

**ADVANCED SUBSIDIARY GCE
ECONOMICS**

The National and International Economy

WEDNESDAY 4 JUNE 2008

2883

Afternoon
Time: 1 hour

Additional materials (enclosed): Designated Answer Booklet [2883/AB]

Additional materials (required):
None



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the separate Answer Booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- Write all your answers in the separate Answer Booklet provided.
- The spaces should be sufficient for your answer but if you require more space use the lined pages at the end of the Answer Booklet.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **45**.
- 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.

“Exportweltmeister” (export world champion)

Germany overtook the US in 2003 to become the world’s largest exporter. In 2005 German firms exported a higher value of goods than the UK, France and the Netherlands combined.

Other components of Germany’s aggregate demand grew more slowly. In particular, consumer expenditure was held back by low consumer confidence. This partially offset the good export record and adversely affected German economic growth. In turn, low economic growth kept the German unemployment rate high in historical terms, although still below that of some other European Union (EU) members (see Fig. 1).

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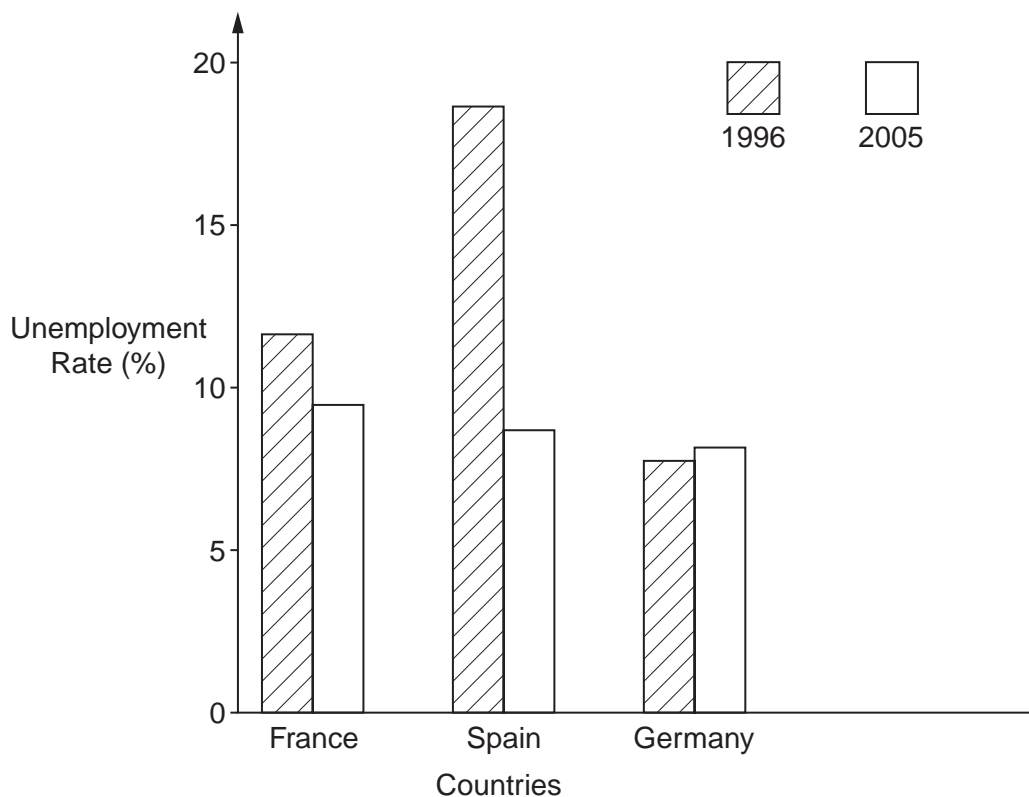


Fig. 1

In 2005 the German unemployment rate was particularly high among the low skilled, over a third of whom had been out of work for more than a year. To reduce such unemployment and increase aggregate demand, the German government considered a number of fiscal policy measures including cutting the rate of income tax.

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Despite concerns about the slow growth in German aggregate demand, German aggregate supply continued to increase at a relatively rapid rate. This resulted in German potential economic growth exceeding its actual economic growth, giving rise to a negative output gap.

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- (a) (i) Define the terms:
- fiscal policy (line 13); [2]
 - the unemployment rate (line 7). [2]
- (ii) Identify the **two** components of aggregate demand mentioned in the extract. [2]
- (b) State and explain **two** possible economic reasons why Germany is so successful at exporting. [4]
- (c) Using Fig. 1, compare the changes in the unemployment rate which occurred in the three countries shown. [4]
- (d) Explain the likely relationship between economic growth and unemployment. [3]
- (e) Identify **three** factors which could cause an **increase** in aggregate supply. [3]
- (f) (i) State and explain **two** reasons why consumer expenditure may fall. [6]
- (ii) Comment on the effectiveness of a cut in the rate of income tax as a way of increasing aggregate demand. [7]
- *(g) Discuss the extent to which an increase in exports will improve an economy's macroeconomic performance. [12]

[Total marks: 45]

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