AQA

Please write clearly in block capitals.

Centre number	
Candidate number	
Surname	
Forename(s)	
Candidate signature	

I declare this is my own work.

AS
ECONOMICS

Paper 2 The National Economy in a Global Context

Thursday 14 May 2020 Morning Time allowed: 1 hour 30 minutes

Materials
For this paper you must have:
- the insert
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Section A**.
- Answer **either** Context 1 **or** Context 2 in **Section B**.
- You will need to refer to the insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The maximum mark for this paper is 70.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

Do not write outside the box

Section A

Answer **all** questions in this section.

Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD   WRONG METHODS

If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

0 1 An economy experiences a positive supply-side shock. Other things remaining equal, the impact on the economy is most likely to be

A higher inflation and faster economic growth.

B higher output and lower inflation.

C lower employment and slower economic growth.

D lower unemployment and a larger budget deficit.

[1 mark]

0 2 The quantity of food imported by an economy increases by 12% in one year. The most likely cause is a fall in

A domestic farm prices.

B income tax.

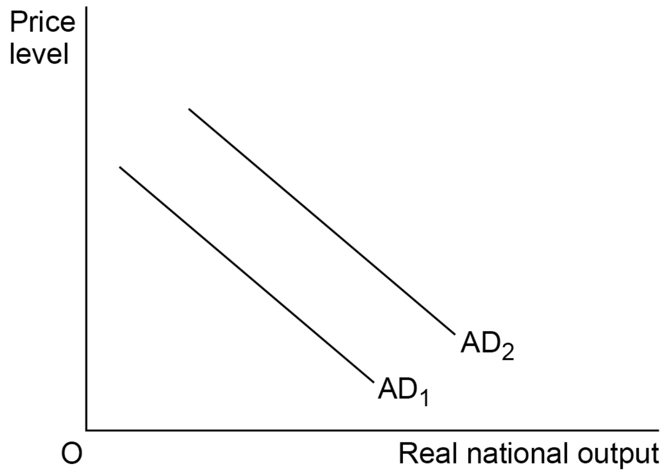
C the exchange rate.

D welfare benefits.

[1 mark]

0 3 **Figure 1** shows aggregate demand (AD) curves for an economy.

Figure 1



Which **one** of the following is most likely to cause the aggregate demand curve to shift from AD_1 to AD_2?

A A fall in imports

B A fall in the price level

C A reduction in the budget deficit

D A rise in the exchange rate

[1 mark]

0 4 Which **one** of the following statements about the consumer price index (CPI) is correct?

A A fall in the CPI means that the real value of money is falling

B An increase in the CPI means that the rate of inflation is rising

C The CPI measures changes in the prices of goods and services bought by households

D The weights used in the CPI reflect changes in the quality of goods and services

[1 mark]

0 5 An economy has recently recovered from a recession and closed its negative output gap. The government would now like to increase the trend rate of economic growth.

Which **one** of the following policies is likely to be the most effective?

A Expansionary fiscal policy

B Expansionary monetary policy

C Redistributive policies

D Supply-side policies

[1 mark]

0 6 The government invests £1 billion in an extension to the motorway network. As a result, in addition to this initial investment, national income increases by a further £2 billion.

What is the value of the multiplier?

A 0.5

B 1

C 2

D 3

[1 mark]

0 7 An economy is experiencing short-run economic growth accompanied by falling unemployment. This is due to rising aggregate demand following the introduction of an expansionary fiscal policy.

Which **one** of the following is most likely to help the economy avoid rising inflation?

A A fall in the exchange rate and falling productivity

B A fall in the exchange rate and rising productivity

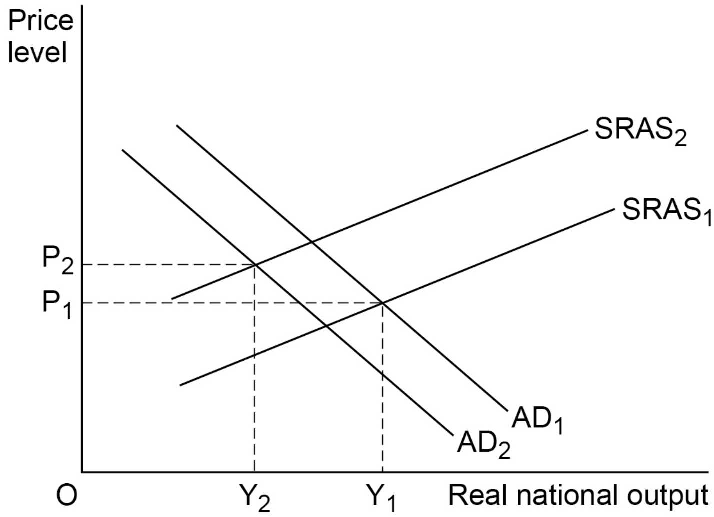
C A rise in the exchange rate and falling productivity

D A rise in the exchange rate and rising productivity

[1 mark]

0 8 **Figure 2** shows the aggregate demand (AD) curves and short-run aggregate supply (SRAS) curves for an economy.

Figure 2



Which **one** of the following combinations of events is most likely to cause aggregate demand to shift from AD_1 to AD_2 and short-run aggregate supply from $SRAS_1$ to $SRAS_2$?

A A fall in income tax and lower raw material prices ⬭

B A fall in net exports and higher labour productivity ⬭

C A rise in money wages and a rise in household saving ⬭

D An increase in VAT and a rise in household wealth ⬭

[1 mark]

Turn over for the next question

Do not write outside the box

0 9 A government wishes to reduce the surplus on the current account of the balance of payments. Which **one** of the following sets of policies is likely to be the most successful?

	Change in the exchange rate	Change in the budget surplus	
A	Decrease	Decrease	⬭
B	Decrease	Increase	⬭
C	Increase	Decrease	⬭
D	Increase	Increase	⬭

[1 mark]

1 0 In which **one** of the following situations is there most likely to be cyclical unemployment in an economy?

A Absence of an output gap ⬭

B Generous unemployment benefits ⬭

C Many firms with excess capacity ⬭

D Widespread investment in labour-saving equipment ⬭

[1 mark]

1 1 At the start of the year, the national debt for an economy was £920 billion. In the previous year, the budget deficit was £60 billion. In the current year, government spending is projected to fall by £20 billion and tax revenues to increase by £10 billion from last year's levels.

Other things remaining equal, the expected size of the national debt at the end of the current year is

A £890 billion. ⬭

B £950 billion. ⬭

C £960 billion. ⬭

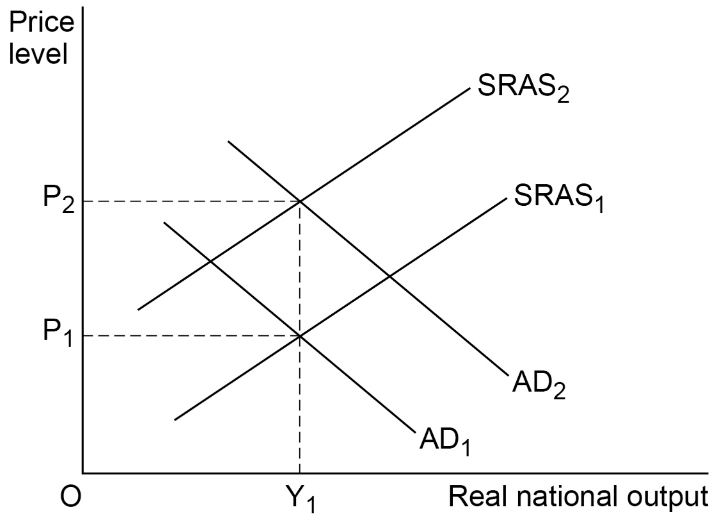
D £980 billion. ⬭

[1 mark]

Do not write outside the box

1 2 **Figure 3** shows an economy's aggregate demand (AD) and short-run aggregate supply (SRAS) curves.

Figure 3



The initial equilibrium price level is at OP_1. Which **one** of the following is most likely to be responsible for both the cost–push and demand-pull inflationary pressures that raise the price level to OP_2?

A A fall in interest rates

B A fall in the exchange rate

C A rise in direct taxes

D A rise in indirect taxes

[1 mark]

1 3 Other things remaining the same, the current account deficit of an economy's balance of payments is most likely to

A become smaller as domestic inflation falls below foreign inflation rates.

B deteriorate when there is an upturn in economic activity overseas.

C improve when there is a rise in the exchange rate.

D increase when there is an improvement in the economy's international competitiveness.

[1 mark]

Turn over ►

1 4 Which statement applies to progressive taxes, but does not apply to proportional or regressive taxes?

As income falls

A a larger percentage of income is taken in tax.

B a smaller percentage of income is taken in tax.

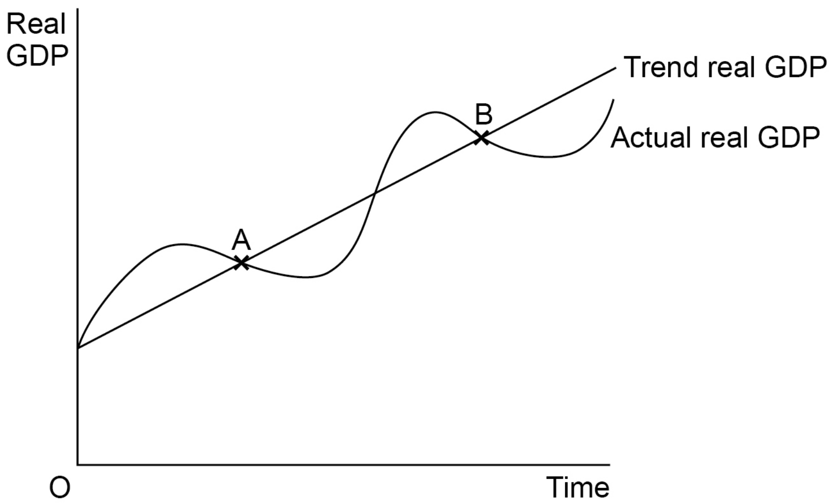
C less income is taken in tax.

D the same percentage of income is taken in tax.

[1 mark]

1 5 **Figure 4** shows the performance of an economy through time.

Figure 4



As the economy moves from point A to point B, it can be concluded that

A the economy has completed one economic cycle.

B the level of GDP per head has risen.

C the rate of economic growth has increased.

D the trend rate of growth is higher.

[1 mark]

1 6 Output of the UK economy is at the normal capacity level and the Bank of England decides to implement measures to restrict the supply of credit to households. The most likely reason for this policy is that

A earnings are increasing fast.

B house prices are falling.

C productivity is growing more quickly.

D the exchange rate is appreciating.

[1 mark]

1 7 **Table 1** shows the index of export prices, the current monetary value of a country's exports and the calculated value, to the nearest £ billion, of the value of its exports at 2017 prices.

Table 1

Year	Current monetary value of exports (£ billion)	Index of export prices	Value of the country's exports at 2017 prices (£ billion)
2016	180	90	?
2017	200	100	200
2018	240	110	218
2019	300	120	?

Which **one** of the following is correct?

A The value of the country's exports in 2016 at 2017 prices, to the nearest £ billion, was £162 billion

B The value of the country's exports in 2016 at 2017 prices, to the nearest £ billion, was £198 billion

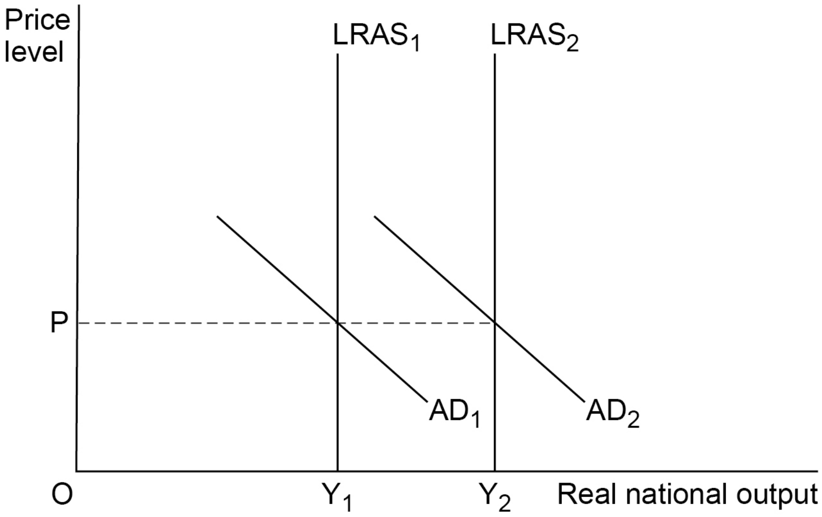
C The value of the country's exports in 2019 at 2017 prices, to the nearest £ billion, was £240 billion

D The value of the country's exports in 2019 at 2017 prices, to the nearest £ billion, was £250 billion

[1 mark]

1 8 **Figure 5** shows the aggregate demand (AD) and long-run aggregate supply (LRAS) curves for an economy.

Figure 5



Which one of the following policies is most likely to have caused aggregate demand to shift from AD_1 to AD_2, and long-run aggregate supply to shift from $LRAS_1$ to $LRAS_2$?

A A lower rate of corporation tax ⬭

B A reduction in the money supply ⬭

C An increase in state pensions ⬭

D An increase in the exchange rate ⬭

[1 mark]

1 9 If the current account of the balance of payments is in surplus, then

A the exchange rate of the country's currency must be appreciating. ⬭

B the net value of trade in goods and services plus the net value of primary and secondary income must be positive. ⬭

C the total of all money flows into the economy must be greater than the total of all money flows out. ⬭

D the value of exports of goods and services must be greater than the value of imports of goods and services. ⬭

[1 mark]

2 0 The level of unemployment in an economy has fallen. The most likely cause is

A a reduction in firms' profits. ⬭

B a rise in the retirement age. ⬭

C an increase in immigration. ⬭

D lower mortgage interest rates. ⬭

[1 mark]

20

END OF SECTION A

Section B

Look at the insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

OR

Questions 27 to 32 on pages 23 to 32 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context **0 1** ⬭   Context **0 2** ⬭

WRONG METHODS   CORRECT METHOD

EITHER

Context 1 **Total for this context: 50 marks**

THE UK RETAIL INDUSTRY

Use the insert provided to study **Questions 21** to **26** and **Extracts A**, **B** and **C**, and then answer the questions in the spaces which follow.

2 1 Define 'falling exchange rate' in **Extract B** (line 7).

[3 marks]

2 2 Use **Extract B** to calculate, to **two** decimal places, the ratio of internet sales to £1 worth of all retail sales in November 2013.

[4 marks]

Turn over for the next question

Do not write outside the box

2 3 Use **Extract A** to identify **two** significant points of comparison between the percentage change in the value of all retail sales and internet sales over the period shown.

[4 marks]

Comparison 1

Extra space

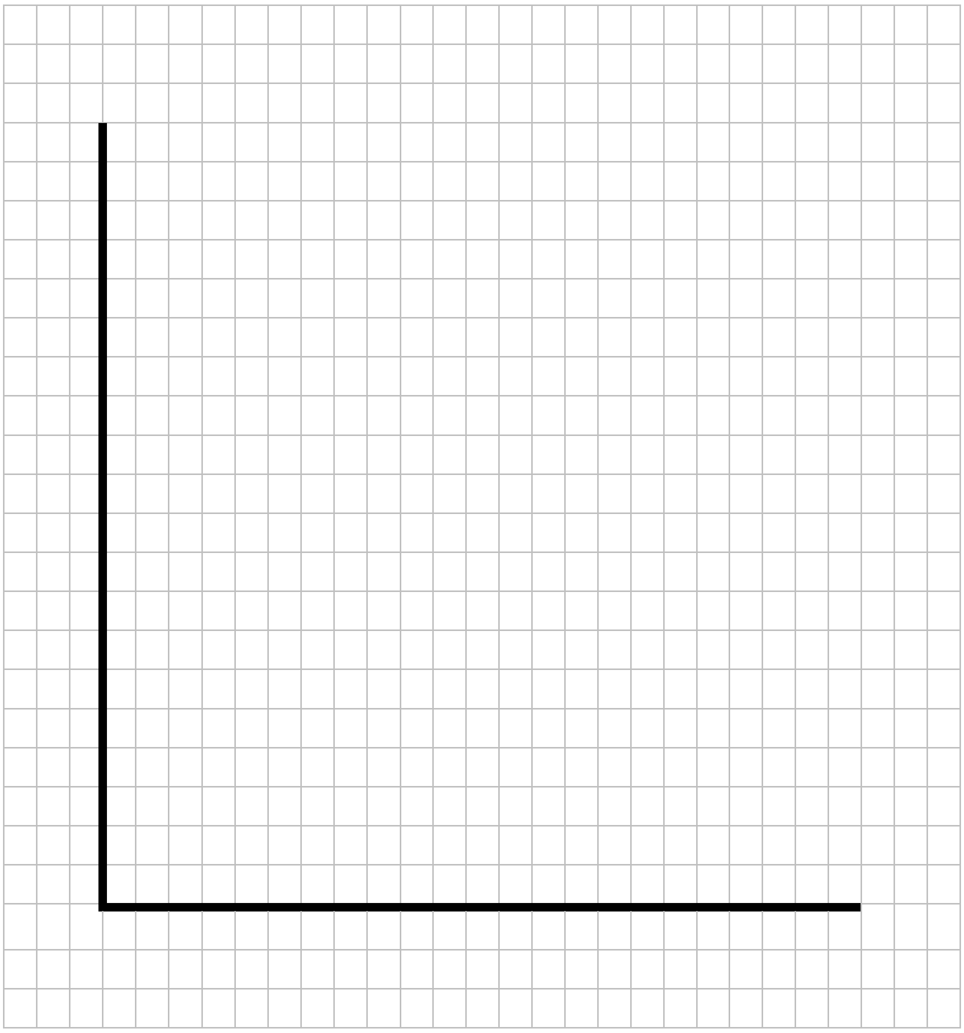
Comparison 2

Extra space

2 4 **Extract B** (lines 9–11) states: 'Taking into account pubs, restaurants and other shops, a further 4042 premises became empty, increasing spare capacity in the economy.'

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show an **increase** in spare capacity in the economy.

[4 marks]



Turn over for the next question

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2 5 **Extract C** (lines 3–4) states: 'Household consumption accounts for approximately 60% of aggregate demand so has a vital role to play in the economy.'

Explain **two** factors that could cause a fall in consumption.

[10 marks]

Extra space

Do not write outside the box

Do not write outside the box

2 6 **Extract C** (line 1) states: 'So, is the changing retail industry and the decline in the high street bad news for the economy?'

Use the extracts and your knowledge of economics to assess whether the changes taking place in the retail industry are likely to cause lasting damage to UK macroeconomic performance.

[25 marks]

Do not write outside the box

Extra space

Do not write outside the box

Do not write outside the box

50

Do **NOT** answer Context 2 if you have answered Context 1.

OR

Context 2 **Total for this context: 50 marks**

CONFLICTING ECONOMIC OBJECTIVES

Use the insert provided to study **Questions 27** to **32** and **Extracts D**, **E** and **F**, and then answer the questions in the spaces which follow.

2 7 Define 'growing budget deficit' in **Extract F** (lines 15–16).

[3 marks]

2 8 Use **Extract E** to calculate, to **two** decimal places, the ratio of cars produced in the UK for export markets to each car produced for the home market, for the year ended December 2018.

[4 marks]

Do not write outside the box

2 9 Use **Extract D** to identify **two** significant points of comparison between the percentage change in UK car production for export and home markets over the period shown.

[4 marks]

Comparison 1 ______________________________

Extra space ______________________________

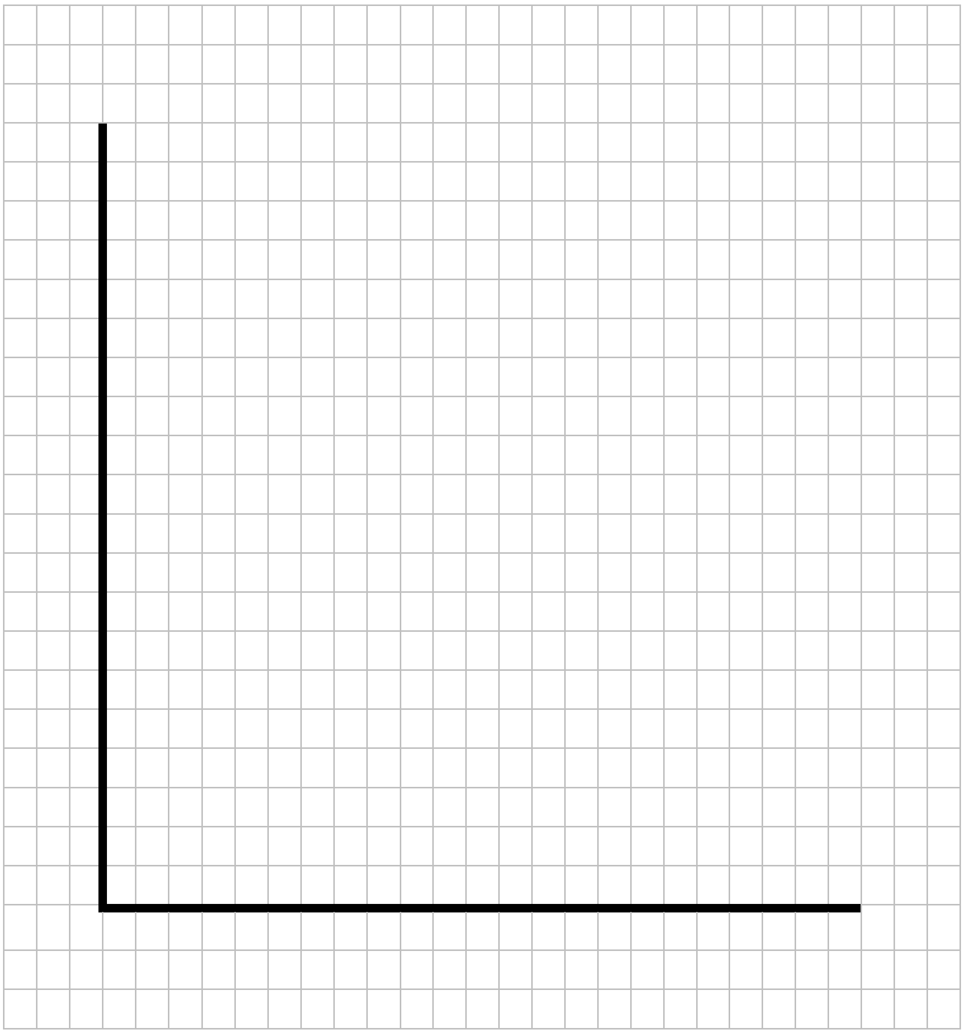
Comparison 2 ______________________________

Extra space ______________________________

3 0 **Extract F** (lines 4–5) states: ‘As more workers receive higher in-work income, consumption would be expected to rise, leading to short-run economic growth.’

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show short-run economic growth.

[4 marks]



Turn over for the next question

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3 1 **Extract E** (lines 9–10) states: 'Inevitably, the volume of exports will fall, and it is highly likely that the trade deficit will increase further.'

Explain **two** factors that could cause a fall in the volume of UK exports.

[10 marks]

Extra space

Do not write outside the box

3 2 **Extract F** (lines 13–17) states: '… it is not easy for a government to achieve all of its macroeconomic objectives at the same time... if confidence improves and the manufacturing industry picks up, it will be difficult to avoid more inflationary pressures.'

Use the extracts and your knowledge of economics to assess the view that as the rate of economic growth increases, a rise in inflation is inevitable.

[25 marks]

Extra space

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Turn over ▶

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50

END OF QUESTIONS

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ANSWER IN THE SPACES PROVIDED

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Question number	**Additional page, if required. Write the question numbers in the left-hand margin.**

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Question number	**Additional page, if required. Write the question numbers in the left-hand margin.**

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