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

Monday 22 May 2023 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	

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 Which one of the following is an injection into the circular flow of income?

[1 mark]

A Consumer expenditure

B Exports

C Imports

D Wages

0 2 In which one of the following situations is an increase in aggregate demand most likely to result in higher inflation?

[1 mark]

A Household savings are increasing

B Mortgage interest rates are high

C Resources are fully employed

D Unemployment is rising

0 3 **Table 1** shows the Consumer Price Index (CPI) for an economy over a period of time.

Table 1

Year	**CPI**
2008	110
2011	108
2014	116
2017	124
2020	130

Which one of the following can be concluded from **Table 1**?

[1 mark]

A The price of a representative basket of goods rose throughout the period. ⬭

B The rate of inflation from 2011 to 2014 was the same as from 2014 to 2017. ⬭

C The standard of living reached its highest level in 2020. ⬭

D The value of money rose between 2008 and 2011. ⬭

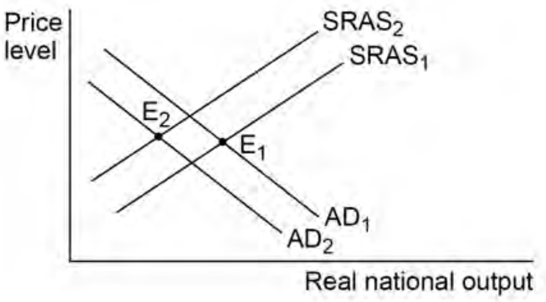
Turn over for the next question

0 4 A government decides to increase the minimum wage at a time when the rest of the world is coming out of recession. These events cause short-run aggregate supply (**SRAS**) to shift from **SRAS$_1$** to **SRAS$_2$** and aggregate demand (**AD**) to shift from **AD$_1$** to **AD$_2$**.

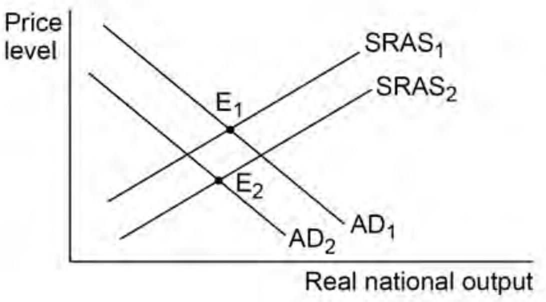
If the initial macroeconomic equilibrium is **E$_1$**, which one of the following diagrams shows the correct new equilibrium **E$_2$**?

[1 mark]

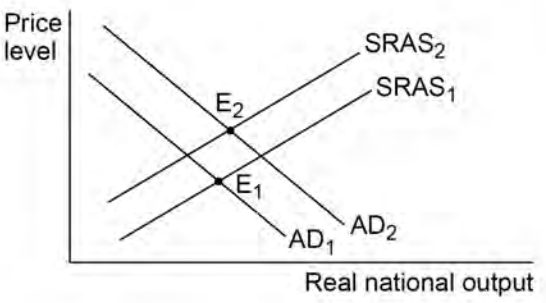
A



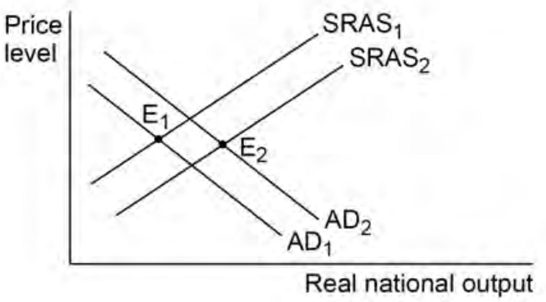
B



C



D



0 5 Which one of the following is a direct tax?

[1 mark]

A Corporation tax ⬭

B Fuel tax ⬭

C Import tax ⬭

D Vehicle tax ⬭

0 6 **Table 2** shows the components of a country's national income in 2021.

Table 2

	£bn
Consumer expenditure	22
Investment	10
Government expenditure	8
Exports	11
Imports	9

It can be concluded from the data in **Table 2** that aggregate supply in 2021 must have been

[1 mark]

A £21bn. ⬭

B £40bn. ⬭

C £42bn. ⬭

D £60bn. ⬭

0 7 Which one of the following is most likely to be used to identify a phase of the economic cycle?

[1 mark]

A Firms' capacity utilisation

B Structural unemployment

C The economy's productive potential

D The exchange rate

0 8 An economy has a low rate of economic growth and high unemployment.

Which one of the following sets of policies would be most likely to increase growth and reduce unemployment whilst avoiding a rise in inflation?

[1 mark]

A A cut in income tax and lower interest rates

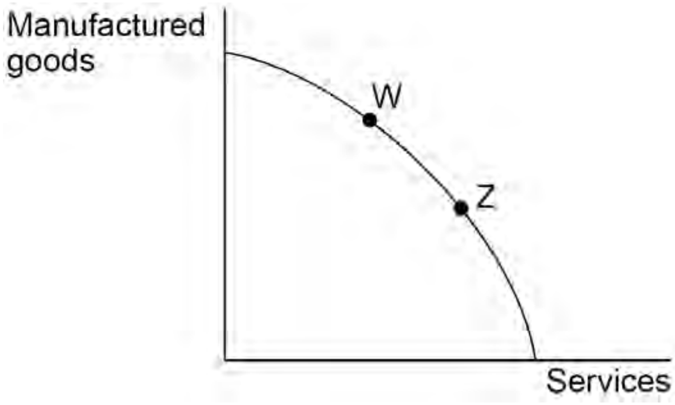
B Higher interest rates and an appreciation in the exchange rate

C Higher welfare benefits and an increase in the money supply

D Increased expenditure on training and an investment subsidy

0 9 **Figure 1** shows the production possibility curve for an economy producing services and manufactured goods.

Figure 1



The economy moves from point **W** to point **Z**. It can be concluded that

[1 mark]

A imports of manufactured goods have risen. ⬭

B the international competitiveness of services has increased. ⬭

C the pattern of economic activity has changed. ⬭

D unemployment in manufacturing has increased. ⬭

Turn over for the next question

1 0 **Table 3** shows the planned change in government spending, the size of the output gap and the size of the multiplier in four economies, W, X, Y and Z.

Table 3

	Change in government spending (£bn)	**Output gap (£bn)**	**Multiplier**
W	–80	+100	1.25
X	–150	–225	1.5
Y	+200	+350	1.75
Z	–300	+150	2

All other things being equal, in which one of the economies, W, X, Y or Z, will the planned change in government spending eliminate the economy's output gap?

[1 mark]

A W

B X

C Y

D Z

1 1 A government wishing to reduce inflation through the use of fiscal policy could

[1 mark]

A cut government borrowing.

B decrease income tax.

C raise interest rates.

D reduce the budget surplus.

1 2 **Table 4** shows the percentage change in real GDP in an economy in the four years 2016 to 2019.

Table 4

Year	**Change in real GDP (%)**
2016	4.2
2017	3.1
2018	2.6
2019	1.1

Over the period 2016 to 2019, which one of the following can be concluded from **Table 4**?

[1 mark]

A Aggregate demand decreased

B Real national income increased

C Structural unemployment increased

D The inflation rate decreased

1 3 The national debt is the sum of all past and current borrowing, less repayments, undertaken by

[1 mark]

A firms and government.

B firms, government and households.

C government.

D households and firms.

1 4 Which one of the following is most likely to be an instrument of industrial policy?

[1 mark]

A An increase in manufacturing productivity

B Government grants for firms with growth potential

C Higher investment by firms in research and development

D Investment by firms in artificial intelligence

1 5 An economy experiences a low trend rate of economic growth, no output gap and a fall in total hours worked. In these circumstances, which one of the following combinations of events is most likely to occur?

[1 mark]

	National output	**Cyclical unemployment**	**Labour productivity**
A	Falling	Absent	Increasing
B	Falling	Present	Decreasing
C	Rising	Absent	Increasing
D	Rising	Present	Decreasing

1 6 The UK economy experiences a change in its foreign exchange rate from £1 = $1.60 to £1 = $1.75.

Which one of the following is the most likely effect on the UK economy?

[1 mark]

A A decrease in employment

B A fall in the budget deficit

C A reduction in productivity

D Higher raw material prices

1 7 An economy is experiencing deflation and high employment.

The most likely cause of this situation is a

[1 mark]

A deficit on the balance of payments.

B government budget surplus.

C negative demand-side shock.

D positive supply-side shock.

1 8 Which one of the following is an example of a contractionary fiscal policy designed to reduce inflation while, at the same time, minimising the negative impact on the economy's potential for long-run economic growth?

[1 mark]

A A decrease in the budget deficit and replacement of a sugar tax with a tax on savings

B An increase in interest rates and replacement of food subsidies with subsidies for innovation

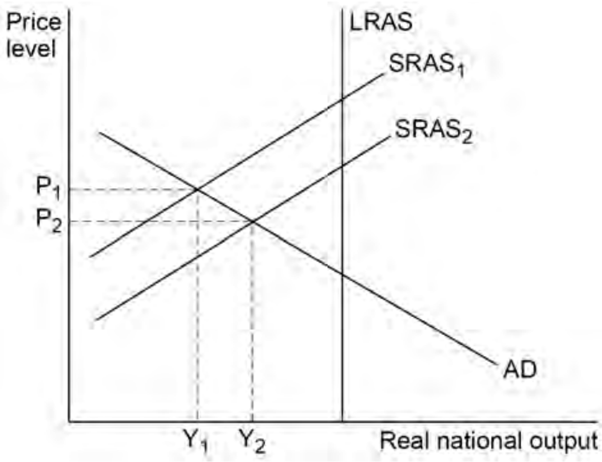
C An increase in the budget surplus and a switch from spending on pensions to spending on new airports

D Restrictions on bank lending and a switch from spending on arts degrees to spending on apprenticeships

Turn over for the next question

1 9 **Figure 2** shows the aggregate demand curve (**AD**), short-run aggregate supply curves (**SRAS**) and long-run aggregate supply curve (**LRAS**) for an economy.

Figure 2



The short-run aggregate supply curve shifts from **$SRAS_1$** to **$SRAS_2$**. Which one of the following is the most likely cause of the resulting increase in real national output?

[1 mark]

A An increase in bank lending to households

B An increase in government expenditure

C Productivity rising faster than money wages

D The action of the multiplier

2 0 Which one of the following is most likely to result in an increase in exports from the UK economy? An increase in

[1 mark]

A inflation in other countries.

B productivity in other countries.

C UK incomes.

D UK interest rates.

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 24 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** ⬭

CORRECT METHOD ⬬   WRONG METHODS

EITHER

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

INFLATION

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 'deflation' **Extract C** (line 2).

[3 marks]

2 2 The original price of an overnight stay in a hotel room is £180 including VAT. Calculate the new price of an overnight stay, following the reduction in VAT referred to in **Extract B** (line 15).

[4 marks]

2 3 Use **Extract A** to identify **two** significant features of the inflation rate over the period shown.

[4 marks]

Feature 1

Extra space

Feature 2

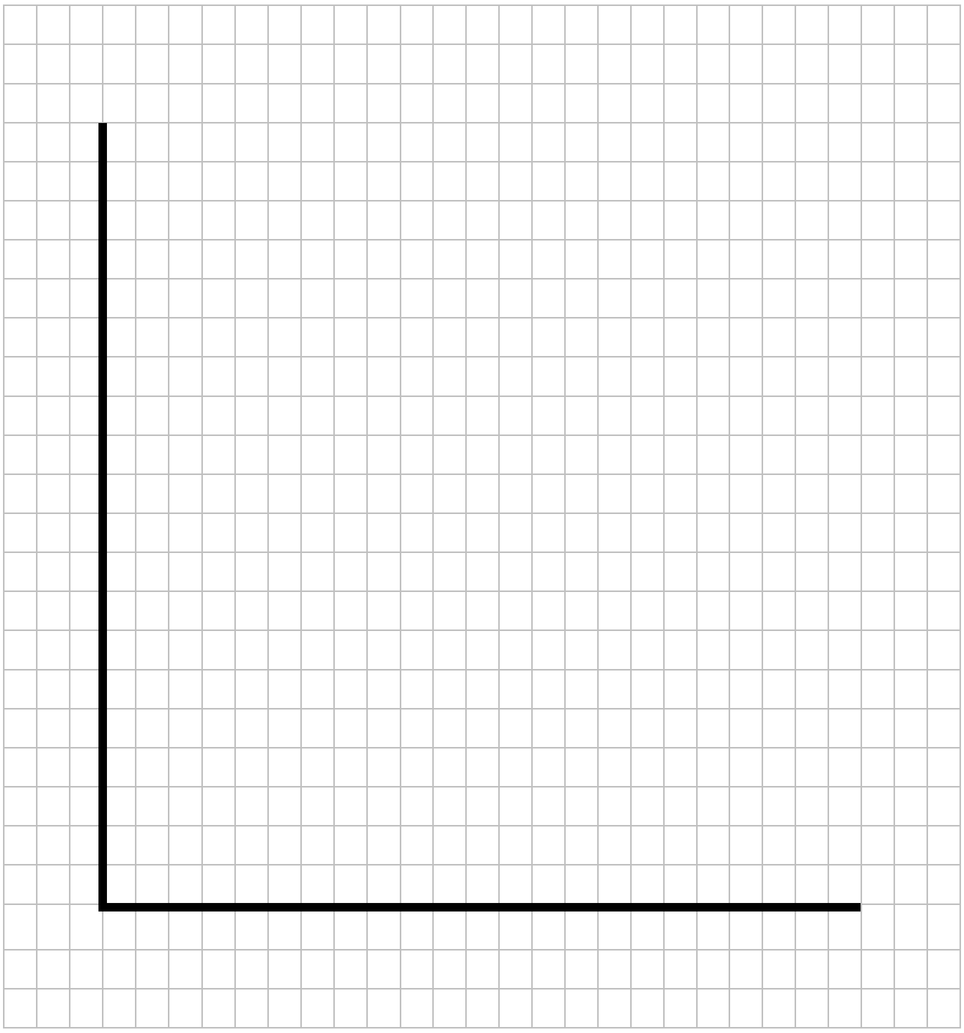
Extra space

Turn over for the next question

2 4 **Extract B** (lines 14–15) states: 'In the UK, government policy, such as the temporary reduction in VAT, an indirect tax, from 20% to 5%, also helped to reduce inflation.'

Draw an AD/AS diagram to show the impact of a reduction in indirect taxation on real national income and the price level in an economy.

[4 marks]



2 5 **Extract B** (lines 7–9) states: 'With this in mind, the government sets the target rate of inflation that the Bank of England's Monetary Policy Committee (MPC) has to achieve.'

Explain **two** factors considered by the Bank of England's MPC when setting Bank Rate.

[10 marks]

Extra space

2 6 **Extract C** (lines 18–19) states: 'It remains to be seen whether very low interest rates are good for the economy.'

Use the extracts and your knowledge of economics to assess the view that very low interest rates are good for the UK economy.

[25 marks]

Extra space

50

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

OR

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

INTERNATIONAL TRADE

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.

27 Define 'economic recovery' **Extract E** (line 17).

[3 marks]

28 In the year to July 2020, the deficit in the balance of trade in goods was £105 billion. Calculate the value of imports of goods for the year to July 2020, using the information in **Extract E** (lines 12–15) to help you.

[4 marks]

2 9 Use **Extract D** to identify **two** significant features of the balance of trade in goods and services over the period shown.

[4 marks]

Feature 1

Extra space

Feature 2

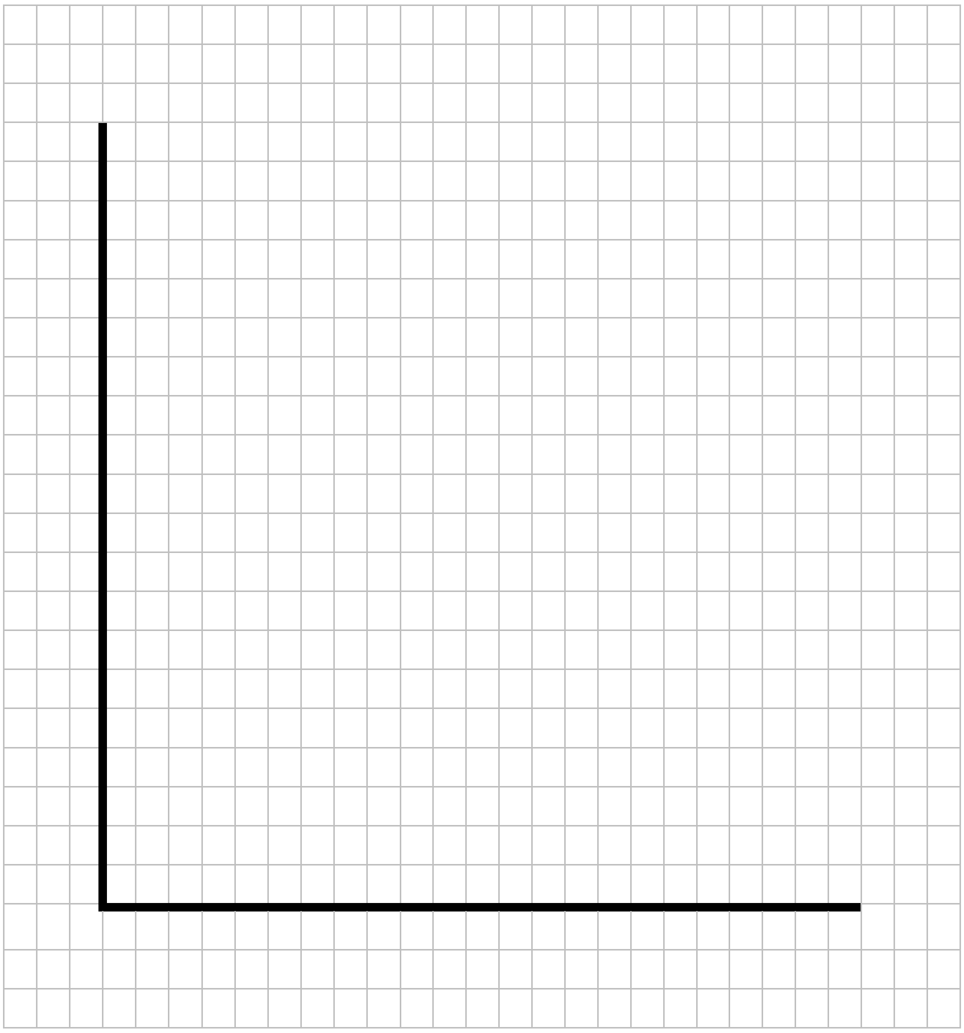
Extra space

Turn over for the next question

3 0 **Extract E** (lines 4–6) states: 'Recent favourable trade balances, such as the £8.2 billion surplus achieved in the 12 months to October 2020, have largely been overlooked.'

Draw an AD/AS diagram to show the effect of an improvement in the balance of trade in goods and services on real national income and the price level in an economy.

[4 marks]



3 1 **Extract F** (lines 1–2) states: 'Many economists believe that the trade balance reflects the strength or weakness of a country's international competitiveness'.

Explain how a fall in a country's international competitiveness may affect economic growth in the economy.

[10 marks]

Extra space

3 2 **Extract F** (lines 6–7) states: 'However, there is a great deal that can be done to improve the balance of trade in goods and services.'

Use the extracts and your knowledge of economics to evaluate policies that may be used to achieve a sustained improvement in the UK's balance of trade in goods and services.

[25 marks]

Extra space

50

END OF QUESTIONS

There are no questions printed on this page

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

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

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

Do not write outside the box

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