Oxford Cambridge and RSA

Monday 19 May 2025 – Afternoon

A Level Economics

H460/02 Macroeconomics

Time allowed: 2 hours

You can use:
- a scientific or graphical calculator

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

Centre number | | | | | | Candidate number | | | | |

First name(s) ____________________

Last name ____________________

INSTRUCTIONS
- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions in Section A, **one** question in Section B and **one** question in Section C.

INFORMATION
- The total mark for this paper is **80**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended response will be assessed in questions marked with an asterisk (*****).
- This document has **20** pages.

ADVICE
- Read each question carefully before you start your answer.

Section A

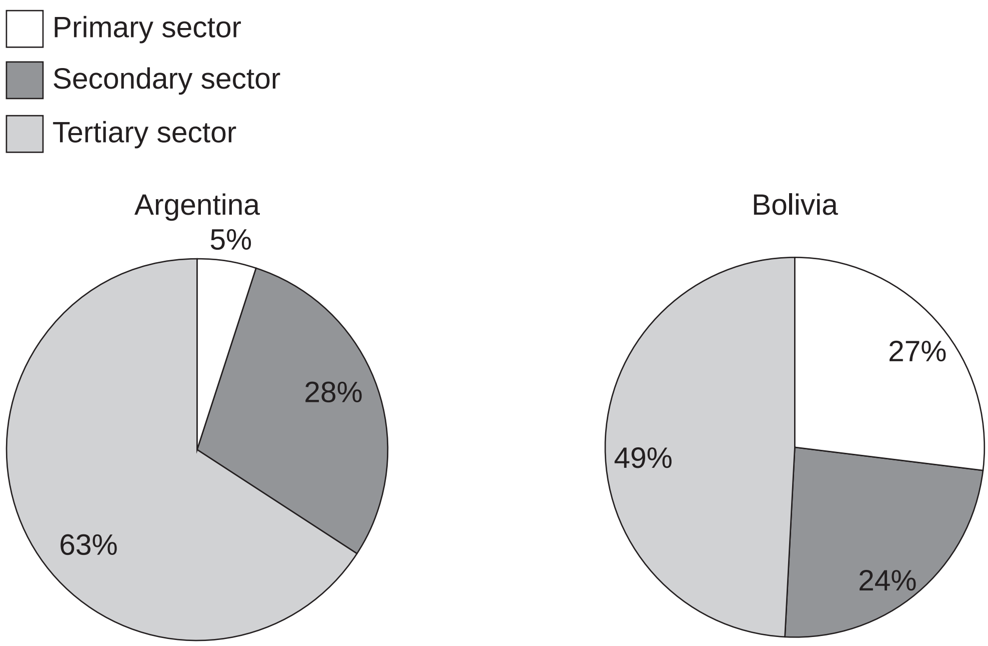
Read the stimulus material and answer **all** parts of Question 1.

What is the future for Bolivia?

Export tariffs and quotas are imposed by a number of countries. Reducing exports can increase domestic supply which can affect the price of products sold on the home market and the country’s tax revenue. It can also affect the supply of the country’s raw materials available to rival foreign producers.

Both Argentina and Bolivia, impose export tariffs on soya beans. Argentina also imposes an export tariff on lithium, a rare earth metal used in the production of electric cars. Bolivia has the world’s largest resources of lithium which it is just beginning to extract. Bolivia already mines gold, silver, nickel and other natural metals. Mining is part of the primary sector. Fig. 1 shows the share of the labour force in the different sectors in Argentina and Bolivia in 2021.

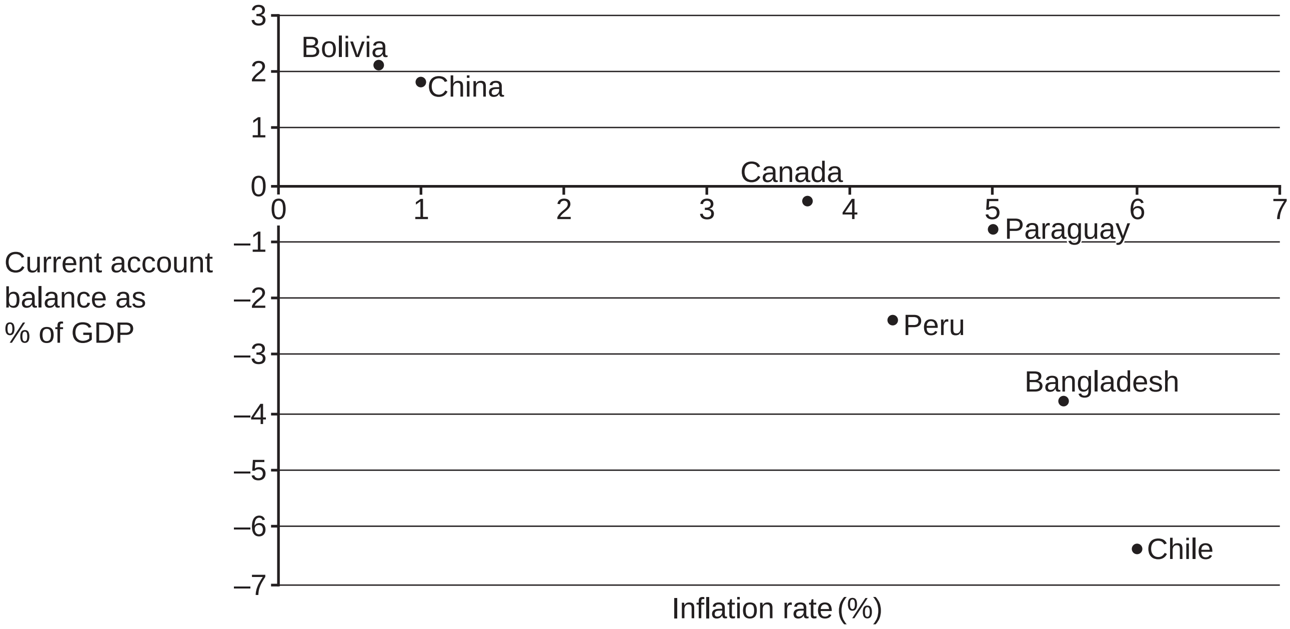
Fig. 1
Share of the labour force in the different sectors in Argentina and Bolivia 2021



Exporting lithium can affect Bolivia’s terms of trade and the current account of its balance of payments. In 2021, Bolivia’s terms of trade were 62 and its index of average export prices was 85.56. In that year, Bolivia had a surplus on its current account. It also had the lowest inflation rate in South America.

Fig. 2 shows the inflation rate and current account balance as a percentage of GDP of selected countries in 2021, when the global average inflation rate was 3.5%.

Fig. 2
The inflation rate and current account balance as a percentage of GDP of selected countries 2021



A current account surplus can put upward pressure on a country's exchange rate. There are, however, other influences on a country's exchange rate. Bolivia has a fixed exchange rate against the US dollar. This fixed exchange rate has provided some certainty and is credited with helping to keep inflation low. In 2023, speculation put downward pressure on the exchange rate. Bolivia's central bank, Banco Central de Bolivia, intervened to support the value of the boliviano which significantly reduced the country's foreign exchange reserves.

As well as maintaining the exchange rate, the Banco Central de Bolivia manages the country's national debt. A country's national debt increases as a result of government budget deficits. Bolivia has had a government budget deficit for many years. A relatively high proportion of Bolivians work in the informal economy and do not pay any income tax. The country has a relatively low flat rate of income tax of 13%. Some economists suggest that a rise in this rate of income tax would increase government tax revenue and reduce the budget deficit. Others have suggested that Bolivia should introduce a progressive income tax system. Bolivia has the highest income inequality in South America, that is gradually reducing.

Bolivia has a standard rate of VAT of 13%. Additional indirect taxes are imposed on other products such as cigarettes, alcohol and luxuries, including perfume and cosmetics.

1
(a) Using information from the stimulus material, identify **two** reasons for imposing export tariffs.

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2. ....

.... **[2]**

(b) Using Fig. 1, explain how Bolivia's level of development compared to Argentina's level of development in 2021.

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.... **[2]**

(c) Calculate Bolivia's index of average import prices in 2021.

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(d) Using Fig. 2 and the stimulus material, explain the relationship between the inflation rate and current account balance of the selected countries in 2021.

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.... **[4]**

Question continues on the next page

(e) Using information from the stimulus material, evaluate whether Bolivia should keep a fixed exchange rate.

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.... **[8]**

(f)* Using information from the stimulus material, evaluate whether Bolivia's income tax revenue is likely to increase in the future.

.... **[12]**

Section B

Answer Question **2 or** Question **3**.

2* In February 2023, the Bank of England raised the base rate of interest from 3.5% to 4%. There were concerns that this could reduce the country's economic growth rate.

Evaluate, with the use of an appropriate diagram(s), whether there is a conflict between the two economic objectives of low inflation and full employment. **[25]**

OR

3* In January 2023, Japan had an unemployment rate of 2.4%. It was considered to be achieving full employment.

Evaluate, with the use of an appropriate diagram(s), whether achieving full employment will benefit an economy. **[25]**

Question ....

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Turn over

Section C

Answer Question **4 or** Question **5**.

4* The Central African Republic has a very uneven distribution of income and a low Human Development Index (HDI) value.

Evaluate whether a very uneven distribution of income will result in a country having a low HDI value. **[25]**

OR

5* In 2023 the BRICS (Brazil, Russia, India, China and South Africa) overtook the G7 countries in their share of world GDP.

Evaluate whether the UK government should increase trade restrictions on the BRICS. **[25]**

Question ....

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END OF QUESTION PAPER

EXTRA ANSWER SPACE

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