

**ADVANCED SUBSIDIARY GCE UNIT
ECONOMICS**

The National and International Economy

FRIDAY 8 JUNE 2007

2883

Afternoon

Time: 1 hour

Additional materials: Designated Answer Booklet [2883/AB]



INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Answer **all** the questions.
- Write all your answers on the separate answer booklet provided.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).

This document consists of **4** printed pages.

Answer **all** parts of this question in the accompanying answer booklet.

Can the UK benefit from a strengthening Vietnamese economy?

The Vietnamese economy is currently in a strong position. It has a low and steady inflation rate, a satisfactory balance of payments position and low unemployment. Improving economic conditions and increasing aggregate demand have changed the country's budget position. Fig. 1 shows the expected impact of changes in real GDP on government spending and tax revenue in a typical economy.

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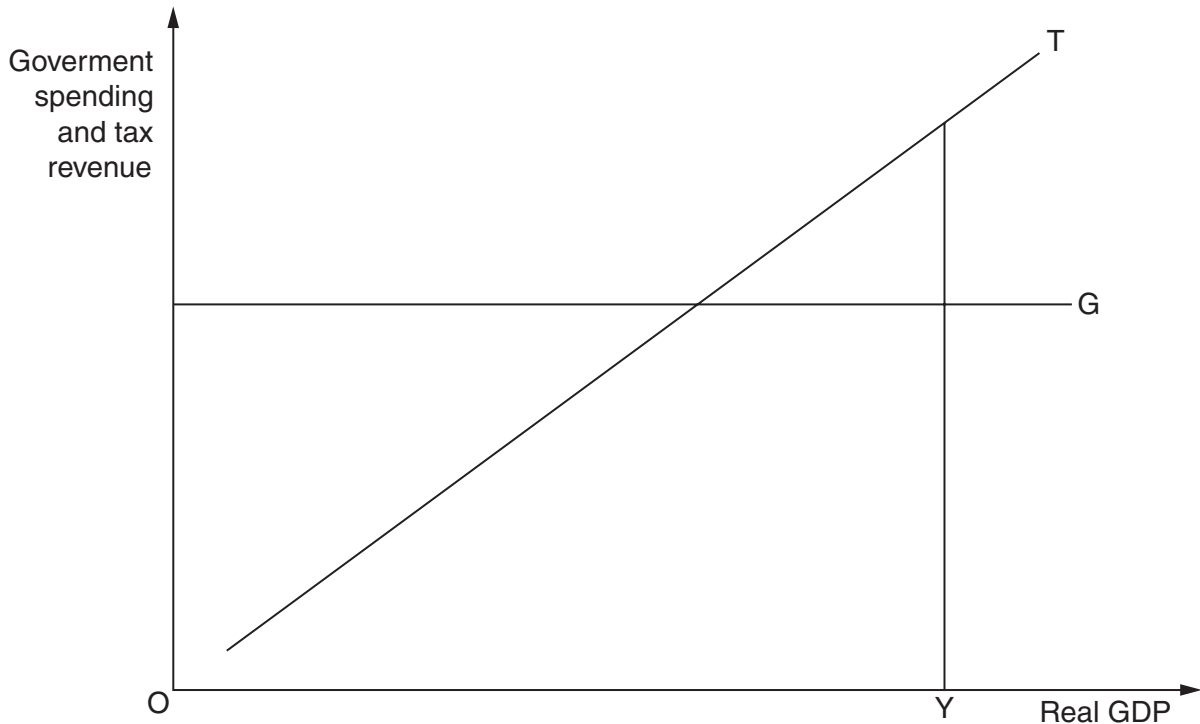


Fig. 1

Rather than using monetary policy measures, the Vietnamese government has chosen to introduce a number of supply-side policies to attract overseas investment and reduce unemployment. This approach has contributed to the expansion of the Vietnamese economy.

Vietnam's economic success is having a global impact. It is demonstrating that economic growth in one country can benefit not only its own people but also people in other countries. As an economy grows, it may become more competitive and export more. If so, the resulting higher income may lead it to import more which will raise aggregate demand in other countries.

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Currently Vietnam's main trading partners are Japan, China, South Korea and Australia. Under the right conditions, there may be scope for UK firms to export more products to Vietnam. If this could be achieved the UK economy would be in a better position to meet its own macroeconomic policy objectives.

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- (a) Define:
- (i) unemployment (line 2); [2]
 - (ii) aggregate demand (line 3). [2]
- (b) Using Fig. 1:
- (i) state the budget position at the income level Y; [2]
 - (ii) explain the relationship shown between real GDP and tax revenue. [3]
- (c) Growth in the Vietnamese economy has benefited its people. Explain:
- (i) **two** possible causes of economic growth; [6]
 - (ii) **two** benefits of economic growth. [4]
- (d) (i) Explain whether exports are a leakage from or an injection into the circular flow of income. [2]
- (ii) Explain **two** possible reasons why UK firms might be able to export more to Vietnam. [4]
- (e) (i) Give **two** examples of monetary policy measures. [2]
- (ii) Comment on the likely effectiveness of **one** of these monetary policy measures in reducing unemployment. [6]
- *(f) Discuss how an increase in aggregate supply may affect output and inflation. [12]

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