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**Pearson Edexcel International Advanced Level**

**Friday 10 January 2025**

Afternoon (Time: 1 hour 45 minutes) **Paper reference** **WEC12/01**

**Economics** □ □

**International Advanced Subsidiary**

**UNIT 2: Macroeconomic performance and policy**

<b>You must have:</b> Source Booklet (enclosed)	Total Marks
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### 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 statements about the classical long-run aggregate supply (LRAS) curve is correct?

- A It is perfectly inelastic when there is a high level of spare capacity
- B It is relatively elastic at the full employment level of real output
- C It is relatively inelastic at high levels of spare capacity
- D It is perfectly inelastic at the full employment level of real output

(Total for Question 1 = 1 mark)

2 In 2022 the Government of Brazil announced that it was introducing measures to cut the costs of bureaucracy for firms.

This policy is an example of which **one** of the following?

- A Free market supply-side policy
- B Interventionist supply-side policy
- C Reflationary fiscal policy
- D Deflationary fiscal policy

(Total for Question 2 = 1 mark)

3 Between January 2022 and January 2023 Turkey's unemployment rate fell from 11.2% to 9.8%.

Which **one** of the following is the percentage change in the unemployment rate for Turkey between January 2022 and January 2023?

- A -1.4
- B -12.5
- C -14.3
- D -21.0

(Total for Question 3 = 1 mark)

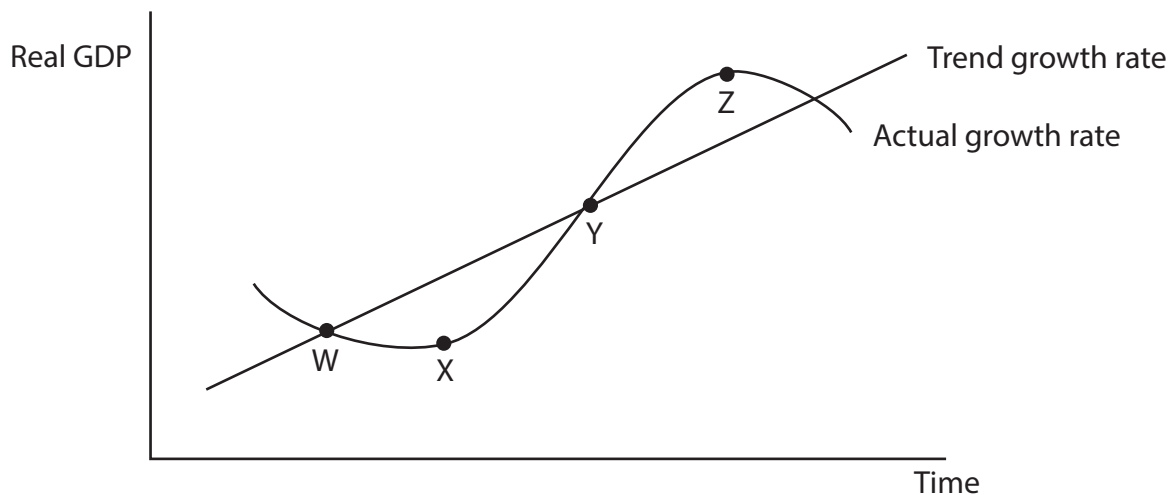
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4 The diagram shows a country's trend growth rate and its actual growth rate.



With reference to the diagram, which **one** of the following is most likely to be associated with a movement from point Y to point Z?

- A A decrease in government tax revenue
- B An increase in profits for firms
- C An increase in the rate of unemployment
- D A decrease in business confidence

(Total for Question 4 = 1 mark)

5 In Austria investment was \$98 billion in 2012 and it increased to \$129 billion in 2022.

Which **one** of the following is most likely to have caused this increase in investment?

- A An increase in the availability of credit
- B An increase in the rate of tax on company profits
- C An increase in the base rate of interest
- D An increase in commodity prices

(Total for Question 5 = 1 mark)

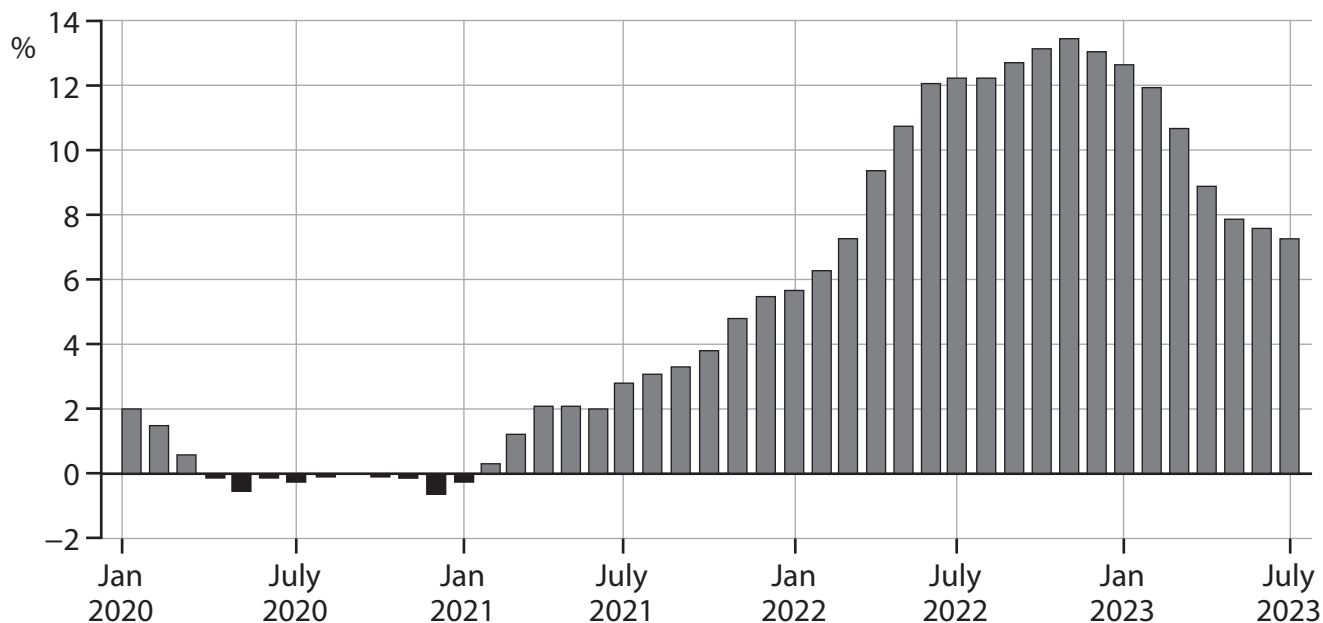
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- 6 The chart shows the annual rate of inflation\* in Croatia, as measured by the consumer price index (CPI), January 2020 to July 2023.



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

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

- A The rate of inflation was highest in July 2023
- B The average price level was highest in November 2022
- C There was deflation between April 2020 and July 2020
- D There was disinflation between June 2021 and June 2022

(Total for Question 6 = 1 mark)

**TOTAL FOR SECTION A = 6 MARKS**



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8 Between January 2020 and December 2022 the global price of coal per tonne increased from \$64.25 to \$172.30. Japan is a net importer of coal.

Draw a SRAS and AD diagram to show the effect of this increase in the price of coal on the price level **and** real output for Japan.

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(Total for Question 8 = 4 marks)









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## SECTION C

Study Figure 1, 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 'recession'. (2)
- (b) With reference to the third paragraph of Extract A, explain the term 'exchange rate'. (4)
- (c) Analyse **one** likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income. Illustrate your answer with a circular flow diagram. (6)
- (d) With reference to Extract A, examine the likely impact on Japan's real output of the fall in domestic consumption. (8)
- (e) With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate. (14)

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(c) Analyse **one** likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income.

Illustrate your answer with a circular flow diagram.

(6)

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(d) With reference to Extract A, examine the likely impact on Japan's real output of the fall in domestic consumption.

(8)

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(e) With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate.

(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** In 2022 the Government of China decided to invest 1.48 trillion yuan in many new transportation, energy and telecommunication infrastructure projects.

Evaluate the likely benefits of an increase in government expenditure on infrastructure.

Refer to a country of your choice in your answer.

**(Total for Question 13 = 20 marks)**

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**OR**

- 14** Between 2012 and 2022 the productivity rate in Turkey increased by 39.2%.

Evaluate the likely benefits of an increase in the productivity rate.

Refer to a country of your choice in your answer.

**(Total for Question 14 = 20 marks)**

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 13** ☒ **Question 14** ☒

Write your answer here:

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



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**Pearson Edexcel International Advanced Level****Friday 10 January 2025**

Afternoon (Time: 1 hour 45 minutes)

Paper  
reference**WEC12/01****Economics****International Advanced Subsidiary****UNIT 2: Macroeconomic performance and policy****Source Booklet****Do not return this Booklet with the question paper.***Turn over* ►**P78462A**©2025 Pearson Education Ltd.  
H:1/1/1/1

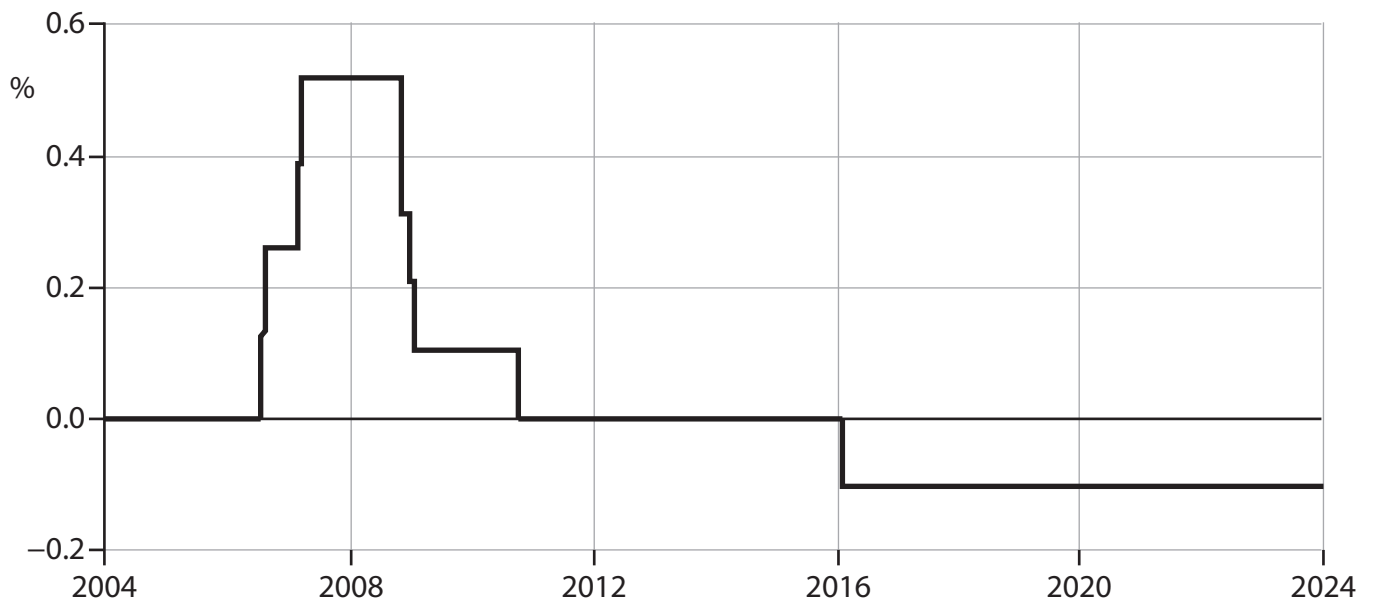
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### Sources for use with Section C

#### The Japanese economy

Figure 1 Base interest rate, January 2004 to December 2023



## Extract A Economic growth

Between quarter 1 (Q1) 2023 and quarter 2 (Q2) 2023, the rate of economic growth in Japan increased from 0.9% to 1.5%. This increase in Japan's real Gross Domestic Product (GDP) was double the original forecast. Therefore, concerns that the country was exposed to a recession were eased. 5

The main reason for the increase in real GDP was an increase in exports that rose by 3.2% in Q2 2023. This was mainly as a result of higher exports of cars caused by an improvement in supply chains. There was also an increase in the number of overseas visitors to Japan. The contribution of tourism to GDP is included in net trade figures and returned to more than two-thirds of pre-global health crisis levels. The number of tourists was expected to grow in the second half of 2023 after China ended restrictions on group tours to a number of countries including Japan. 10

However, economists warned that the fall in domestic consumption, following the global health crisis, remained a concern. They suggested that this was mainly the result of Japan's weak exchange rate. Domestic consumption, which makes up more than half of Japan's economy, fell by 0.5% between Q1 2023 and Q2 2023. During the same period, Japan's imports decreased by 4.3%, which was one of the largest reductions ever recorded. This indicated that the rising rate of inflation was having a significant impact on consumer expenditure. 15

Until the end of 2022 Japan had faced several years of deflation and no wage growth. However, in 2023 consumers experienced significant increases in the prices of goods and services. Japan's weak exchange rate resulted in an increase in the price of raw materials and energy for businesses. It also created greater uncertainty that had an impact on business investment. 20

## Extract B Monetary policy

The aim of Japan's central bank, the Bank of Japan (BoJ), is to achieve a 2% inflation target. In Q2 2023 the annual rate of inflation averaged 3.3%. Upward pressure on prices caused workers to demand higher wages, resulting in a rise in inflationary expectations.

The BoJ argued that this increase in the rate of inflation was temporary. Therefore, it continued to maintain the base interest rate at a low level. 5

Economists claimed that the BoJ's argument was weak. They stated that even the Government of Japan expected the annual rate of inflation to be 2.6% in 2023 against the BoJ's forecast of 1.8%. Therefore, there would no longer be a case for maintaining a low base interest rate, that was introduced at a time when the rate of inflation was below the inflation target. Moreover, the probability of a global recession, considered to be a significant risk to Japan's economy, had diminished. To achieve the inflation target of 2% an increase in the base interest rate would be necessary. 10



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### **Acknowledgements**

Figure 1 adapted from <https://tradingeconomics.com/japan/interest-rate>

Extract A adapted from FT, <https://www.ft.com/content/7b384d9c-ae10-4baf-bc85-34ba8ff5b15c>

Extract B adapted from FT, <https://www.ft.com/content/9d27719e-2802-413a-b6b7-ba8644de6d8f>; <https://www.ft.com/content/8d20355f-ddb9-4d11-afe1-7d5456cb2f86>

