

Please check the examination details below before entering your candidate information

Candidate surname					Other names				
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Pearson Edexcel International Advanced Level

Wednesday 16 October 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
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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 represents net investment?

- A Gross investment minus corporation tax
- B Gross investment minus capital depreciation
- C Gross investment minus the rate of inflation
- D Gross investment minus money supply

(Total for Question 1 = 1 mark)

2 In Chad unemployment is higher in the winter months than in the summer months. This is because the demand for agricultural labour is lower in the winter months.

Which **one** of the following best describes the cause of this unemployment in Chad?

- A Frictional unemployment
- B Real wage inflexibility
- C Seasonal unemployment
- D Structural unemployment

(Total for Question 2 = 1 mark)

3 Between 2020 and 2022 Qatar's GNI increased from \$141.37 billion to \$229.01 billion.

Which **one** of the following is the ratio of Qatar's GNI in 2022 to its GNI in 2020?

- A 1 : 0.62
- B 1 : 1.62
- C 1 : 61.99
- D 1 : 87.64

(Total for Question 3 = 1 mark)

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4 Which **one** of the following would cause a leftward shift in a country's short-run aggregate supply (SRAS) curve?

- A A decrease in bank lending to consumers
- B A decrease in the rate of indirect tax
- C An increase in the price of natural gas
- D An increase in investment in healthcare

(Total for Question 4 = 1 mark)

5 In 2022 the Czech Republic's economy was operating below its productive potential as a result of a fall in its manufacturing production.

Which **one** of the following is most likely to be associated with a negative output gap?

- A An increase in house prices
- B An increase in the rate of inflation
- C An increase in business confidence
- D An increase in unemployment

(Total for Question 5 = 1 mark)



- 6 The table shows Mexico's consumer confidence index (CCI), April 2021 to April 2023.

Year	CCI
April 2021	101.5
April 2022	102.8
April 2023	103.4

The CCI is a measure of consumers' willingness to spend.

With reference to the above table, which **one** of the following is most likely to result from this change in consumer confidence between April 2021 and April 2023?

	Price level	Real output
<input type="checkbox"/> A	Fall	Fall
<input type="checkbox"/> B	Fall	Rise
<input type="checkbox"/> C	Rise	Fall
<input type="checkbox"/> D	Rise	Rise

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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8 Croatia experienced a positive output gap in 2022.

Draw an AD/AS diagram to illustrate a positive output gap.

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(Total for Question 8 = 4 marks)



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SECTION C

Study Figure 1, Figure 2, Figure 3 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 'living standards'. (2)
- (b) With reference to Figure 2, explain the difference between disinflation and inflation. (4)
- (c) With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation. (8)
- (d) With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income. (6)
- (e) With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula. (14)

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(c) With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.

(8)

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(d) With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

(6)

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(e) With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula.

(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 India's unemployment rate increased from 7.1% in January 2023 to 8.5% in June 2023.

Evaluate the likely effects of an increase in the unemployment rate on workers **and** public finances. Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

14 Germany experienced a recession in the first six months of 2023. The country's rate of economic growth was -0.4% in quarter 1 2023 and was -0.1% in quarter 2 2023.

Evaluate the likely effects of a recession. 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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Source Booklet

Do not return this Booklet with the question paper.

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Sources for use with Section C

The economy of Brazil

Figure 1 Real GDP growth rate, 2018 to 2023

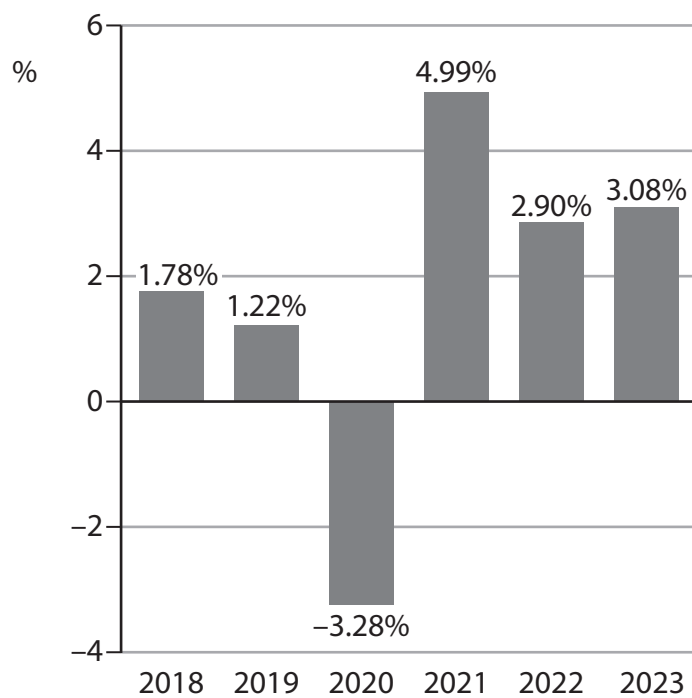
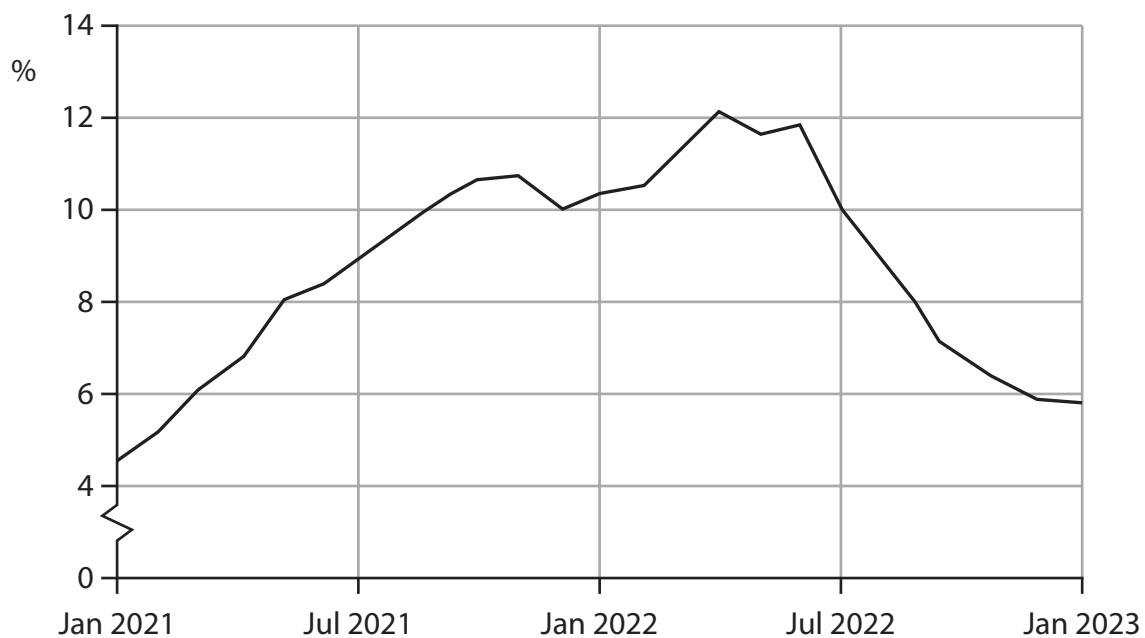
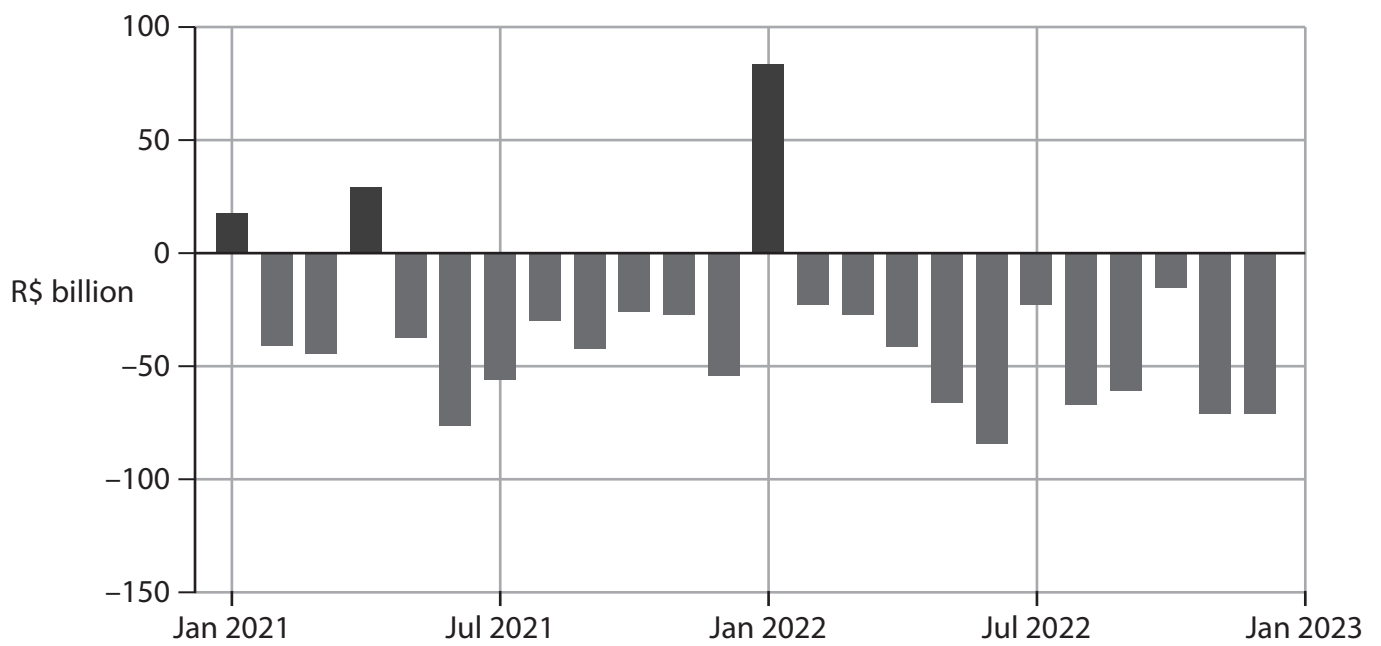


Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2021 to January 2023



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

Figure 3 Government monthly budget balance, *real billion, January 2021 to December 2022**



**real* is the currency of Brazil and is denoted as R\$.

Extract A Economic growth

Brazil's rate of economic growth fell between 2021 and 2022. This weaker economic performance was as a direct result of a significant decrease in industrial output and a slowdown in the services sector in 2022.

Many economists indicated that this slower rate of economic growth resulted from the Central Bank of Brazil's deflationary monetary policy to control the rising rate of inflation. Between January 2021 and June 2022 the Central Bank raised the country's base interest rate from an all-time low of 2% to 13.25%. This significantly affected consumer spending and business investment, both of which are major contributors to economic growth. As a result, economists predicted that Brazil's annual increase in real GDP would be below 1% in 2023. 5 10

The slowdown in economic growth will limit the Government's ability to improve living standards. In mid-2022 President Lula had promised to raise the real incomes of the country's population and create new jobs. He suggested that he was going to achieve his objective by increasing: 15

- the level of welfare payments
- investment in healthcare provision
- investment in infrastructure development
- investment in education, training and skills.

President Lula aimed to introduce these supply-side policies in 2023. These policies would cost R\$371 billion over four years. However, the Government has insufficient tax revenues to finance its spending and investment. Previously, many large-scale investments in similar projects were not successful and represented a waste of resources. 20

Consequently, the Government proposed tax increases and cuts in government expenditure to achieve a balanced budget. This deflationary fiscal policy aims to increase tax revenues by R\$190 billion and reduce government expenditure by R\$50 billion. 25

Acknowledgements

Figure 1 adapted from <https://www.statista.com/statistics/263615/gross-domestic-product-gdp-growth-rate-in-brazil/>

Figure 2 adapted from <https://tradingeconomics.com/brazil/inflation-cpi>

Figure 3 adapted from <https://tradingeconomics.com/brazil/government-budget-value>

Extract A adapted from FT, <https://www.ft.com/content/2b1cbe31-a2da-4841-a418-8c10c8cc267d> and <https://www.ft.com/content/1b297b16-5b19-4cb5-b0fd-de77f6f1f1a5>

