



Oxford Cambridge and RSA

Thursday 16 May 2019 – Morning

AS Level in Economics

H060/02 Macroeconomics

Time allowed: 1 hour 30 minutes



You must have:

- a scientific or graphical calculator



Please write clearly in black ink. **Do not write in the barcodes.**

Centre number

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Candidate number

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First name(s)

Last name

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Read each question carefully before you start to write your answer.
- Sections A and B: Answer **all** the questions in each of these sections.
- Section C: Answer **one** question in this section.
- Write your answer to each question in the space provided. Additional paper may be used if necessary but you must clearly show your candidate number, centre number and question number(s).

INFORMATION

- The total mark for this paper is **60**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **16** pages.

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SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

1 Which of the following is an instrument of fiscal policy?

- A** Income tax
- B** Interest rates
- C** Quantitative easing
- D** Regulation

Your answer

[1]

2 What is Gross Domestic Product?

- A** The average value of output per person produced in a country
- B** The employment rate
- C** The size of the workforce
- D** The total value of goods and services produced in a country

Your answer

[1]

3 An increase in long run aggregate supply may lead to:

- A** higher inflation and a fall in real output
- B** higher unemployment and lower inflation
- C** lower inflation and an increase in real output
- D** lower unemployment and a fall in real output

Your answer

[1]

3

- 4 The table shows the value of a country's consumption and disposable income over a three-year period.

Year	Consumption (£bn)	Disposable Income (£bn)
2013	760	775
2014	805	825
2015	840	865

What is the marginal propensity to consume in the country for 2014?

- A 0.90
- B 0.98
- C 1.02
- D 1.11

Your answer

[1]

- 5 Which of the following is a direct tax in the UK?

- A Council tax
- B Excise duty
- C Income tax
- D Value added tax

Your answer

[1]

- 6 Which of the following will **always** cause an increase in the value of the multiplier assuming that the marginal propensity to tax is constant?

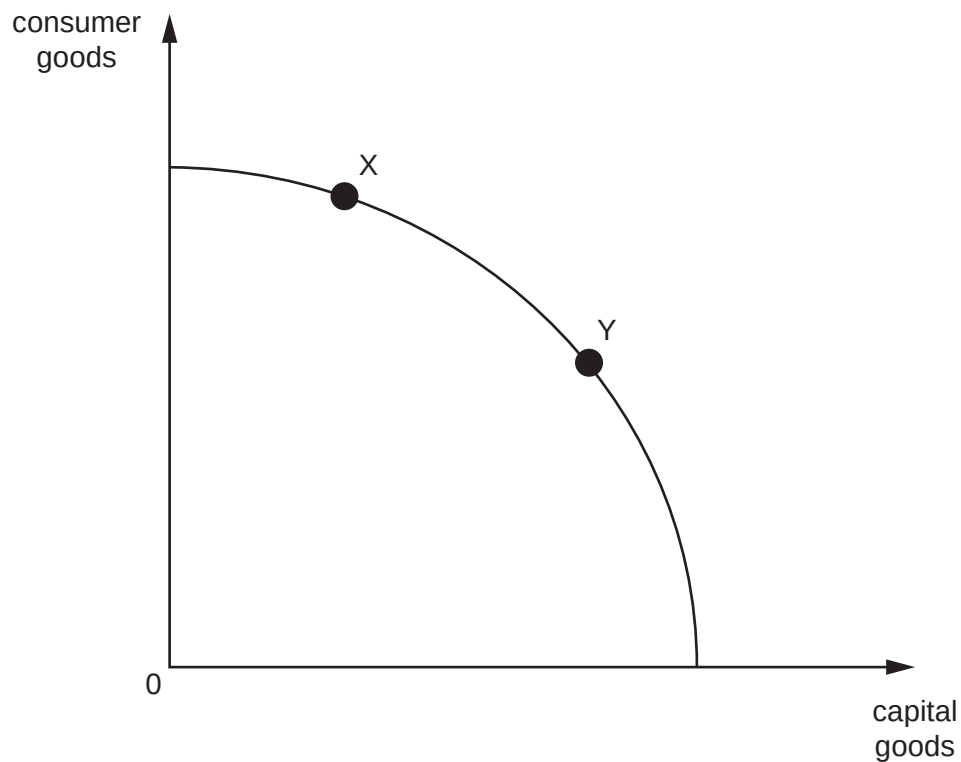
- A Decrease in marginal propensity to save and decrease in marginal propensity to import
- B Decrease in marginal propensity to save and increase in marginal propensity to import
- C Increase in marginal propensity to save and decrease in marginal propensity to import
- D Increase in marginal propensity to save and increase in marginal propensity to import

Your answer

[1]

4

- 7 In the diagram below, two countries X and Y, are operating on the same production possibility frontier.



What is likely to be true about country X?

- A It will have higher economic growth in the future than country Y
- B It will have lower economic growth in the future than country Y
- C It will have negative economic growth in the future
- D It will have the same level of economic growth in the future as country Y

Your answer

[1]

- 8 A country's average price of imports increases by 20% and its average price of exports increases by 14%. Calculate to the nearest whole number what will happen to the country's terms of trade?

- A Fall by 5%
- B Fall by 30%
- C Improve by 5%
- D Improve by 43%

Your answer

[1]

5

9 What impact will a fall in investment have on the aggregate demand curve?

- A Movement down the aggregate demand curve
- B Movement up the aggregate demand curve
- C Shifts the aggregate demand curve to the left
- D Shifts the aggregate demand curve to the right

Your answer ☐

[1]

10 UK government spending on the new high-speed railway line from London to Birmingham is likely, in the short run, to:

- A increase the budget deficit
- B increase the current account deficit
- C reduce the budget deficit
- D reduce the current account deficit

Your answer ☐

[1]

11 The interest rate paid to savers is 5% per year. However, the real rate of interest is only 2% per year. What is the rate of inflation?

- A 2.5%
- B 3%
- C 7%
- D 10%

Your answer ☐

[1]

12 China's increased production of steel has led to the closure of UK steel manufacturers. This is likely to cause which of the following types of unemployment?

- A Cyclical
- B Frictional
- C Seasonal
- D Structural

Your answer ☐

[1]

13 What impact is an appreciation of Sterling against the US Dollar likely to have?

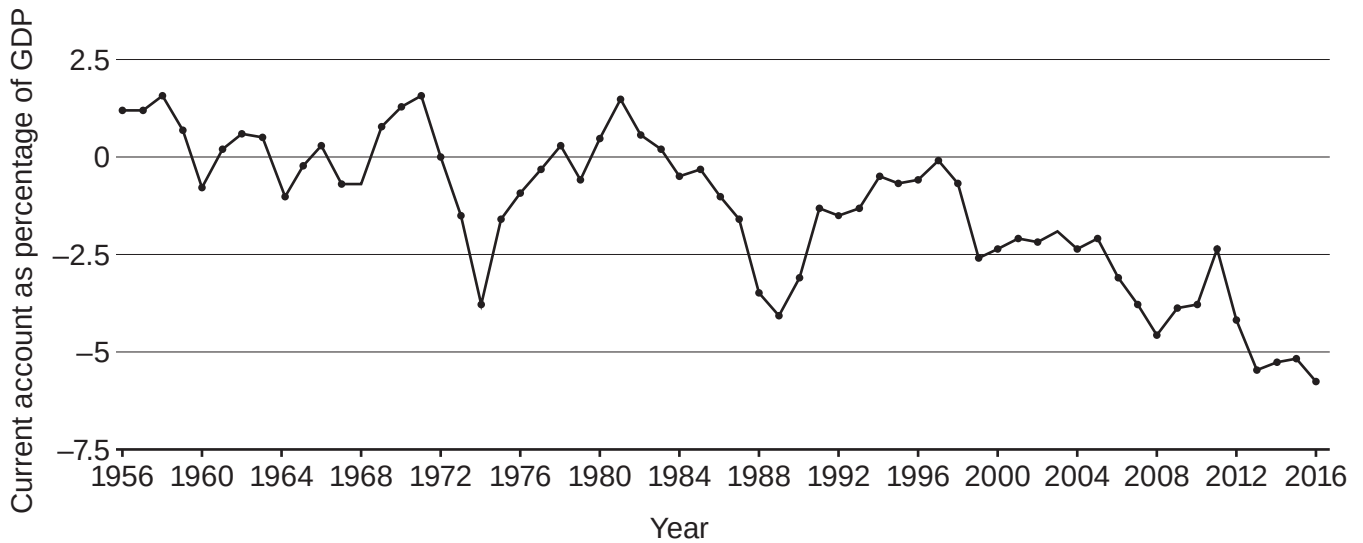
- A More UK consumers will go on holiday to the USA
- B More US consumers will buy UK exports
- C UK consumers will buy fewer US imports
- D UK firms will increase the Sterling prices of their exports

Your answer ☐

[1]

6

14 The diagram below shows the current account position on the UK balance of payments.



What is true over most of the period from 1956 to 2016?

- A The current account deficit has improved
- B The current account was balanced
- C The gap between the value of goods and services the UK exports and imports has fallen
- D The UK imported a greater value of goods and services than it exported

Your answer

[1]

15 What impact is a decrease in quantitative easing of £200bn by the Bank of England most likely to have?

- A Increase economic growth and increase inflation
- B Increase economic growth and reduce inflation
- C Reduce economic growth and increase inflation
- D Reduce economic growth and reduce inflation

Your answer

[1]

SECTION B

Answer **all** the questions in this section.

UK interest rates rise for the first time in more than 10 years

The Bank of England raised interest rates in November 2017 from 0.25% to 0.5%, the first increase since July 2007. The move reverses the cut in August 2016 which was made following the vote by the UK to leave the European Union.

The interest rate rise came with the UK economy experiencing higher than expected growth in the three months to September 2017. Gross domestic product for the quarter rose by 0.4%, compared with 0.3% in each of 2017's first two quarters. The biggest contributor to growth in the third quarter was the service sector which expanded by 0.4%. Construction fell by 0.7% in the quarter, accelerating from the 0.5% decline recorded in the previous three months.

With 32.2 million people in work in the UK in November 2017, unemployment remained low. According to the claimant count measure of unemployment, 823 900 people were unemployed. However, the labour force survey (LFS) reported that 1.44 million people were unemployed over the same period.

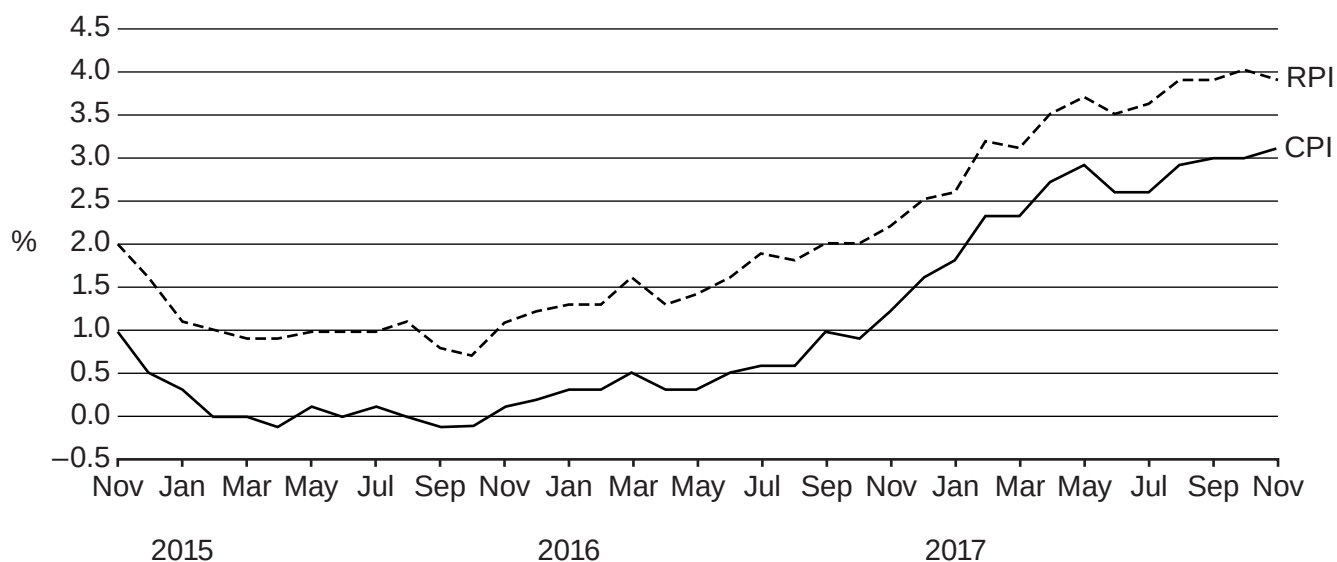
Mark Carney, the Governor of the Bank of England, said that the Bank expected the UK economy to grow at about 1.7% for the next few years which would require "...about two more interest rate increases over the next three years".

Almost four million households face higher mortgage interest payments after the interest rate rise, but it should give savers a modest lift in their returns. The main losers will be households with a variable rate mortgage. This may increase the withdrawals from the circular flow of income.

The pound fell about 1% against the US Dollar and Euro. Sterling dropped more than a cent against the two currencies to \$1.3130 and €1.1280 respectively. Changes in exchange rates with its trading partners are important to the UK, as international trade really matters for the economy. About 28% of the goods and services produced in the UK are sold abroad, while 30% of what the UK buys comes from other countries.

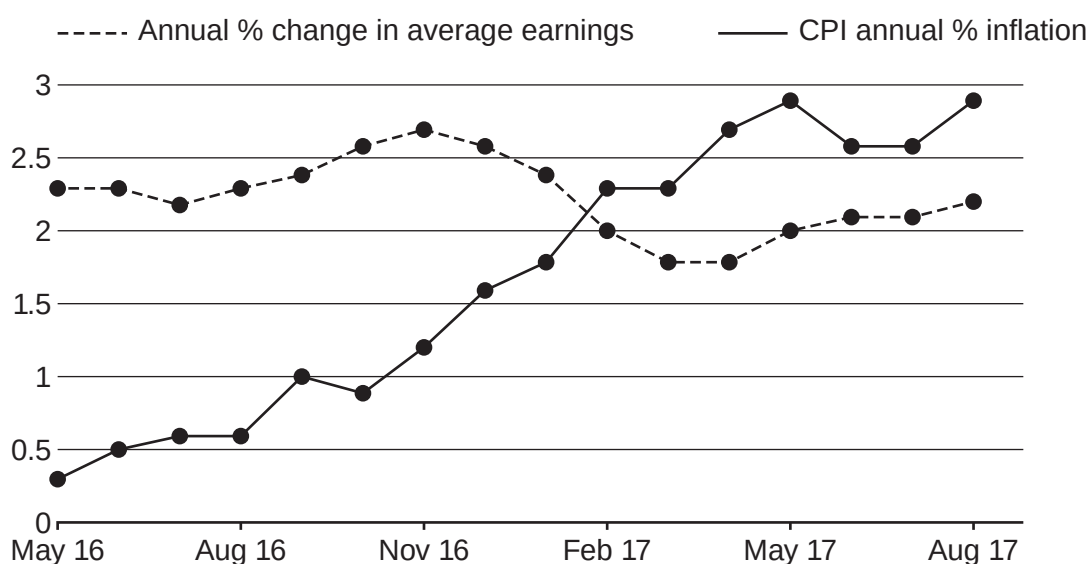
In common with most developed economies, the UK's share of global export markets has declined over the last 30 years. This decline has been mainly in goods. Traditional manufacturing exports, which are often considered as high volume and low skill, have declined due to new entrants in the international market. However, the UK remains competitive in high value sectors such as aerospace, pharmaceuticals and chemicals. The UK's share of knowledge intensive sectors, such as business and financial services, continues to rise. The UK is one of the largest exporters of these services. The major trading partners of the UK, as well as other nations such as developing countries, have also changed over time.

Source: Adapted from BBC News



Source: ONS

Fig. 1 UK Inflation 2015–2017



Source: BBC

Fig. 2 Changes in UK average earnings and CPI

	2000	2005	2010	2015
UK goods exported to the EU as a percentage of UK goods exported to the world	60.1%	58.0%	53.7%	47.0%
UK services exported to the EU as a percentage of UK services exported to the world	40.9%	42.2%	40.8%	39.4%

Source: Adapted from ONS

Fig. 3 Value of UK trade with the EU as a percentage of UK total exports to the world

16 (a) (i) Using Fig. 1, compare the RPI and CPI measures of inflation during 2017.

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..... [2]

(ii) State **one** reason why the RPI measure of inflation may differ from the CPI measure.

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..... [1]

(b) Using Fig. 2, explain what happened to the UK standard of living between February 2017 and August 2017.

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..... [2]

10

- (c) A number of interest rate increases are expected over the next three years.

Using a diagram, explain the impact this is likely to have on economic growth in the UK.

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..... [4]

- (d) Using information from the case study, explain why there may be a difference in the number of unemployed when measured by the claimant count and the labour force survey (LFS).

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..... [4]

(e) Explain what is a 'withdrawal from the circular flow of income'.

..... [2]

(f)* Evaluate whether comparative advantage can be used to explain the changes in global trade patterns. [10]

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SECTION C

Answer Question 17 **or** 18.

- 17*** The UK government has made some progress since 2010 in restoring public finances by implementing its fiscal rules. The budget deficit has been reduced from a post-war high of 9.9% of GDP in 2009–10 to 2.0% of GDP in 2017–18, its lowest level since before the financial crisis.

Evaluate, using an appropriate diagram(s), how policies to correct a budget deficit may affect other UK macroeconomic objectives. **[20]**

OR

- 18*** Unemployment in the euro area was 7% in May 2018, with wide variations in the number of unemployed in each member country. The unemployment rate in Germany stood at 3.4% while the unemployment rate in Spain was 15.8%.

Evaluate, using an appropriate diagram(s), the effectiveness of supply side policy measures a government could use to reduce unemployment. [20]

Question no.

[illegible]

[illegible]

