ADVANCED SUBSIDIARY GCE

ECONOMICS

F582

The National and International Economy

Candidates answer on the question paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Friday 27 May 2011
Morning

Duration: 1 hour 30 minutes

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer **all** the questions.
- 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 **60**.
- Your quality of written communication will be taken into account when marking your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

The changing fortunes of Argentina and the United States of America (USA)

Up until 1930 Argentina and the USA had a similar macroeconomic performance. Both countries were among the top ten richest countries in the world and both were expected to do well. Whilst the USA lived up to these expectations, Argentina did not and the two economies followed very different paths.

The USA opened its economy to free trade. This approach led to an increase in competition in US markets and provided US consumers with more choice. Argentina, however, used tariffs and quotas to reduce imports and more recently has even imposed taxes on its exports.

By 1990 the USA had a Gross Domestic Product (GDP) per head eight times that of Argentina. In the late 1990s and the early part of the first decade of the 21st century, the USA experienced rapid economic growth, low unemployment and price stability. In contrast, during the same period Argentina experienced falling GDP, high inflation and rising unemployment, and failed to pay off more than £49 billion in foreign loans. Spending on capital goods declined and the growth in spending by households started to slow.

In the latter part of the first decade of the 21st century, however, the picture started to change. The USA suffered an economic downturn, rising household debt and increasing unemployment. It also experienced an increasing budget deficit and an increasing deficit on the current account of the balance of payments. In contrast, Argentina experienced relatively high economic growth, falling unemployment, a budget surplus, a current account surplus and a reduction in poverty.

By 2009, however, both countries' macroeconomic performance had changed and both encountered difficulties. Fig. 1 shows selected key economic data for both countries in 2008 and 2009.

Fig. 1 Selected key economic data for Argentina and the USA, 2008 and 2009

Economic indicators	**Argentina**		**USA**	
	2008	**2009**	**2008**	**2009**
Economic growth rate (annual % change in GDP)	6.0	–3.5	1.6	2.6
Inflation rate (annual % change in consumer price index)	9.7	9.1	2.4	–0.3
Unemployment rate (ILO measure)	8.0	8.4	5.7	9.4
Current account balance (% of GDP)	2.9	2.6	–4.8	–3.0
Budget balance (% of GDP)	1.7	–1.3	–2.4	–13.7

In its February 2009 budget, the US government increased its spending, cut income tax rates for low and middle income earners and raised the rate for high earners. The US interest rate had already been driven down to almost 0%. Argentina was also pursuing expansionary fiscal and monetary policies. Some economists, however, expressed concern that such approaches would not necessarily help the US and Argentine governments to achieve all of their objectives. They urged both governments to remember the importance of not only increasing aggregate demand but also of increasing aggregate supply.

Answer **all** questions.

1 **(a)** What is meant by the term ‘international trade’?

....

....

....

.... **[2]**

(b) Using information in the case study, identify **two** methods of trade restriction.

1 ....

2 .... **[2]**

2 **(a)** Define the term 'Gross Domestic Product (GDP) per head'.

....

....

....

....

....

.... **[3]**

(b) Describe **two** economic costs of rapid economic growth.

1 ....

....

....

....

....

....

2 ....

....

....

....

....

.... **[6]**

3 **(a)** Using information from the case study, describe what happened to consumer expenditure in Argentina in the late 1990s and early part of the first decade of the 21st century.

....

....

....

.... **[2]**

(b) Explain the likely relationship between changes in consumer expenditure and investment.

....

....

....

....

....

....

....

.... **[4]**

4 Using Fig. 1:

(a) describe what happened between 2008 and 2009 to the price level in Argentina.

....

....

....

.... **[2]**

(b) describe what happened between 2008 and 2009 to the budget balance in:

- Argentina

  ....

  ....

- the USA.

  ....

  .... **[2]**

(c) explain whether it is possible to conclude that there were fewer unemployed people in the USA than in Argentina in 2008.

....

....

....

....

....

.... **[3]**

5 **(a)** Explain why the changes in income tax implemented by the US government in February 2009 may have caused inflation.

....

....

....

....

....

.... **[3]**

(b) Comment on whether a cut in tax rates will always result in a budget deficit.

....

....

....

....

....

....

....

....

....

....

....

.... **[6]**

6 Comment on whether there is a conflict between the policy objectives of reducing unemployment and reducing inflation.

....

....

....

....

....

....

....

....

....

....

....

....

....

.... [7]

7* Discuss the effectiveness of lowering the rate of interest in order to stimulate economic growth. **[18]**

[18]

Additional answer space

If you use these lined pages you **must** write the question number next to your answer.

PLEASE DO NOT WRITE ON THIS PAGE