



AS Level in Economics H060/02 Macroeconomics Sample Question Paper

Version 2

Date – Morning/Afternoon

Time allowed: 1 hour 30 minutes



You may use:

- a scientific or graphical calculator



First name											
Last name											
Centre number							Candidate number				

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read all of the questions 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 may be used if required but you must clearly show your candidate number, centre number and question number(s).
- Do **not** write in the bar codes.

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 **20** pages.

SECTION A

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

1 Which of the following is an example of current expenditure by government?

- A Construction of aircraft carriers.
- B Improvements to motorways to increase capacity.
- C Investment in additional offshore wind farms.
- D Salaries of National Health Service employees.

Your answer

[1]

~~2 Which of the following explains why the rate of nominal GDP growth is difficult to measure accurately?~~

~~It is difficult to account for changes in:~~

- ~~A purchasing power parity~~
- ~~B the price level~~
- ~~C the size of the population~~
- ~~D unrecorded economic activity~~

~~Your answer~~

~~[4]~~

~~3 The table below shows the number of labour hours daily that two countries need to produce one unit of each of the two goods. Other factors of production are used in equal quantities in the two countries.~~

Country	Rice	Coffee
X	4	?
Y	20	30

~~Country X has a comparative advantage in coffee.~~

~~What is the missing number from the table?~~

- ~~A 6~~
- ~~B Any number less than 6~~
- ~~C 20~~
- ~~D Any number greater than 20~~

~~Your answer~~

~~[4]~~

4 Which of the following is a leakage from the circular flow of income?

- A Exports
- B Government spending
- C Investment
- D Saving

Your answer

[1]

5 An appreciation in the value of a country's currency will lead to:

- A a rise in government spending
- B a rise in the rate of inflation
- C a fall in the rate of unemployment
- D a fall in the price of imports to that country

Your answer

[1]

6 Which of the following defines the term recession?

- A A fall in the long run rate of economic growth
- B A sustained fall in the level of government spending
- C The ongoing erosion of the value of real incomes through inflation
- D Two successive quarters of falling Gross Domestic Product

Your answer

[1]

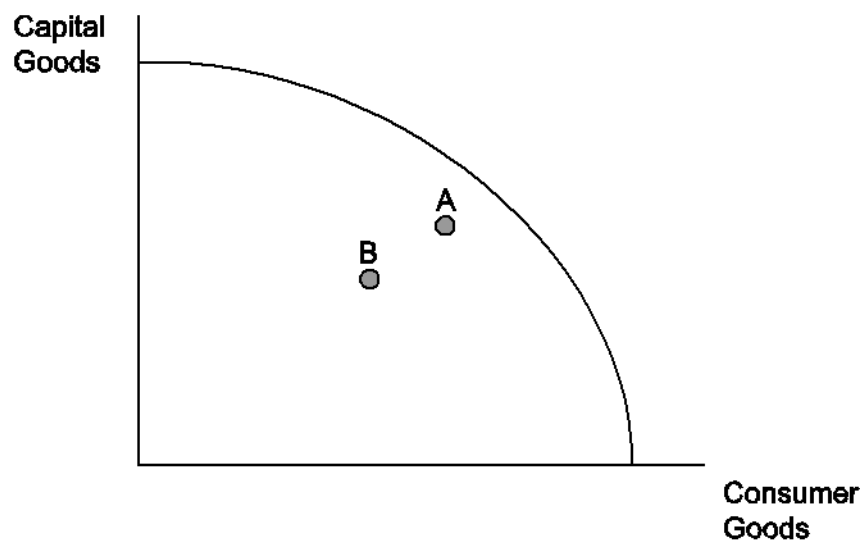
~~7 According to the Marshall-Lerner condition which of the following countries' balance of trade will improve following a currency devaluation?~~

Country	Price Elasticity of Demand for imports	Price Elasticity of Demand for exports
A	-0.3	-0.4
B	-0.3	-0.7
C	-0.7	-0.1
D	-0.8	-0.3

~~Your answer~~

[1]

- 8 Which of the following will cause an economy to move from point A to point B on the production possibility frontier diagram shown below?



- A A decrease in imports
- B A decrease in interest rates
- C A decrease in consumer spending
- D A decrease in the size of the population

Your answer

[1]

- 9 Which of the following **must** occur as a result of deflation?

- A A rise in the value of money
- B A fall in savings
- C A rise in employment
- D A fall in the current account deficit

Your answer

[1]

- 10 How would a fall in the price level be shown on an aggregate demand (AD) diagram?

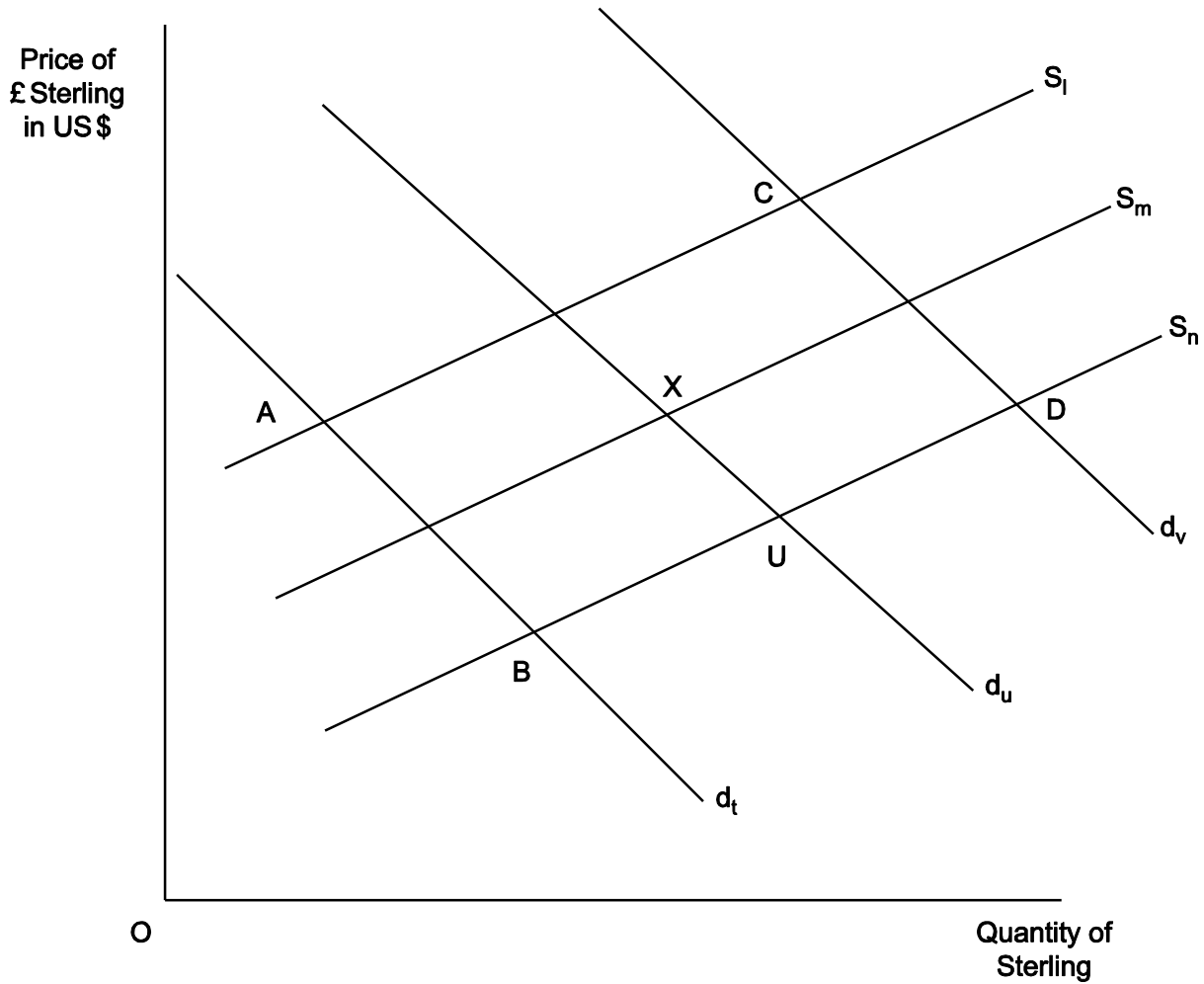
- A A movement down the AD curve
- B A movement up the AD curve
- C A shift to the left of the AD curve
- D A shift to the right of the AD curve

Your answer

[1]

11 The diagram below shows three supply curves (labelled S) and three demand curves (labelled D) for the pound sterling (£). The price of sterling is quoted in US\$. The original equilibrium is at point X.

There is now a recession in the USA. At the same time the UK is experiencing a consumer boom. Which point **A**, **B**, **C** or **D** will represent the new equilibrium in the market for the pound sterling?



- A
- B
- C
- D

Your answer

[1]

12 Which of the following is an example of a fiscal policy?

- A A change in the exchange rate
- B A change in the level of government spending
- C A change in the rate of interest
- D A change in the money supply

Your answer

[1]

13 The table below shows the rate of interest in four countries in 2013 and 2014.

	Country A	Country B	Country C	Country D
2013 rate of interest	2%	3.5%	2.5%	3%
2014 rate of interest	2.5%	3%	2%	3.5%

Which of the following would best explain the possible aims of the changes in monetary policy that occurred between 2013 and 2014?

- A Country A was trying to discourage consumer spending
Country B was trying to encourage domestic saving
- B Country B was trying to encourage consumer spending
Country C was trying to encourage investment by firms
- C Country C was trying to encourage consumer spending
Country D was trying to discourage domestic saving
- D Country C was trying to discourage short term capital inflows
Country D was trying to encourage more exports

Your answer

[1]

14 The table shows the amount of direct tax paid by individuals at different levels of income in a country in the eurozone.

Income received (€)	Direct tax paid (€)
10 000	1000
20 000	2000
30 000	4000

Which of the following statements about the country's direct tax system is true?

- A The system is progressive throughout the income range
- B The system is proportional from €10 000 to €20 000 only
- C The system is proportional throughout the income range
- D The system is regressive from between €20 000 and €30 000

Your answer

[1]

- 15** The increase in online banking has led to a reduction in the demand for counter staff in high street bank branches.

Which of the following types of unemployment is this most likely to have caused?

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

Your answer

[1]

SECTION B

Answer **all** questions**Germany – Challenges for Europe’s economic powerhouse**

Germany is Europe’s economic powerhouse and the world’s second largest exporter. Whereas unemployment rose in many countries following the global financial crisis of 2008, Germany’s unemployment actually fell and for the first time since the early 1990s fewer than three million people were unemployed. The country has seen its Gross Domestic Product (GDP) per capita increase faster than both its European neighbours and other major industrialised nations (see **Fig.1**).

Fig.1 – A comparison of Germany and 28-nation European Union (EU) annual % real GDP growth rates – 2007–2013



Despite its relative success since 2008, German economic growth became relatively subdued in 2013. The German Federal Statistical Office said that Europe’s biggest economy grew by only 0.4 percent for the full year in 2013, less than the 0.5% analysts were expecting. This was its weakest performance since it shrank in 2009, in the wake of the global financial crisis. Despite this the economy is widely expected to pick up speed again in 2014.

Unlike many other countries in the 28 nation European Union, Germany has managed to avoid recession since 2009, although much of its recent economic expansion was fueled largely by domestic demand as exports declined in 2013 by 0.2% compared with 2012.

However, sluggish German growth of just 0.4% in 2013 also drove down imports. Germany imported 1.2 percent less in 2013 than in 2012, meaning that the country’s trade surplus had further widened despite the fall in export levels. According to the German statisticians, the gap between exports and imports had reached 198 billion euros, which was the biggest ever recorded.

Germany’s government is keen to achieve stable and sustainable economic growth. It takes pride in its education system, in particular its emphasis on providing its young people with training in technical occupations, such as engineering. Despite the sluggish growth in 2013 German unemployment continued to fall steadily.

25 A senior economist at a major German Bank, said German inflation which had remained relatively stable in 2013 (see **Fig.2**) could soon begin to rise if workers got higher wages and increased their consumption levels.

30 "In a tightening labour market, with falling unemployment, substantial wage demands have a good chance of going through and boosting consumption, which could raise inflation rates once spring arrives and the winter weather effects fade", he said.

In 2014 chemical workers have already secured a 3.7% pay rise and other trade unions are seeking high wage rises, with construction workers even calling for a 7% increase.

Fig.2 – Germany’s Consumer Prices Index Quarterly Figures – January 2013–January 2014

Jan 2010 = 100	Jan-13	Apr-13	Jun-13	Sep-13	Jan-14
Consumer Prices Index	104.5	105.6	105.6	105.1	105.9

16 (a) 'Germany's government is keen to achieve stable and economic growth'.

State **one** other possible macroeconomic policy objective of the German government.

.....[1]

(b) Using information from the case study, explain how it was possible for Germany's trade surplus to widen in 2013 despite a fall in the level of exports.

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.....[2]

(c) (i) Using Fig. 1, compare the real GDP growth rate of Germany with that of the 28 nation EU.

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.....[2]

(c) (ii) State **two** factors which might account for the increase in the rate of growth of the German economy between 2009 and 2010.

1.
2.[2]

(d) (i) Using Fig. 2, calculate the rate of inflation in Germany between January 2013 and January 2014. Give your answer correct to two decimal places.

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.....[2]

~~(d) (ii) State **two** limitations of using a price index as a measure of inflation.~~

~~1.
2.[2]~~

- (e) Show using a diagram, the potential impact on Germany's GDP of a continuing fall in export levels.

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[10]

SECTION C

Answer either Question 17 **or** Question 18

17* In the Global Competitiveness Index for 2013–2014 the UK economy was placed tenth in the world.

Evaluate, with the aid of an appropriate diagram(s), the potential impact on the UK economy of an improvement in its international competitiveness.

[20]

OR

18* In 2014 the leader of the UK Labour Party, Ed Milliband, proposed a ‘job guarantee’ scheme for 18-24 year olds if the Labour Party were to win the 2015 general election. The scheme would see a subsidy paid to UK employers who guarantee a young person a job at the minimum wage for six months.

Evaluate, with the aid of an appropriate diagram(s), whether employment subsidies or the provision of youth training schemes is likely to be more effective in reducing the level of youth unemployment in the UK.

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