

**ADVANCED SUBSIDIARY GCE****ECONOMICS**

The National and International Economy

F582

Candidates answer on the question paper

OCR Supplied Materials:

None

Other Materials Required:

None

**Friday 16 January 2009
Morning****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, however, additional paper may be used if necessary.

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**.
- This document consists of **12** pages. Any blank pages are indicated.

Mexico holds its breath?

At the start of 2008 there were concerns that the US economy might slip into recession. Some Mexican economists argued that, should the Gross Domestic Product (GDP) of the USA fall, Mexico would also suffer an economic downturn. When the USA experienced a recession in 2001, Mexico's economic performance also deteriorated. This was largely a result of a fall in its exports. Fig. 1 compares the main destinations of Mexico's exports and those of the UK.

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Fig. 1 Main export destinations 2007

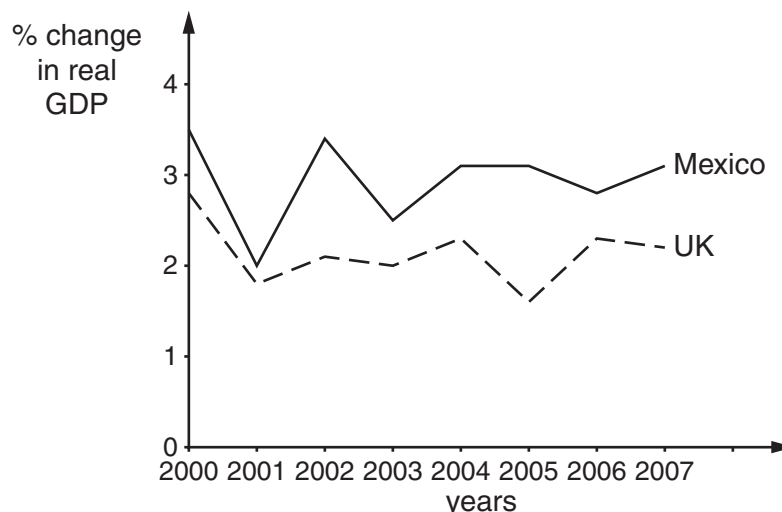
Mexico	% of total exports	UK	% of total exports
1 USA	85.7	1 USA	14.6
2 Canada	2.0	2 Germany	10.9
3 Spain	1.3	3 France	9.4
4 Japan	1.1	4 Ireland	7.8

Other Mexican economists, however, claimed that the Mexican economy is now stronger and would not be adversely affected by what was happening in the USA. They argued that whilst in the past Mexico's economic growth had been export-led, more recently the driving forces have become increasing investment and consumer expenditure. In 2007, consumer expenditure accounted for 68% of Mexico's aggregate demand, government spending was 14% and net exports (exports minus imports) were minus 2%. They also pointed out that Mexico is experiencing low unemployment, low inflation and steady economic growth. Indeed, one economist said that the country's growth rate is more stable than that of the UK and that Mexico's GDP (which was \$768bn in 2007) would soon match that of the UK's (which was \$2199bn in the same year). Fig. 2 compares the economic growth rates of Mexico and the UK.

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Fig. 2 A comparison of the economic growth rates of Mexico and the UK 2000–2007



Guillermo Ortiz, President/Governor of Mexico's central bank, praised the Mexican government for pursuing sound economic policies. The Mexican government, he said, has simplified the tax system and is planning to reform trade unions and spend more on transport infrastructure, education and health care.

Answer **all** questions.

- 1** Define the term 'Gross Domestic Product'. (line 2)

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- 2 (a)** Using Fig. 1, describe how the destination of Mexico's exports compares with that of the UK.

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- (b) Using an aggregate demand and aggregate supply diagram, analyse the effects of a fall in exports on an economy.

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- 3 (a) Using information from the case study, lines 9–11, calculate the contribution of investment to Mexico's aggregate demand in 2007.

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- (b) State and explain **two** causes of an increase in investment.

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- 4 (a) Explain **one** difficulty of measuring economic growth.

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- (b) Using Fig. 2 and the information in lines 12–15, comment on the view that Mexico's economic growth rate is more stable than that of the UK and that Mexico's GDP would soon match that of the UK.

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5 (a) Describe **two** causes of unemployment.

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(b) Comment on the economic effects of low unemployment.

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6 (a) Using information from the case study, identify **two** supply side policies.

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(b) Discuss the extent to which supply side policies can be effective in reducing inflation.

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