Pearson Edexcel
International
Advanced Level

Centre Number

Candidate Number

Time 1 hour 45 minutes

Paper reference **WEC12/01**

Economics
International Advanced Subsidiary
UNIT 2: Macroeconomic performance and policy

You must have:
Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **ALL** questions in Sections A, B and C.
- Answer **ONE** question in Section D.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.
- Good luck with your examination.

Turn over ▶

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SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1   800 000 students graduated from universities in the UK in 2019. 380 000 of these started work in jobs that did not require a degree.

Which **one** of the following describes this situation?

☒   **A**   Underemployment

☒   **B**   Unemployment

☒   **C**   Real wage inflexibility

☒   **D**   Economic inactivity

(Total for Question 1 = 1 mark)

2   Brazil's annual rate of inflation between April 2019 and August 2019 is shown in the table.

Month	Rate of inflation (%)
April	4.94
May	4.66
June	3.37
July	3.22
August	3.43

Which **one** of the following can be deduced from the table?

☒   **A**   There was deflation between April and July

☒   **B**   The average price level was highest in April

☒   **C**   There was disinflation between April and July

☒   **D**   The rate of inflation was lowest in August

(Total for Question 2 = 1 mark)

3 South Africa's annual government expenditure as a proportion of GDP increased from 31.4% to 34.6% between 2012 and 2019.

Which **one** of the following is most likely to have contributed to this increase in government expenditure as a proportion of GDP?

- ☒ **A** Lower welfare payments
- ☒ **B** A lower exchange rate
- ☒ **C** Less economic activity
- ☒ **D** Increased business confidence

(Total for Question 3 = 1 mark)

4 The diagram shows an economy's actual growth rate and trend growth rate.
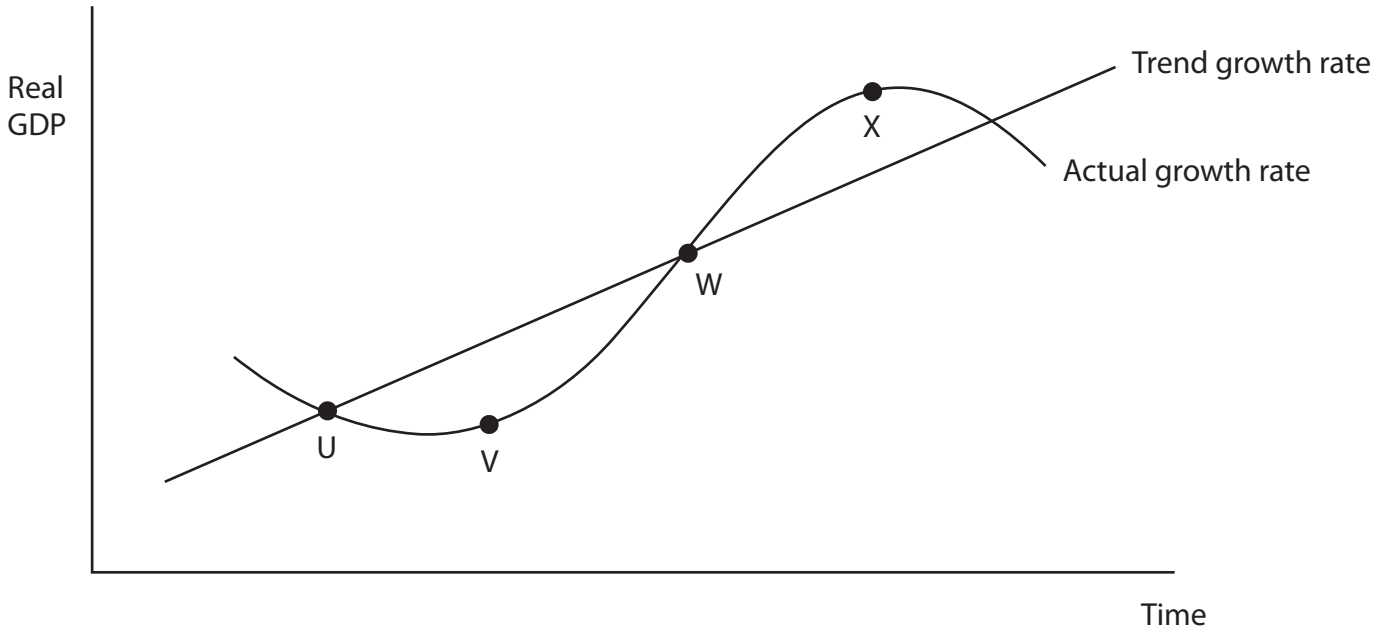
Which **one** of the following can be deduced from the diagram?

- ☒ **A** The economy is in recovery between points U and V
- ☒ **B** A positive output gap exists at point V
- ☒ **C** Unemployment is rising between points W and X
- ☒ **D** A positive output gap exists at point X

(Total for Question 4 = 1 mark)

5 In Japan, private sector investment increased by 1.9% in the second quarter of 2019.

Which **one** of the following was the most likely cause of this increase in investment?

☒ **A** A decrease in the rate of economic growth

☒ **B** An increase in indirect taxation

☒ **C** An increase in the tax on company profits

☒ **D** A decrease in interest rates

(Total for Question 5 = 1 mark)

6 In Denmark the marginal propensity to consume is estimated to be 0.49.

Based on this estimate, which **one** of the following is the value of the multiplier for Denmark?

☒ **A** 0.51

☒ **B** 1.96

☒ **C** 2.04

☒ **D** 4.90

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION B

Answer ALL questions in this section in the space provided.

7   The French Government is to offer €5 billion in tax relief for business investment.

Explain **one** likely economic effect of this investment tax relief.

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(Total for Question 7 = 4 marks)

8 In the first quarter of 2019 average house prices decreased by 15% in real terms in Sydney, Australia.

Explain **one** possible impact of this change in house prices on the level of consumption.

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(Total for Question 8 = 4 marks)

9 In January 2016 the world price of oil was $29.78 per barrel. By May 2019 this had increased to $66.83 per barrel. Saudi Arabia is a net exporter of oil.

Draw a diagram showing the change in AD for Saudi Arabia's economy following the increase in the price of oil. Show the effect on the price level and real output.

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(Total for Question 9 = 4 marks)

10 The data shows the quarterly percentage growth of real GDP for Belgium between Q1 2019 and Q4 2019.

Quarter	%
Q1	0.0
Q2	0.3
Q3	0.4
Q4	0.4

With reference to the overall trend of the data, explain what is meant by the term 'growth of real GDP'.

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(Total for Question 10 = 4 marks)

11 The table shows values for components of the US economy in 2018.

Component	$ trillion
Consumption	13.95
Investment	3.65
Savings by households	1.25
Government expenditure	3.52
Tax revenue	3.64
Exports	2.50
Imports	3.10

Ceteris paribus, calculate the aggregate demand for the USA in 2018.

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(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'monetary policy'. (Extract A, line 8)

(2)

(b) With reference to Extract A, explain the term 'foreign direct investment'.

(4)

(c) With reference to Figure 1 and Extract A, examine **two** likely impacts of the annual GDP growth rates on the people living in East African countries.

(8)

(d) With reference to Figure 2, analyse **one** macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.

(6)

(e) With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies.

(14)

12 (a) Define the term 'monetary policy'. (Extract A, line 8)

(2)

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(b) With reference to Extract A, explain the term 'foreign direct investment'.

(4)

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(c) With reference to Figure 1 and Extract A, examine **two** likely impacts of the annual GDP growth rates on the people living in East African countries.

(8)

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(d) With reference to Figure 2, analyse **one** macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.

(6)

(e) With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D BEGINS ON THE NEXT PAGE.

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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2019 the new President of the European Central Bank asked governments of eurozone countries to cut taxation and increase government expenditure to stimulate the rate of economic growth.

Evaluate fiscal policy instruments as a means of increasing the rate of economic growth.

(Total for Question 13 = 20 marks)

OR

14 In quarter 1 2019 the unemployment rate in South Africa was 27.6%. In quarter 2 it increased to 29%. An additional 455 000 workers became unemployed.

Evaluate the likely impact of an increase in the unemployment rate on workers, public finances and resource utilisation.

(Total for Question 14 = 20 marks)

Indicate which question you are answering by marking a cross in the box ⊠. If you change your mind, put a line through the box ⊠ and then indicate your new question with a cross ⊠.

Chosen question number: **Question 13** ☐   **Question 14** ☐

Write your answer here:

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TOTAL FOR SECTION D = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

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Pearson Edexcel International Advanced Level

Time 1 hour 45 minutes

Economics

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UNIT 2: Macroeconomic performance and policy

Source Booklet

Do not return this Booklet with the question paper.

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Sources for use with Section C.

East African* economies

* Countries include Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, South Sudan, Tanzania and Uganda.

Figure 1 Annual real GDP growth, 2014–2018
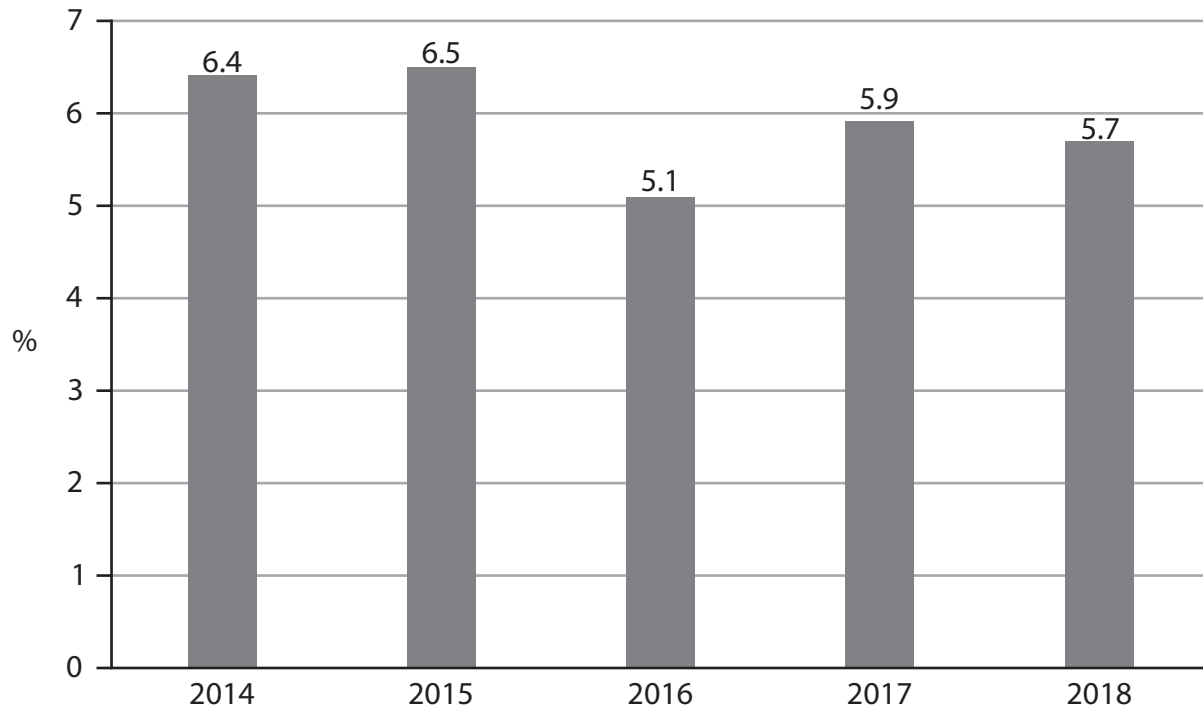
Figure 2 Current account on the balance of payments as a percentage of GDP, 2016–2018

	East African economies
2016	-6.7
2017	-5.4
2018	-5.3

Extract A Rapid growth in East Africa

East Africa was the fastest growing region of Africa in 2018. Increasing commodity prices helped the agricultural and mining sectors contribute most to this growth. Higher foreign direct investment (FDI) in the region also contributed to economic growth. Growth in FDI in 2018 was 67% in Uganda, 27% in Kenya and 18% in Tanzania. Governments in East Africa have been investing in infrastructure, such as roads, seaports and airports.

5

As a result of rapid economic growth, the rate of inflation increased to 13.1% in 2016 and 14.4% in 2017. Appropriate monetary policy in the region helped the rate of inflation to fall to 8.9% in 2019.

Despite rapid economic growth rates, unemployment remains high. Many consumers struggle to meet their basic needs. The governments of the region have been advised to focus on interventionist supply-side policies. These should include continued investment in infrastructure, improving the health and skills of the labour force and increasing the supply of housing.

10

Extract B East African infrastructure investment needed

East African economies have under-invested in infrastructure. The roads in East Africa are in a poor condition. The combination of low speeds and long distances causes high transport costs. Rail transport is poor, which means most goods have to be transported on a congested road system. Funds from China are being used to build two rail routes in the region.

5

Inadequate energy supply is the biggest infrastructure problem. East Africa has the lowest energy generating capacity per capita on the continent. Poor energy supply causes blackouts. However, the region has the potential to develop hydro, wind and fossil fuel resources that could increase energy supply.

10

The region has the smallest proportion of their population with telephone lines and access to mobile phone networks in Africa. However, recently there has been a high level of investment in telecommunications infrastructure. This will result in significant improvements in communications.

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