wjec cbac

GCE AS/A LEVEL – NEW

2520U20-1

S17-2520U20-1

ECONOMICS – AS unit 2
Economics in Action

MONDAY, 22 MAY 2017 – MORNING

2 hours

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ADDITIONAL MATERIALS

In addition to this examination paper, you will need:
- a calculator;
- a WJEC pink 16 page answer booklet.

INSTRUCTIONS TO CANDIDATES

Answer **all** questions.
Use black ink or black ball-point pen.

INFORMATION FOR CANDIDATES

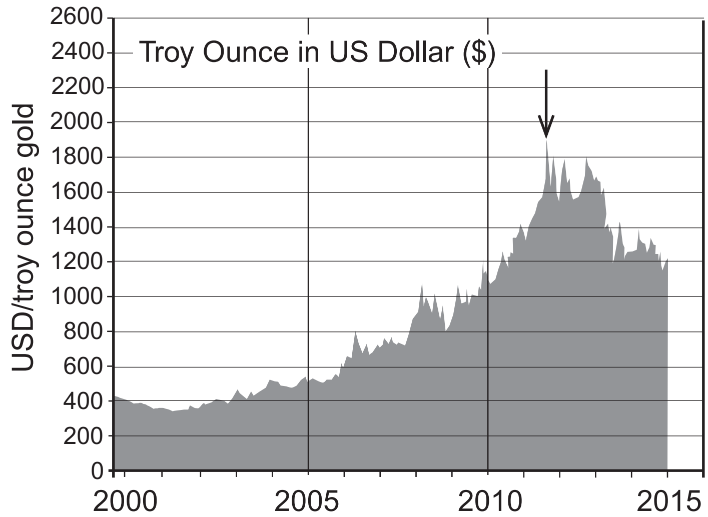
The number of marks is given in brackets at the end of each question.
You are reminded of the necessity for good English and orderly presentation in your answers.

*Answer **all** the questions.*

1. ALL THAT IS GOLD DOES NOT GLITTER

For centuries people have bought gold for various reasons. One reason is that unlike paper currency, coins or other assets, gold has maintained its value throughout the ages. People see gold as a way to preserve and then pass on their wealth from one generation to the next. Today, gold is also made into jewellery and is used as a component part of space rockets, smart phones and medical equipment.

Figure 1 – Gold price (US$) per Troy Ounce (standard weight for gold)



Gold prices have undergone significant price variations over the last 15 years (see Figure 1). The two biggest reasons for the huge price increase between 2006 and 2011 were increasing demand from emerging economies such as India and China and also the fall in the value of the US dollar over the same years. The US dollar is one of the world's most important currencies and people around the world often choose to buy dollars as a way of storing their wealth.

Since 2011, however, the price of gold has fallen considerably. In years gone by in other commodity markets such as tin, coffee and sugar, groups of producers or governments have attempted to prevent prices from falling too low by buying up surplus commodities on the market. However, these agreements usually failed as soaring supply caused them to run out of funds.

Global gold production in 2014 stood at over 4000 tonnes. About three-quarters of that gold comes from enormous, hi-tech, open-pit mines that consume more electricity and water than entire cities. The largest of these is Bingham Canyon mine in Utah, USA.

Figure 2 – Gold Supply 2010-2014

Year	Gold supply per year (tonnes)
2010	4318
2011	4529
2012	4508
2013	4286
2014	4410

Figure 3 – Top gold-mining countries in 2014

Country	Tonnes
China	462.0
Australia	272.4
Russia	266.2
United States	210.8
Peru	171.0
South Africa	167.9
Canada	151.3
Mexico	110.4
Ghana	104.1

Gold-mining employs over 20 million people worldwide and miners in developed countries are often paid above the national average. But a great deal of gold-mining occurs in poorer countries like Ghana and Peru where low labour costs and unregulated labour markets have always attracted businesses which want to exploit the cheap labour. Between 5 and 10 million gold miners work in dreadful and dangerous conditions in mines around the world. Poor regulation means that many miners lack safety equipment and expertise and therefore accidents occur frequently. In 2013, a tragic tunnel collapse in Sudan killed 100 gold miners. In addition, many miners are being exposed to toxic mercury – the chemical most often used in the industry.

In addition to destroying many beautiful landscapes, gold-mining also leaves behind more waste per gram than mining for any other metal. The waste often contains deadly cyanide and toxic heavy metals which then drains into the soil and poisons the local environment. Similarly, many gold mines dump their toxic waste directly into rivers and lakes. The Lihir gold mine in Papua New Guinea, for example, is said to dump over 5 million tonnes of toxic waste into the Pacific Ocean each year, destroying corals and other ocean life.

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(a) (i) Using the year 2000 as a base year, calculate the gold price index at its peak. [2]

(ii) Using Figure 2, calculate **both** the mean and median gold supply per year during the 5 year period 2010-2014. [2]

(iii) Using diagrams, evaluate the extent to which an increase in the demand for a product always leads to a corresponding increase in price and quantity. [8]

(b) Using the data, discuss the extent to which gold and US dollars can be considered to be substitutes. [6]

(c) Using an appropriate diagram, explain how gold-mining can lead to market failure. [8]

(d) (i) Using Figures 2 and 3, calculate the % of the 2014 total gold supply that was mined in Peru and in Ghana. [2]

(ii) With the aid of a diagram, discuss whether the introduction of a guaranteed minimum price for gold will be beneficial for workers in gold mines in poor countries like Peru and Ghana. [12]

2. Education, Education, Education or Inflation, Inflation, Inflation

Extract A – an extract from an Open Letter sent by the Governor of the Bank of England to the Chancellor of the Exchequer dated 12 Feb 2015.

BANK OF ENGLAND

Mark Carney
Governor

The RT Hon George Osborne
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
London
SW1A 2HQ

12 February 2015

Dear Chancellor,

On 13 January 2015, the Office for National Statistics (ONS) published data showing that the annual inflation rate had fallen to 0.5%. That is the lowest figure since May 2000 and 1.5% below the inflation target of 2%.

The policy action the Committee is taking in response

The Bank Rate has been at a historically low level of 0.5% for almost six years. Immediately following the 2008 financial crisis, the UK faced a period of high unemployment and weak aggregate demand. Yet despite this weak demand, a sharp depreciation of sterling created a sharp rise in the price level and inflation remained persistently above the 2% target. In that environment the Monetary Policy Committee (MPC) judged it appropriate to keep interest rates low at 0.5% for the benefit of the wider macro-objectives even though it did not bring inflation down quickly.

The situation in early 2015 is very different. Inflation is well below the target and the key factors causing this have been falling world oil and food prices and also slow economic growth in the country. In addition, unemployment still remains relatively high at 2 million. Therefore, the MPC believes it can simultaneously return inflation to its target level and support economic growth without any fear of conflict between these policy objectives. **Therefore the Bank Rate will remain low at 0.5% for the foreseeable future** in order to return inflation to the target as quickly as possible.

Extract B – an edited version of an article written by Professor Dylan Jones-Evans that was published by WalesOnline on 2 Oct 2015.

The World

The Global Competitiveness Report is an annual assessment of productivity and prosperity in 140 countries around the globe. The 2015-16 report concluded that technological innovation and skills are the key drivers for economic growth in what is still a challenging economic climate.

The report also expresses concern at the failure of some countries to adopt supply side policies that boost **productivity** and lead to more competitive prices. Supply side policies such as cutting direct taxes and improving infrastructure were recommended, but the key finding was the need to ensure that more people have access to high-quality education. If skills issues are not addressed, the report warns, it could result in problems in unemployment and the trade balance.

Wales

In the last few years, there have been a number of attempts aimed at increasing productivity within Wales. One such project is the Alacrity Foundation, located in Newport.

The Alacrity Foundation gives graduates an intensive 12-month practical business training and education programme. The programme's mission is to train the brightest and best graduates and create a new generation of Welsh-based hi-tech companies. Simon Gibson, founding trustee of Alacrity, said: "Alacrity was established with the simple mission of assisting in the renewal of South Wales' economic base".

(a) Using an exchange rate diagram, describe one reason why the 2008 financial crisis may have led to a depreciation of sterling. [4]

(b) Using an AD/AS diagram, outline how a sharp depreciation of sterling can cause inflation despite weak aggregate demand. [4]

(c) To what extent do you agree with the MPC's assessment in early 2015 that "it can simultaneously return inflation to its target level and support economic growth without any fear of conflict between the policy objectives"? (Extract A) [8]

(d) What is meant by productivity? [2]

(e) With reference to Extract B and economic theory, discuss the extent to which high quality education and training programmes can improve the trade balance and reduce unemployment levels in the UK. [10]

(f) To what extent do you agree with the statement: "the supply side policies of cutting direct taxes and improving infrastructure are more effective strategies for reducing inflation than a rise in interest rates"? [12]

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