

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Friday 8 October 2021 – Afternoon

A Level Economics

H460/02 Macroeconomics

Stimulus Material Insert

**Time allowed: 2 hours
plus your additional time allowance**



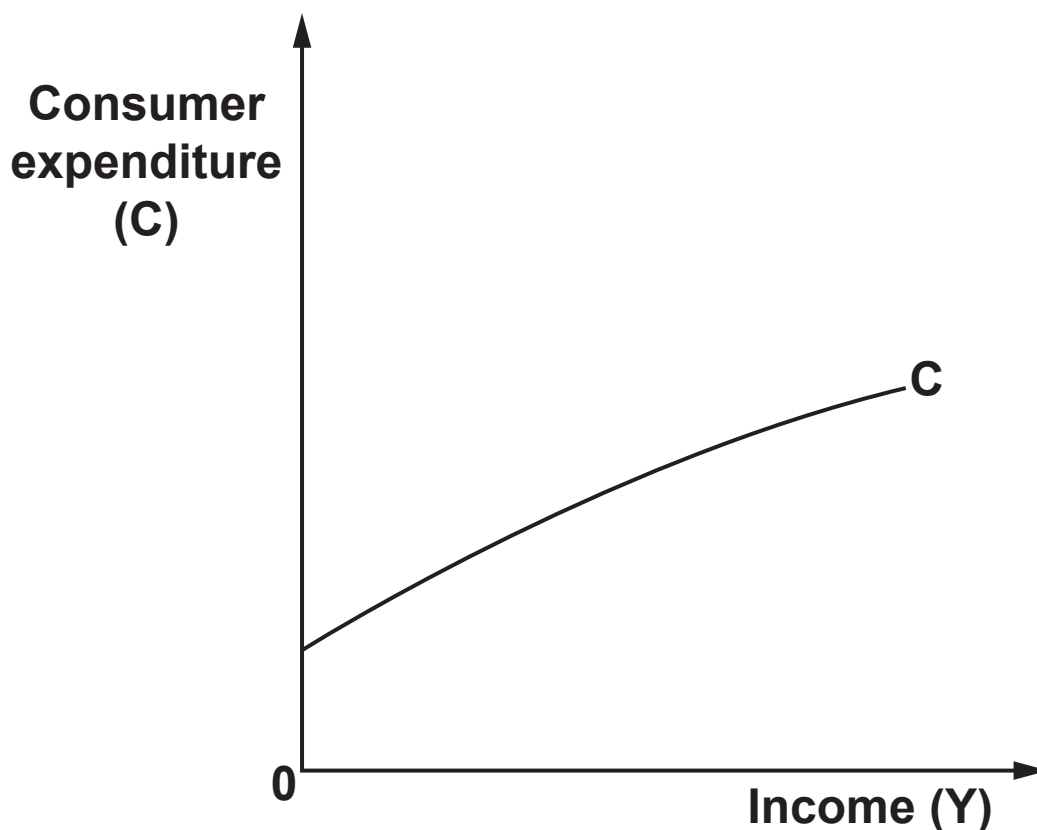
SECTION A

Read the following stimulus material and answer ALL parts of question 1 in the question paper.

Are we moving towards a cashless society?

Recent years have seen a change in both the amount consumers spend and how they make their payments. How much consumers spend is influenced by a variety of factors. These include changes in income and changes in confidence. During an economic boom, consumer expenditure is likely to be high. Indeed, an economic boom is often consumer-led. In contrast, consumer expenditure can fall to a low level during a recession. Fig. 1 shows how consumer expenditure can vary as income changes.

FIG. 1 The relationship between changes in income and changes in consumer expenditure



Changes in injections and leakages can alter a country's income. It has been estimated, for instance, that an injection of \$200m of government spending in the Swiss economy would cause a rise in GDP of \$300m.

The proportion of payments made in cash in Switzerland is declining. It is also falling in the UK. In 2005, 70% of payments in the UK were made in cash. By 2015, this had fallen to 50% and is forecast to decline to 30% by 2025. The extent to which cash is used influences the number of banknotes printed and in circulation. Fig. 2 shows the value of banknotes in circulation in the UK over a five year period.

FIG. 2 The value of banknotes in circulation (£million) 2014–2018

Year	£5	£10	£20	£50	Total
2014	1 540	7 182	36 483	11 025	56 230
2015	1 601	7 371	38 912	11 788	59 672
2016	1 645	7 767	41 037	13 157	63 606
2017	1 912	8 006	43 357	15 601	68 876
2018	1 910	7 789	42 692	16 508	68 899

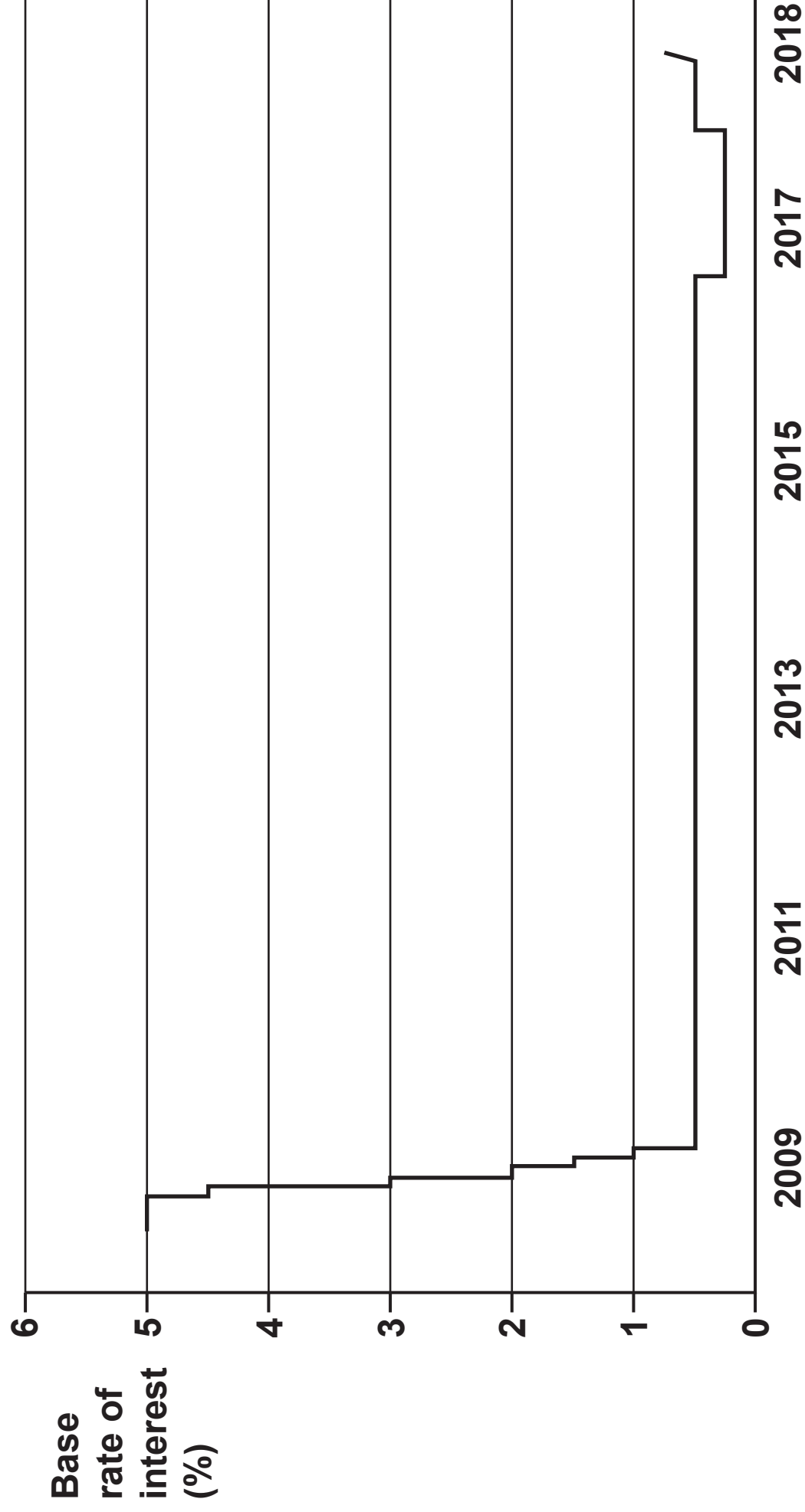
Some central banks favour ending the use of cash. One reason is because of the role that cash plays in a number of criminal activities including money laundering and drug dealing. A more significant motive is probably to enable central banks to charge negative interest rates when needed to stimulate economic activity. If people and banks can take money out of their deposits and hold them as cash, negative interest rates are likely to have less power to encourage an increase in spending.

**35 Negative interest rates involve commercial banks
having to pay to hold deposits at the central bank.
As commercial banks often have excess funds
held at the central bank, a negative interest rate
may encourage them to lend the funds instead. If
40 commercial banks pass on the negative rates to their
customers, people will have to pay to save. Negative
interest rates would have an impact on borrowing, the
cost of servicing government debt and probably on
the exchange rate.**

**45 A number of central banks, including the Bank of
Japan, the Swiss National Bank, Denmark's National
Bank and the European Central Bank (ECB) have used
negative interest rates in a bid to avoid deflation.
These banks received some criticism for the effect
that the negative interest rates had on confidence,
50 saving and bank profitability.**

**The Bank of England has yet to introduce a negative
interest rate. Fig. 3 shows how the UK interest rate
has changed in recent years.**

FIG. 3 UK interest rates 2009–2018



While the ECB has stopped producing its €500 note,
55 the Bank of England has not yet scrapped any notes.
Getting rid of cash is likely to affect the poor most.
Nearly 1.5 million UK adults do not have a bank
account and most of these are poor. Some of them
are unemployed. The number of people unemployed
60 may increase during a recession. The impact on
unemployment will depend on a number of factors.
These include firms' stock levels, the length of the
recession, how easily firms can adjust working hours
and the number of people they employ and whether
65 the numbers in the labour force stay the same.

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