THIS IS A LEGACY SPECIFICATION

OCR
RECOGNISING ACHIEVEMENT

ADVANCED SUBSIDIARY GCE
ECONOMICS 2883
The National and International Economy

Candidates answer on the Answer Booklet

OCR Supplied Materials:
- Designated Answer Booklet [2883/AB]

Other Materials Required:
None

Wednesday 3 June 2009
Afternoon

Duration: 1 hour

INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- 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.
- Write all your answers in the separate Answer Booklet provided.
- Do **not** write in the bar codes.

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 **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** pages. Any blank pages are indicated.

Answer **all** parts of this question in the accompanying answer booklet.

An independent Scotland – a Celtic tiger or a Celtic mouse?

The Scottish National Party (SNP) argues in favour of independence for Scotland. It claims that small countries achieve a better economic performance than large ones (Fig. 1 shows some information on a number of countries.)

Fig. 1 Selected economic data on a number of countries in 2007

Country	Population (m)	Unemployment (%)	Economic growth (%)
Norway	5	2.7	2.4
Taiwan	23	4.0	4.2
UK	60	5.5	2.5
Russia	142	7.0	6.7
Brazil	180	10.1	8.9

The citizens of Norway, for example, enjoy a significantly higher gross domestic product (GDP) per head than those in the UK, even though the country has a much lower GDP. Fig. 2 provides information on the components of aggregate demand in Norway and the UK.

Fig. 2 The components of aggregate demand in 2005 ($bn)

	Consumer expenditure	Investment	Government spending	Exports	Imports
Norway	112.5	47.5	55	109	74
UK	1380	361	446	531	594

Scottish independence would have a number of effects on both the Scottish economy and the economies of England, Wales and Northern Ireland. For instance, some of what is currently regarded as internal trade, when drawing up the UK balance of payments, would become external trade.

An independent Scotland is likely to pursue different economic policies and may have different economic priorities than in the remaining parts of the UK. The SNP has already stated that it wants to reduce corporation tax (a tax on company profits) to 20%. It is also committed to raising the level of government spending. One Scottish economist has estimated that a rise in government spending of £5bn would cause the country's GDP to increase by £10bn.

Opponents of Scottish independence, however, argue that the Scottish economy would suffer as a result of independence. They point out that the country currently benefits from the highest level of government spending per head in the UK. It has 8.6% of the UK's population but receives 10% of UK government spending. Opponents also claim that an independent Scotland would have a significant budget deficit which would grow as North Sea oil production declines. They question some of the policies put forward by the SNP and suggest that the effects of a cut in corporation tax on investment are uncertain. Measures designed to increase aggregate demand, they argue, are likely to increase Scotland's real GDP in the short run, but there is no guarantee that they will continue to do so in the long run. Opponents also express concern that an independent Scotland may give too much attention to reducing unemployment and too little to controlling inflation.

(a) Define the term 'budget deficit' (line 22). **[2]**

(b) Assess whether the data in Fig. 1 supports the view that countries with smaller populations have a better economic performance than those with larger populations. **[5]**

(c) **(i)** What is the difference between internal and external trade? (lines 10–11) **[2]**

(ii) State and explain **two** reasons why a country's imports may decline. **[4]**

(d) **(i)** Using Fig. 2, calculate Norway's aggregate demand. Show your working. **[2]**

(ii) Using an aggregate demand and aggregate supply diagram, explain why an increase in aggregate demand may have no impact on the real GDP of an economy. **[7]**

(e) **(i)** State **one** injection into the circular flow and **one** leakage from the circular flow. **[2]**

(ii) What evidence is there in the passage of the multiplier effect? **[2]**

(f) Comment on the likely impact on investment of a reduction in corporation tax. **[7]**

***(g)** Discuss the economic effects of a reduction in unemployment. **[12]**

[Total: 45 marks]