A-level
ECONOMICS
7136/2

Paper 2 National and international economy

Specimen 2014 | Morning | Time allowed: 2 hours

Materials
For this paper you must have:
- an answer book
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information
- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.

Section A

Answer **EITHER Context 1 OR Context 2.**

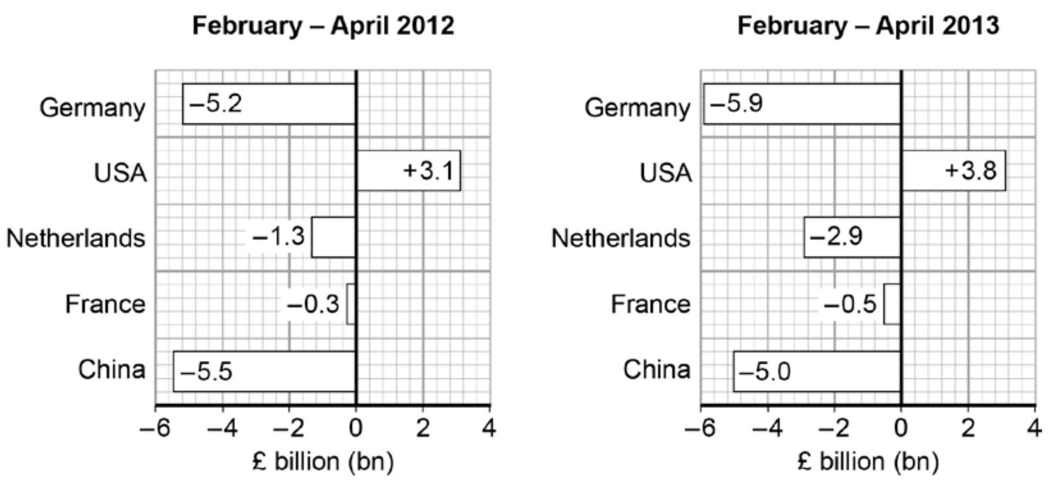
EITHER

Context 1 **Total for this Context: 40 marks.**

International trade

Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A: UK's trade balance in goods with significant trading partners* 3 monthly balance (£billion)



* Significant trading partners defined as top 5 combined export & import sources 2012

Source: Contains public sector information licensed under the Open Government Licence v. 1.0

Extract B: Transatlantic free trade?

David Cameron today confronted his critics by making the positive case for continuing European Union membership as he held talks with President Barack Obama over a giant US-EU trade deal that could provide a £10bn annual boost to the UK economy.

With his party in renewed turmoil over Europe, the Prime Minister sought to reassure the White House (where senior figures in the Obama administration have insisted they regard the UK as a crucial member of the union) that the UK are not looking to leave the EU.

The planned agreement would establish a free trade area between the world's two largest trading blocs, creating a transatlantic market of 800 million consumers.

Writing in today's Wall Street Journal, Mr Cameron says: "This deal could add as much as £10bn to the UK economy and £63bn to US GDP. But the rest of the world would benefit too, with gains that could generate €100bn (£84bn) worldwide".

The Government last night released research suggesting a US-EU agreement sweeping away trade barriers would particularly benefit the automotive, financial and chemical sectors. It claimed the deal could be worth £380 a year for each British family.

Karel de Gucht, the European Commissioner for Trade, has cited the deal as a prime reason for the UK staying in the EU, telling The Independent last week that it would be "clear madness" for the UK to leave in light of such a deal.

Source: Adapted from: © www.independent.co.uk 13 May 2013

Extract C: China and Europe risk trade war

China this week responded to EU anti-dumping tariffs on solar panels with a levy on European wine. However, by attacking wine producers, Beijing has potentially turned a straightforward dispute over state subsidies between Germany and China into a full-blown European trade war.

France has effectively been targeted in retaliation for a levy designed to protect German manufacturers in what appears to be a deliberate attempt to increase tensions within the EU. In doing so, experts said that China, which is relatively new to the politics of global trade, has demonstrated smart tactics.

The danger is that China may decide to target other seemingly innocent parties if the row escalates, and that might mean the UK. Increased protectionism could be damaging as the UK is placing much of its hope for export success on the growing Chinese market.

In the last five years, UK goods exports to China have virtually doubled to £15.9bn and, three years ago, David Cameron set a $30bn (£20bn) target by 2015 as part of a bilateral deal with Beijing. Including Hong Kong, China is now the UK's fifth largest net trading partner.

However, China's influence in the UK stretches wider. At the end of 2011, foreign direct investment into the UK from China totalled £1.3bn, the second largest in the EU after Germany. In the last six months alone, China's telecoms giant Huawei has announced plans to invest £1.3bn in a new plant while ABP (a large Chinese investment group), plans to spend £1bn developing the Royal Albert Dock in London.

The Government also hopes to attract Chinese money to invest in UK infrastructure as part of George Osborne's 'Plan for Growth'. In other words, China is a key part of the Government's economic recovery plan.

0 1 Using the data in **Extract A**, calculate, to **one** decimal place, the percentage change in the total net trade balance in goods with the UK's top five trade partners from February–April 2012 to February–April 2013.

[2 marks]

0 2 Explain how the data in **Extract A** show that the UK is having more success in trading goods with the rest of the world than with Europe.

[4 marks]

0 3 **Extract B** (lines 12–13) states 'The Government last night released research suggesting a US-EU agreement sweeping away trade barriers would particularly benefit the automotive, financial and chemical sectors.'

With the help of a diagram, explain the extent to which the removal of a tariff might affect the volume of imports into the UK.

[9 marks]

0 4 **Extract C** (lines 10–11) suggests that 'Increased protectionism could be damaging as the UK is placing much of its hopes for export success on the growing Chinese market.'

Using the data in the extracts and your economic knowledge, evaluate the view that the use of protectionism is inevitably damaging to economies.

[25 marks]

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

OR

CONTEXT 2 **Total for this Context: 40 marks**

Government policy

Study **Extracts D**, **E and F** and then answer **all** parts of Context 2 which follow.

Extract D: IMF actual and forecast growth rates for selected economies (% per annum)

	Actual	Actual	IMF forecasts for 2013	
	2011	2012	Initial forecast	Revised forecast
China	9.3	7.7	7.8	7.6
France	2.0	0.0	-0.1	0.2
Germany	3.4	0.9	0.3	0.5
UK	1.1	0.2	0.9	1.4
USA	1.8	2.8	1.7	1.6
World	3.9	3.2	3.2	2.9

Source: IMF, 8 October 2013

Extract E: Rising rates?

The Bank of England warned that interest rates might rise as early as next year as its chief economist said the desire to keep borrowing costs low for several years could be damaged by stronger than expected growth. Spencer Dale, one of the nine members of the interest rate-setting Monetary Policy Committee, said the UK may soon be growing at an annual rate of between 3 and 4% and the Bank could not be certain when it might need to tighten policy.

Following guidance issued by the Bank in August, the City is expecting interest rates to remain on hold at their record low of 0.5% until at least 2015. But Dale said that in certain circumstances an increase could happen as soon as 2014. “The big message is that monetary policy is going to remain loose for a considerable period of time. I can't be sure whether that means it will be tightened in 2015 or 2016.”

The Bank said in August that, unless there was a risk from inflation or an over-heating property market, it would only start thinking about raising interest rates when unemployment had come down to 7% from 7.7% currently, something it did not expect until 2016. But the recovery in the economy, seen since the spring, has left many in the City convinced that the Bank will be forced to take action before then.

Dale said he welcomed the fact that the housing market was recovering, and saw no immediate threat of a house price bubble. It was ‘great’ for the construction sector that more houses were being built, and the increase in mortgage approvals would boost demand for professional services and lead to greater labour mobility. "It is good for consumption, because there is quite strong evidence that when people move home they go out and change the carpets and buy new furniture.”

Source: News reports, 2013

Extract F: Austerity remains

The Chancellor, George Osborne, has ruled out the possibility that the UK's improving economy will lead to immediate tax cuts or spending increases when he said reducing the budget deficit would be the priority of his Autumn Statement. The Chancellor said that the UK was still borrowing too much and that any increase in tax revenues generated from faster growth would be used to reduce the budget deficit and the national debt.

The move comes as no surprise, with the Chancellor stating, "I would just remind everyone that I still sit down at the table at the G20 with one of the highest budget deficits. The UK still continues to have some very serious public finance challenges that need to be addressed."

This week, the IMF revised up its forecasts for UK growth in both 2013 and 2014, six months after its chief economist, Olivier Blanchard, warned Osborne that he might cause more damage with his austerity plan. However, Osborne responded, "We have a clear plan and we are sticking to that plan."

The Chancellor's announcement may not be good for UK firms. It is common for business investment to lead the way when emerging from recession, but not this time. Investment forecasts are being revised downward and, on top of speculation of interest rate rises and criticism of the UK's quantitative easing programme, the outlook is not as good as forecasts first indicated.

In explaining its forecast downgrades for net investment over the last three years, the Office for Budget Responsibility (OBR) cites two main factors. Firstly, problems in credit markets have made it difficult for firms to borrow to invest. This may have particularly affected small and medium-sized firms that tend to be more reliant on bank financing. This will only be made worse if interest rates rise. Secondly, the uncertainty generated by the eurozone crisis and other events has stifled investment.

Source: News reports, 2013

0 5 If UK GDP in 2012 was $2375 billion, use the data in **Extract D** to calculate, **to the nearest $billion**, the difference in forecast UK GDP between the IMF's initial and revised growth forecasts.

[2 marks]

0 6 Explain how the data in **Extract D** show that the IMF has become less confident about growth rates.

[4 marks]

0 7 **Extract E** (lines 4–6) states 'the UK may soon be growing at an annual rate of between 3 and 4% and the Bank could not be certain when it might need to tighten policy.'

With the help of a diagram, explain why interest rates may need to rise if growth rates increase.

[9 marks]

0 8 **Extract F** (lines 14–17) states 'Investment forecasts are being revised downward and on top of speculation of interest rate rises and criticism of the UK's quantitative easing programme, the outlook is not looking as good as forecasts first indicated.'

Using the data in the extracts and your economic knowledge, evaluate the effectiveness of monetary policy in achieving macroeconomic stability in the UK.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

In recent years, growth rates in the UK have been low and unemployment has risen. For example, in 2012 output was still below its peak of 2008 and unemployment had risen from 6.4% from 7.8%. .

0 9 Explain why economic growth is a key objective of UK Government economic policy.

[15 marks]

1 0 Evaluate the view that a reduction in UK unemployment is best achieved through the use of supply-side policies.

[25 marks]

OR

Essay 2

In 2013, two key aims of the UK Government were: to move the budget deficit towards a surplus over the course of the Parliament and to ensure that the main burden of deficit reduction would be through reduced government spending, rather than increased taxation.

1 1 Explain the possible demand-side consequences of an increase in taxation in the UK.

[15 marks]

1 2 Evaluate the view that the UK Government's policy of deficit reduction through lower government spending is unnecessary and undesirable.

[25 marks]

OR

Essay 3

In 2013 Ethiopia had a relatively high real GDP growth rate of 7% but only 42% of its population had access to improved water sources and life expectancy was only 63 years.

1 3 Using examples to illustrate your answer, explain the difference between economic growth and economic development.

[15 marks]

1 4 Discuss the view that free trade is more effective than aid in promoting economic development in developing countries such as Ethiopia.

[25 marks]

END OF QUESTIONS

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