



**ADVANCED SUBSIDIARY GCE
ECONOMICS**

The National and International Economy

F582

Candidates answer on the Question Paper

OCR Supplied Materials:
None

Other Materials Required:

- Calculators may be used.

**Monday 7 June 2010
Afternoon**

Duration: 1 hour 30 minutes



Candidate Forename		Candidate Surname	
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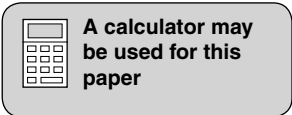
Centre Number						Candidate Number				
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INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be assessed on the quality of written communication in question 7.
- This document consists of **16** pages. Any blank pages are indicated.

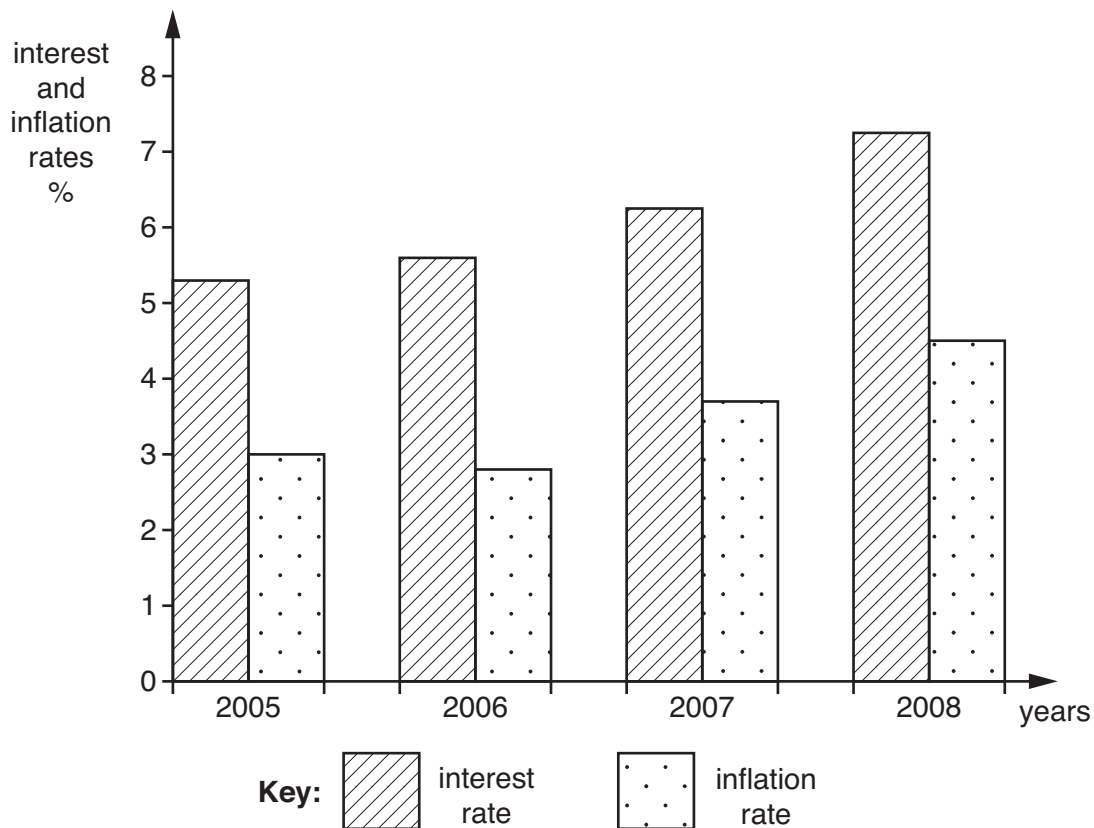


Australian economy sets new records

2008 witnessed a number of significant changes in the Australian economy. These affected the government's macroeconomic policy objectives. The country's annual inflation rate reached 4.5%, the highest since 1995 and significantly above the country's central bank's 2–3% target range. In response the central bank, known as the Reserve Bank of Australia, raised its interest rate to a 12 year high of 7.25%. Fig. 1 shows the interest rate and inflation rate in Australia between 2005 and 2008.

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Fig. 1 Australian interest and inflation rates 2005–2008



It was thought that the central bank might have to raise the rate of interest again in 2009. This was despite an awareness that such a tightening of monetary policy might increase unemployment.

Unlike many other countries which in 2008 were suffering from inflationary pressure resulting from higher energy and food prices, Australia's inflationary pressure was coming from its economic boom. The country's aggregate demand was increasing, driven by rising consumption and investment, but other components were working in the opposite direction. The government had a budget surplus but was planning to cut rates of income tax in the next two years. The external account was negative, with the balance of trade in deficit to the tune of A\$21.4bn. This was partly due to the strength of the Australian dollar (A\$) which stood at a 24 year high in 2008. Despite this, the economy was operating at virtually full capacity and the 4.1% unemployment figure was a 34 year low.

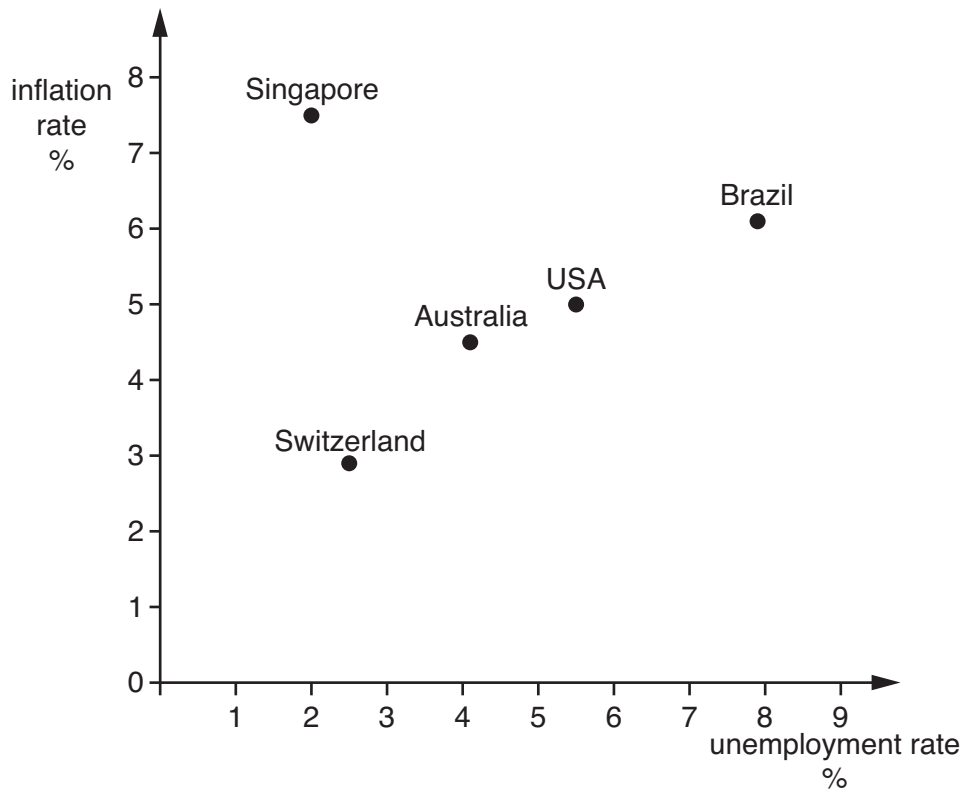
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Whilst high inflation can have a number of economic costs, it can also be associated with low unemployment. Fig. 2 shows the relationship between the unemployment rate and the inflation rate in a number of countries in 2008.

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Fig. 2 The relationship between the unemployment rate and inflation rate in selected countries in 2008



The Australian government, like other governments, seeks to promote economic growth because of the benefits that can be gained. The Australian growth rate in 2008 was 2.7%. In the short run, economic growth may be stimulated by demand-side policies; but in the long run, supply-side policies may be more significant.

Answer **all** questions.

1 Identify **three** government macroeconomic policy objectives.

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2 (a) Using Fig. 1, describe the changes in Australia's interest rate and inflation rate between 2005 and 2008.

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(b) Comment on the effectiveness of increasing the rate of interest to reduce inflation.

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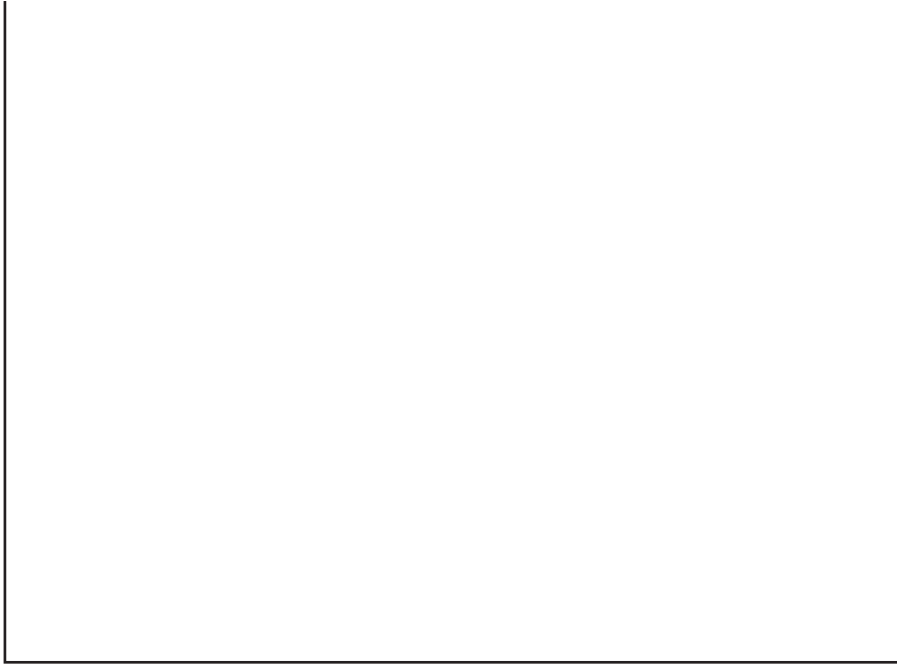
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3 Explain how a high value currency can result in a country having a trade deficit.

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- 4 (a) Using the information from the case study (lines 11–17), draw an aggregate demand and aggregate supply diagram to illustrate the state of the Australian economy in 2008.



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6 State and explain **two** supply-side policies.

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7 Discuss the extent to which economic growth may benefit an economy.

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Additional pages. If you use these lined pages you **must** write the question number next to your answer.

Lined area with horizontal dashed lines for writing answers.

A series of 25 horizontal dotted lines spanning the width of the page, providing a guide for handwriting practice.

PLEASE DO NOT WRITE ON THIS PAGE



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