in September
- ☐ D The rate of inflation fell throughout the given period

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS



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SECTION B

Answer ALL questions. Write your answers in the spaces provided.

- 7 In 2022 Belize had a positive output gap of more than 7%.

Explain **one** likely disadvantage of a positive output gap for the economy of Belize.

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(Total for Question 7 = 4 marks)



- 8** Between October 2022 and February 2023 consumer confidence increased in the eurozone.

Draw an AD and SRAS diagram to show the likely impact of this increase in consumer confidence in the eurozone.

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(Total for Question 8 = 4 marks)



- 9 It was estimated that an increase in investment of \$150 million in an economy would eventually result in an increase in the country's national income of \$1 500 million.

Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.

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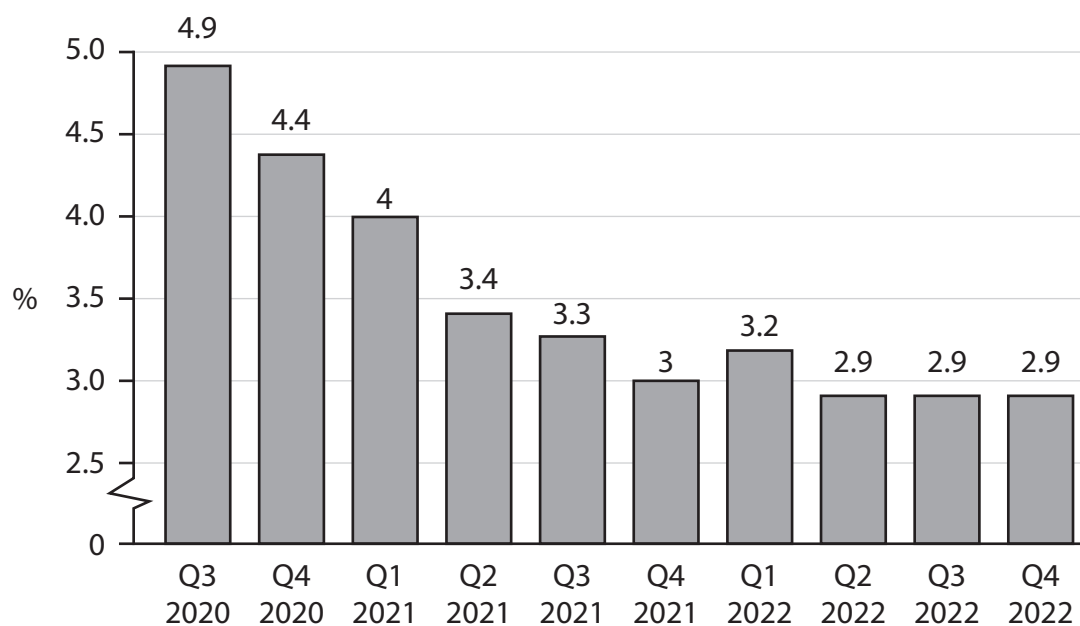
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(Total for Question 9 = 4 marks)



- 10 The chart shows the rate of unemployment in Malta between quarter 3 (Q3) 2020 and quarter 4 (Q4) 2022.



With reference to the chart, explain **one** possible effect of the change in the rate of unemployment between Q3 2020 and Q4 2022 on the public finances of Malta.

(Total for Question 10 = 4 marks)



11 In 2022 average house prices increased by 6% in India. For example:

- in the city of Bengaluru, average house prices increased by 9%
- in the city of Ahmedabad, average house prices increased by 3%.

With reference to the data, explain what is meant by the 'wealth effect'.

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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, Extract A and Extract B in the Source Booklet before answering Question 12.

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

- 12** (a) Define the term 'GDP per capita' (Figure 1). (2)
- (b) With reference to Figure 1, explain the likely impact of higher real incomes on subjective happiness. (4)
- (c) Examine the likely impact on the UK's real output of 'the rising cost of energy' (Extract A, line 4). (8)
- (d) With reference to Figure 2 and Extract A, analyse **two** factors that influence business investment. (6)
- (e) With reference to the information provided, discuss supply-side policies that the UK Government has introduced to increase the country's productive potential. (14)

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12 (a) Define the term 'GDP per capita' (Figure 1).

(2)

(b) With reference to Figure 1, explain the likely impact of higher real incomes on subjective happiness.

(4)

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(c) Examine the likely impact on the UK's real output of 'the rising cost of energy'
(Extract A, line 4).

(8)

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(d) With reference to Figure 2 and Extract A, analyse **two** factors that influence business investment.

(6)

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- (e) With reference to the information provided, discuss supply-side policies that the UK Government has introduced to increase the country's productive potential.

(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** Between February 2022 and February 2023 the central bank of South Korea increased the base rate of interest from 1.25% to 3.5%.

Evaluate the likely macroeconomic effects of an increase in interest rates on a country of your choice.

(Total for Question 13 = 20 marks)

OR

- 14** Between January 2022 and January 2023 Turkey's annual rate of inflation increased by nine percentage points.

Evaluate possible causes of inflation. Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

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



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Sources for use with Section C

The UK economy

Figure 1 Real GDP per capita, £ thousands, 2010-2022

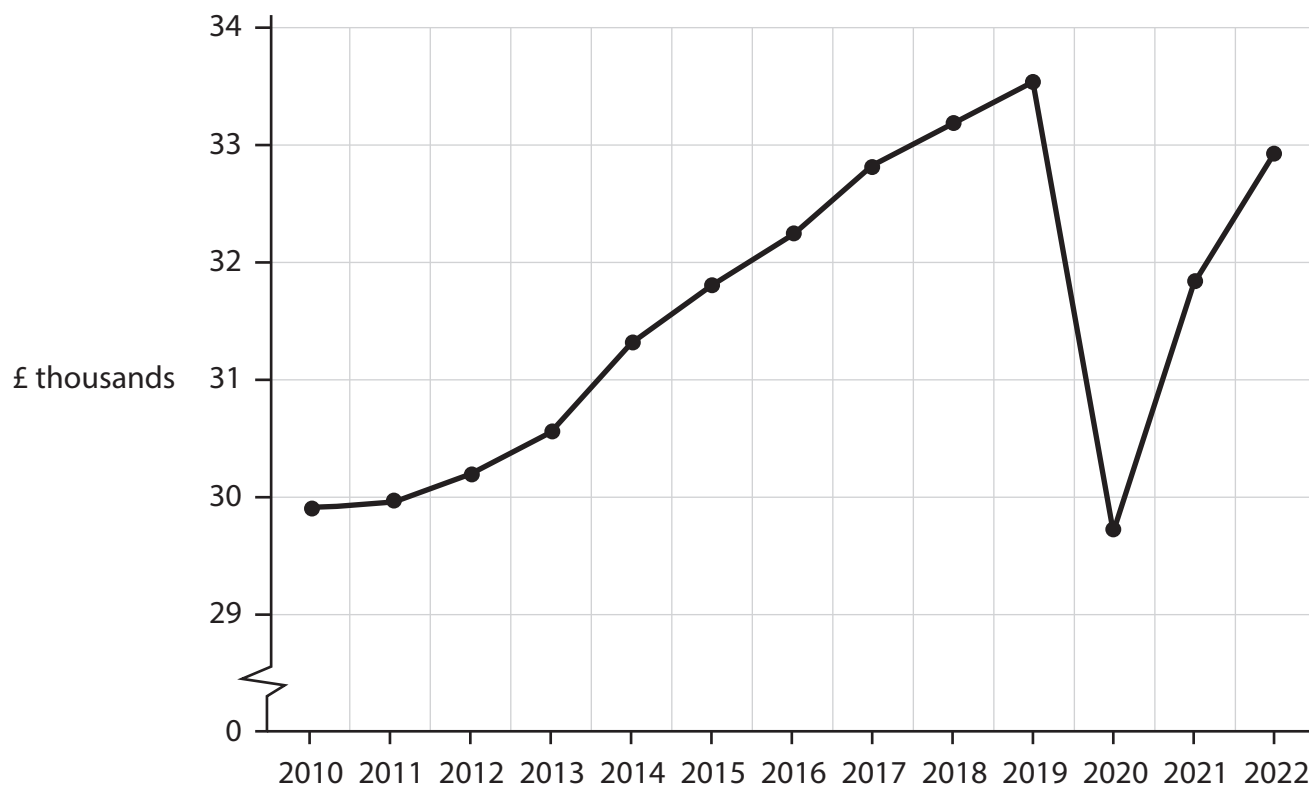
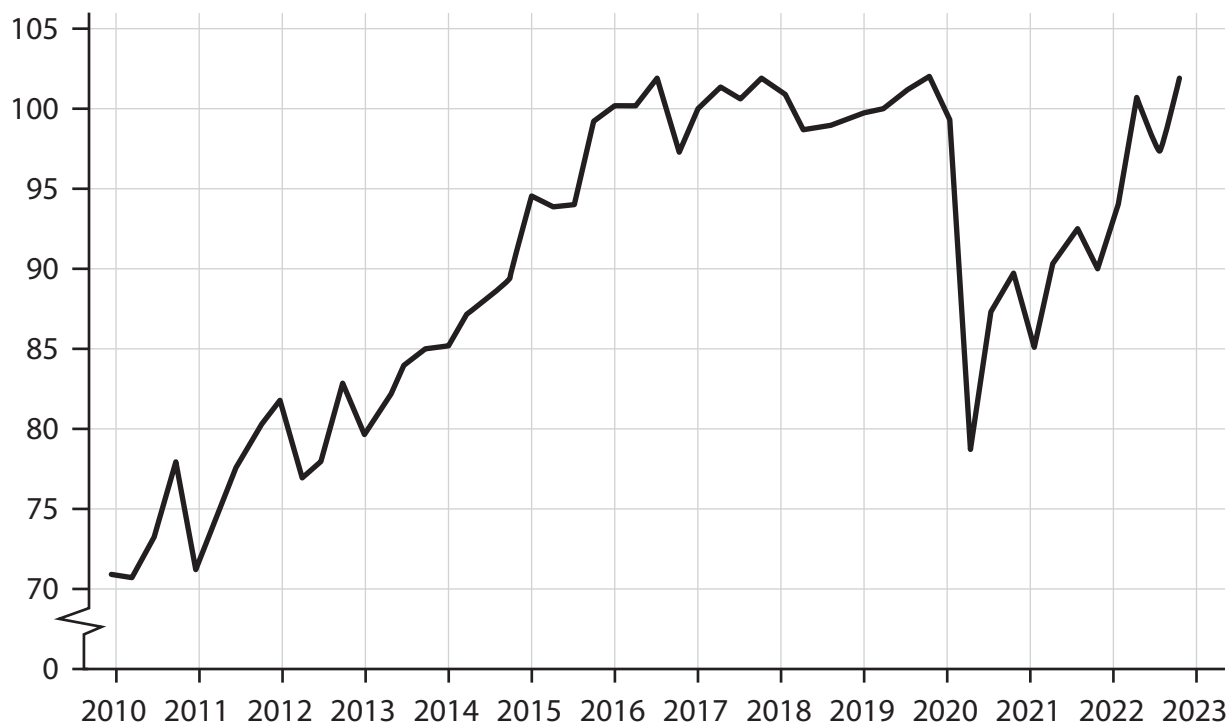


Figure 2 Index of business investment between 2010 and 2022, (Q1 2016=100)



Extract A Low rate of economic growth

The UK's real GDP at the end of 2022 was smaller than it was at the start of 2020. There are two main reasons why the UK's rate of economic growth has been low since the start of 2020. Firstly, the global health crisis of 2020 and secondly, the rising cost of energy in 2022. For example, the price of natural gas rose by more than 100%. The UK is a net importer of natural gas.

5

However, some economists believe these two reasons are insufficient to explain why the UK economy has been unable to increase its level of real GDP. They identified additional reasons:

- labour market participation has declined significantly since the start of the global health crisis of 2020. As a result, between 2020 and 2022, the UK labour force decreased by 520 000 10
- low levels of productivity in the UK labour market. Workers in the UK have lower skills than workers in other advanced economies. There was also a shortage of skilled and unskilled labour 15
- the UK's decision to leave the European Union in 2016 resulted in lower levels of business investment
- high costs of bureaucracy and strict planning regulations associated with the construction of infrastructure projects, such as building power plants and energy facilities. 20

In the last quarter of 2022 various international institutions forecast that the UK would continue to be one of the worst-performing advanced economies in 2023.

Extract B Supply-side policies

In March 2023 the UK Government introduced a range of supply-side policies to increase the productive potential of the UK economy. These included:

- increased financial support for childcare to reduce economic inactivity and increase the rate of employment 5
- 100% tax relief on business investment for three years
- subsidies to support the development of new technologies including artificial intelligence
- relaxing immigration rules to attract more workers in five sectors of the economy where severe labour shortages exist e.g. construction and healthcare. 10

These policies would cost the UK Government nearly £20 billion.

However, the Government did not announce any plans to tackle the UK's strict planning laws. In addition, there were no measures to improve the skills of the workforce. Increasing labour productivity is just as important as increasing the number of workers.



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Acknowledgements

Figure 1 adapted from Statista,
<https://www.statista.com/statistics/970672/gdp-per-capita-in-the-uk/>

Figure 2 adapted from FT,
<https://www.ft.com/content/dd195cda-ca12-48a6-9e8b-65a36e4e7c14>

Extract A adapted from FT,
<https://www.ft.com/content/dd195cda-ca12-48a6-9e8b-65a36e4e7c14>

Extract B adapted from FT,
<https://www.ft.com/content/12222ba4-a82e-451f-8292-ca3015758049>;
<https://www.ft.com/content/c17d7034-40a2-4a9a-8a6d-c494ad2c20a2>

