

Advanced Subsidiary GCE

F582

ECONOMICS

Unit F582: The National and International
Economy

Specimen Paper

Morning/Afternoon

Time: 1 hour 30 minutes

Additional Materials: Answer Booklet (...pages)



INSTRUCTIONS TO CANDIDATES

- Answer **all** the questions.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part of question.
- The total number of marks for this paper is **60**.

ADVICE TO CANDIDATES

- Read each question carefully and make sure you know what you have to do before starting your answer.
- You will be assessed on the quality of written communication in the question marked with an asterisk(*).

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

A bright future for Spain?

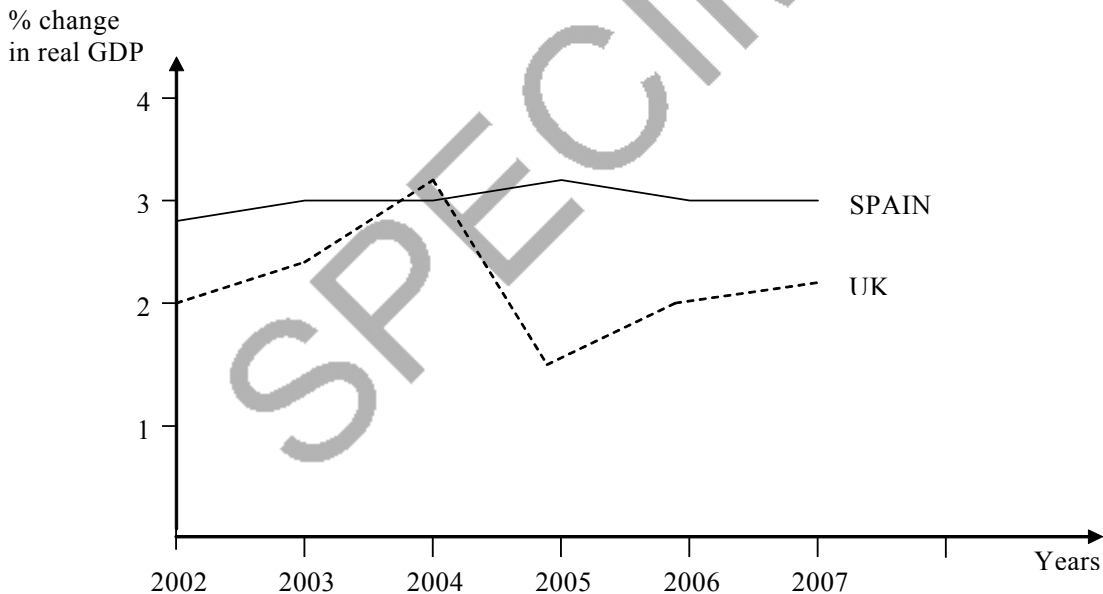
There are currently a number of forces at work changing the performance of the Spanish economy including benefits of the country's membership of the European Union (EU) and economic policies pursued by the government.

In recent years, the Spanish economy has increasingly engaged in international trade. It is now a much more open economy than it was ten years ago with both exports and imports rising. In 2005, 9% of its exports went to the UK and 7% of its imports came from the UK. The UK is Spain's fifth main trading partner. Most of Spain's trade is with other EU member states. Since its entry into the EU in 1986, Spain has taken advantage of €120bn (£82bn) of EU funding to rebuild its economy. A large proportion of this money has gone on road construction and educational projects.

Spanish unemployment, although above the EU average, fell from 11.5% in 2002 to 9.4% in 2005. The average time that people were unemployed also fell, helped by a cut in the rate of interest. The strength of the Spanish economy has been attracting migrant workers to the country.

Spain's inflation rate has recently been stable and its strong economic growth (see Fig. 1) has contributed to the government's budget surplus.

FIG. 1 ECONOMIC GROWTH RATES FOR SPAIN AND THE UK, 2002 TO 2007



The budget surplus has encouraged the Spanish government to increase its spending on education and research and development. In 2005, its expenditure in these areas rose by 25% and influenced the government's decision to cut direct taxation. In 2006, it cut corporation tax from 35% to 30%, bringing it into line with the EU's average rate. Senor Solbes, the Economy Minister, has stated that the government's long term objective is to phase out corporation tax. It also intends to cut the top and bottom rates of income tax.

Answer **all** questions.

- 1 (a) Define:
- (i) inflation rate (line 16). [2]
 - (ii) direct taxation (line 20). [2]
- (b) (i) Using information from the data, identify **two** ways in which Spain's unemployment performance has improved. [2]
- (ii) Describe how a cut in the rate of interest may reduce unemployment. [4]
- (c) (i) Using Fig. 1, compare Spain's and the UK's economic growth record for the period 2002 to 2007. [3]
- (ii) Comment on the extent to which an improvement in the Spanish economy is likely to benefit the UK economy. [6]
- (d) (i) Using evidence from the information provided, say whether Spain's aggregate supply curve shifted from the left or to the right in the period discussed. [3]
- (ii) Using an aggregate demand and aggregate supply diagram, analyse the effect of a cut in direct taxation on an economy. [8]
- (e) (i) Analyse **two** possible reasons why Spanish imports rose. [6]
- (ii) Comment on one likely effect of rising exports on the Spanish economy. [6]
- (f)* Discuss the causes of economic growth. [18]

Paper Total: [60 Marks]

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The maximum mark for this paper is 60.

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Question Number	Answer	Max Mark
<p>1(a)(i)</p> <p>(a)(ii)</p>	<p>Define inflation rate (line 16). Award 2 marks for a clear definition such as a sustained rise in the general price level or award 1 mark each (max 2 marks) for reference to:</p> <ul style="list-style-type: none"> • Sustained period/period of time. [1] • General price level. [1] • Percentage change, year on year. [1] <p>Define direct taxation (line 20) Award 1 mark each for reference to:</p> <ul style="list-style-type: none"> • Payment to the government. • Payment levied on income. 	<p>[2]</p> <p>[1]</p> <p>[1]</p>
<p>(b)(i)</p> <p>(b)(ii)</p>	<p>Using information from the data, identify <u>two</u> ways in which Spain's unemployment performance has improved.</p> <ul style="list-style-type: none"> • Unemployment has fallen. • Duration of unemployment has fallen. <p>Describe how a cut in the rate of interest may reduce unemployment. Up to 2 marks for understanding that an increase in aggregate demand [1] is likely to reduce unemployment over time [1]. Up to 2 marks for the development of an explanation that refers to the effects on consumption, investment and/or net exports.</p>	<p>[1]</p> <p>[1]</p> <p>[4]</p>
<p>(c)(i)</p>	<p>Using Fig. 1, compare Spain's and the UK's economic growth record for the period 2002 to 2007. Various possibilities include:</p> <ul style="list-style-type: none"> • Spain's growth rate was higher for most of the period, actual and projected. • the UK's growth rate in 2004 was higher than that of Spain. • Spain has a higher growth rate at both the start and end of the period shown. • UK's growth rate is more volatile than that of Spain. • Spain's growth rate is more stable than that of the UK. <p>Marks should only be awarded for explicit comparisons. Data regurgitation will gain no marks.</p>	<p>[3]</p>

Question Number	Answer	Max Mark
(c)(ii)	<p>Comment on the extent to which an improvement in the Spanish economy is likely to benefit the UK economy.</p> <p>Up to 3 marks for an analysis of how the UK may benefit from an improvement in the Spanish economy. Various possibilities include:</p> <ul style="list-style-type: none"> • a rise in exports to Spain with a consequent rise in employment and real GDP. • benefits to UK businesses based in Spain and the impact on net property income. <p>Up to 3 marks for an appropriate commentary, for example:</p> <ul style="list-style-type: none"> • the benefit depends upon the extent of the improvement in Spain's economy. • other EU economies, as well as the UK, will also benefit; much will depend upon the UK's ability to increase the export of goods and services to Spain. • FDI could be diverted from the UK to Spain. 	[6]
(d)(i)	<p>Using evidence from the information provided, say whether Spain's aggregate supply curve shifted from the left or to the right in the period covered.</p> <p>Max 3 Marks.</p> <p>Shift to the right. [1]</p> <p>Award up to 2 more marks for evidence of a shift to the right including:</p> <ul style="list-style-type: none"> • transport infrastructure improvement. [2] • education expenditure increased. [2] • labour force increase. [2] <p>One point described well can gain 2 marks. Marks for application can be gained even if the wrong shift of AS has been stated.</p>	[3]

Question Number	Answer	Max Mark
(d)(ii)	<p>Using an aggregate demand and aggregate supply diagram, analyse the effect of a cut in direct taxation on an economy.</p> <p>Max 5 marks for diagram.</p> <ul style="list-style-type: none"> • Correctly labelled axes (price level, real GDP). [1] • Correctly labelled AD and AS curves. [1] • Shift of AD to the right. [1] • Shift of AS to the right. [1] • Equilibrium points. [2] <p>Up to 3 marks for an explanation that details a cut in direct taxation will increase disposable income [1] which in turn will increase consumption [1], investment [1], employment [1], output [1], price level [1] and why AS may shift to the right [1]</p>	[8]

Question Number	Answer	Max Mark
(e)(i)	<p>Analyse <u>two</u> possible reasons why Spanish imports rose.</p> <p>Award 1 mark for identification of each of two possible reasons such as:</p> <ul style="list-style-type: none"> • a rise in incomes of Spanish population. • an increase in production in Spain that requires imports of raw materials or semi-finished goods. • reduced trade restrictions (in theory). • increased competitiveness of imports against home produced goods. <p>Award up to 2 further marks for an analysis of these reasons, with 1 mark for increased understanding. Various possibilities include:</p> <ul style="list-style-type: none"> • a rise in incomes leads to higher purchasing power that will result in an increased demand for imports of goods and services. • Spanish companies e.g. vehicle assembly plants require more imported components to meet increased demand. • Spanish inflation rates may be higher than that of trading competitors, leading to reduced price competitiveness of home-produced goods. 	<p>[2]</p> <p>[4]</p>
	(e)(ii)	<p>Comment on <u>one</u> likely effect of rising exports on the Spanish economy.</p> <p>1 mark for identification of a possible effect such as:</p> <ul style="list-style-type: none"> • an increase in domestic employment • an improvement in the balance of trade • a source of potential economic growth • could be inflationary if there is a shortage of labour <p>Up to 2 marks for the argument explained in the appropriate context.</p> <p>Up to 3 marks for further comments on the argument, including factors likely to increase potential effectiveness or limitations likely to hinder the policy's impact.</p>

Question Number	Answer	Max Mark
(f)*	<p>Discuss the causes of economic growth.</p> <p>Various causes of economic growth are recognised, including expansionary fiscal and monetary policy, a rise in consumer confidence, improvements in technology and education and the effects of supply side policies. A distinction between short and long run growth should be recognised. It is also relevant to note the multi-causal nature of economic growth and that this can be due to internal as well as external factors.</p> <p>Level 4 [13-18]</p> <p>For a discussion of the causes of economic growth. For 16+ marks the discussion must have some depth to the respective causes and their relative importance.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 [9-12]</p> <p>For an analysis of the causes of economic growth.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stay from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 [5-8]</p> <p>For an application of knowledge and understanding of the causes of economic growth.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1 [1-4]</p> <p>For knowledge and understanding of the meaning of economic growth.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>	

Question Number	Answer	Max Mark
(f) cont'd	<p>Economic growth can be caused by an increase in the quantity or quality of resources.</p> <p>Examples of possible level 1 answers:</p> <ul style="list-style-type: none"> • Economic growth is an increase in productive capacity. <p>For 9-12 marks, the discussion may be limited, drawing largely on the concepts and theories of economic growth.</p>	[14]
Paper Total		[60]

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Assessment Objectives Grid (includes QWC)

Question	AO1	AO2	AO3	AO4	Total
(a)(i)	1	1	0	0	2
(a)(ii)	1	1	0	0	2
(b)(i)	0	2	0	0	2
(b)(ii)	2	2	0	0	4
(c)(i)	0	3	0	0	3
(c)(ii)	0	0	3	3	6
(d)(i)	1	2	0	0	3
(d)(ii)	4	2	2	0	8
(e)(i)	4	0	2	0	6
(e)(ii)	1	1	1	3	6
(f)*	4	4	4	6	18
TOTAL	18	18	12	12	60

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