

Please check the examination details below before entering your candidate information

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Pearson Edexcel International Advanced Level

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.

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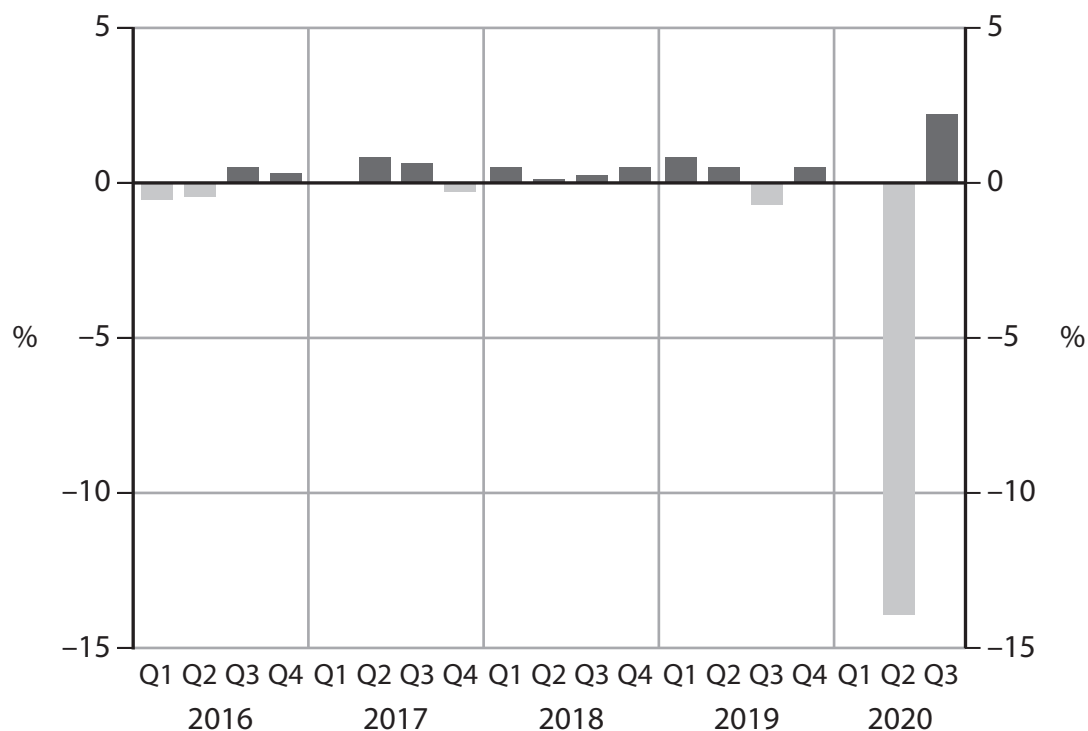
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SECTION A

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 The chart shows the quarterly real GDP growth rate for Greece from Quarter 1 2016 to Quarter 3 2020.



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

- A Greece experienced a recession in Quarters 1 and 2 of 2016
- B Greece experienced negative economic growth throughout 2017
- C Greece experienced positive economic growth in Quarter 3 of 2019
- D Greece experienced a recession in Quarter 2 of 2020

(Total for Question 1 = 1 mark)



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2 In the USA, in 2020, research showed that 33.8% of university graduates were working in jobs that did not require a university degree.

Which **one** of the following best describes this situation?

- A Real wage inflexibility
- B Economic inactivity
- C Unemployment
- D Underemployment

(Total for Question 2 = 1 mark)

3 In Quarter 3 of 2020 labour productivity improved by 9.8% in Ireland compared to the same quarter in 2019.

Ceteris paribus, what was the most likely impact of this change in labour productivity?

- A The aggregate demand curve shifted to the left
- B The aggregate demand curve shifted to the right
- C The long-run aggregate supply curve shifted to the right
- D The short-run aggregate supply curve shifted to the left

(Total for Question 3 = 1 mark)

4 In 2019 the German Government's tax revenue exceeded its expenditure by €45.35 billion.

Ceteris paribus, which **one** of the following can be deduced from this information?

- A Germany had a net withdrawal from the circular flow of income
- B Germany had a net injection into the circular flow of income
- C Germany had a deficit on the current account of the balance of payments
- D Germany had a surplus on the current account of the balance of payments

(Total for Question 4 = 1 mark)



5 The short-run Phillips curve shows the relationship between which of the following?

- A The rate of economic growth and protection of the environment
- B The rate of inflation and the unemployment rate
- C The rate of inflation and equilibrium on the current account of the balance of payments
- D The rate of economic growth and income inequality

(Total for Question 5 = 1 mark)

6 The Indian Government planned to spend \$19 billion on a high-speed rail link between Mumbai and Ahmedabad.

The multiplier is estimated to be 2.45 in India.

Which **one** of the following shows the potential increase in real GDP caused by this government injection?

- A \$7.76 billion
- B \$21.45 billion
- C \$46.55 billion
- D \$65.55 billion

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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8 In Scotland there was a positive output gap in 2018. The economy was growing at 1% faster than the trend rate of economic growth.

Draw a diagram to show a positive output gap.

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(Total for Question 8 = 4 marks)



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SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

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

- 12 (a) Define the term 'fiscal policy' (Extract A, line 12). (2)
- (b) With reference to Figure 1, explain how the ILO unemployment rate is measured. (4)
- (c) With reference to Figure 1 and Extract A, examine **two** likely economic effects of the increase in unemployment experienced in New Zealand between Quarter 2 and Quarter 3 2020. (8)
- (d) With reference to Extract A, analyse **one** likely effect of the reduction in tourist visitors on the circular flow of income. (6)
- Illustrate your answer with a circular flow diagram.
- (e) With reference to Extract A and your own knowledge, discuss the likely effects of reflationary monetary policy on the New Zealand economy. (14)

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(d) With reference to Extract A, analyse **one** likely effect of the reduction in tourist visitors on the circular flow of income.

Illustrate your answer with a circular flow diagram.

(6)

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(e) With reference to Extract A and your own knowledge, discuss the likely effects of
reflationary monetary policy on the New Zealand economy.

(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 2020 Japan's rate of inflation was -0.6% compared with 2019. Between 2019 and 2020 household consumption fell and the savings ratio increased from 33% to 44% of disposable income. Falling world oil prices also contributed to deflation.

Evaluate possible causes of deflation.

Illustrate your answer with an appropriate diagram.

(Total for Question 13 = 20 marks)

OR

- 14** The Government of the Philippines increased expenditure on infrastructure from ₱681 billion in 2020 to ₱1 200 billion in 2021.

Evaluate the possible effects of an increase in government expenditure on infrastructure on a country's economy.

Illustrate your answer with an appropriate diagram.

(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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Pearson Edexcel International Advanced Level

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.

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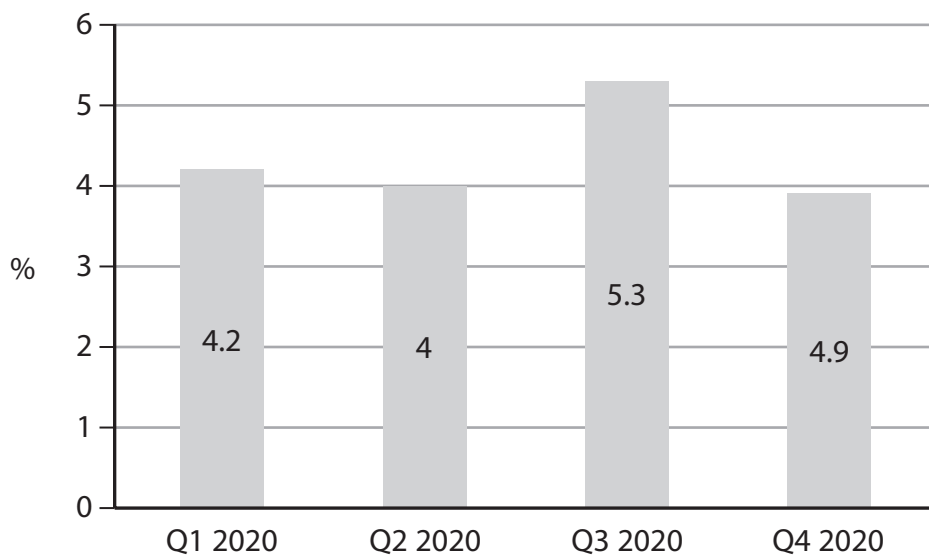


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Sources for use with Section C

The New Zealand economy

Figure 1 ILO unemployment rate, Quarter 1 to Quarter 4 2020



Extract A The impact of the global health crisis

In Quarter 2 2020 a global health crisis resulted in a reduction in economic activity in many countries. Significant declines in manufacturing, construction and services contributed to an average decrease in economic growth of 9.8% in 36 developed countries.	5
In response to the global health crisis New Zealand's Government instructed most people to stay at home from March 25 to May 13. This led to a substantial reduction in the country's GDP and to an increase in unemployment. Its economic growth rate fell by 12.2% in Quarter 2 2020 compared with Quarter 1 2020. However, in Quarter 3 2020, when New Zealanders no longer had to stay at home, economic growth recovered strongly and increased by 14% compared with Quarter 2 2020.	10
The economic recovery was also helped by reflationary fiscal policy by the New Zealand Government and reflationary monetary policy by New Zealand's central bank. In 2020 the Government increased its spending by NZ\$62 billion. In March 2020 New Zealand's central bank reduced the base interest rate from 1% to 0.25%. At the same time, it introduced NZ\$60 billion of quantitative easing, which was increased to NZ\$100 billion in August 2020. This helped to stimulate consumer spending that grew by 14.8% in Quarter 3 2020.	15
The reflationary policy helped to increase the demand for housing. Consequently, the average price of a house rose to NZ\$788 967, the highest on record. This was an increase of 2.6% in 2020 compared with 2019.	20
One problem for New Zealand's economy was that, in response to the global health crisis, the Government closed its borders to all foreigners in March 2020. This policy continued well into 2021. This significantly affected the tourism industry and exports of services. The results of a survey of firms in the tourism industry indicated that:	25
<ul style="list-style-type: none"> • 33% of businesses were temporarily closing • 40% of businesses were significantly reducing operations • 21% of businesses might not survive. 	
In 2019 tourism accounted for 20% of exports, 10% of GDP and employed 400 000 people. By the end of 2020 a significant number of workers in the tourism industry were made redundant.	30

Acknowledgements

Figure 1 adapted from <https://www.stats.govt.nz/indicators/unemployment-rate>

Extract A adapted from 'New Zealand Economy Surges Out of Recession In V-Shaped Recovery', Tracy Withers, 16 December 2020, Bloomberg, <https://www.bloomberg.com/news/articles/2020-12-16/new-zealand-economy-surges-out-of-recession-amid-spending-spree> and 'New Zealand's housing market soars, with record prices for second month in a row', Elle Hunt, Guardian, 7 Jan 2021, <https://www.theguardian.com/world/2021/jan/07/new-zealands-housing-market-soars-with-record-prices-for-second-month-in-a-row> and 'Alarming Impact Of COVID-19 On Tourism Industry Revealed', 5 May 2020, <https://www.scoop.co.nz/stories/BU2005/S00085/alarming-impact-of-covid-19-on-tourism-industry-revealed.htm>