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**OXFORD CAMBRIDGE AND RSA EXAMINATIONS
AS GCE
F582/01
ECONOMICS**

The National and International Economy

WEDNESDAY 18 JANUARY 2012: Morning

DURATION: 1 hour 30 minutes

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

Candidates answer on the Question Paper.

OCR SUPPLIED MATERIALS:

None

OTHER MATERIALS REQUIRED:

Calculators may be used

**A calculator may
be used for this
paper**

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

- **Write your name, centre number and candidate number in the boxes on the first page. Please write clearly and in capital letters.**
- **Use black ink. HB pencil may be used for graphs and diagrams only.**
- **Answer ALL the questions.**
- **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.**

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 (*).**

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THE LATIN AMERICAN DECADE

With a marked improvement in its economic performance, a number of economists are suggesting that the period 2011–2020 will be ‘the Latin American decade’. Generally the countries of the region coped well with the global recession in 2008 and 2009, with most experiencing economic growth. Most of the countries had lowered their inflation rates by adopting inflation targeting operated by independent central banks. Poverty had been reduced in the region and income distribution had been made a little less unequal. 5 10

The region does, however, still currently face a number of economic problems. Labour productivity (that is output per worker hour) remains low. The region also does not invest enough (see Fig. 1) and lacks economic stability. 15

FIG. 1 INVESTMENT AND ECONOMIC GROWTH RATES IN SELECTED LATIN AMERICAN COUNTRIES IN 2010

	Investment as a percentage of Gross Domestic Product (GDP)	Economic growth rate (percentage change in real GDP 2009–2010)
Argentina	24.2	8.2
Brazil	17.7	7.7
Chile	20.6	5.1
Mexico	25.8	5.0
Venezuela	28.0	–2.5

Brazil is Latin America's largest economy, accounting for 33 per cent of its population and 40 per cent of its GDP in 2010. The country's inflation rate at 5 per cent in that year was above its central target of 4.5 per cent but within its margins of plus or minus two percentage points. The country's central bank had raised the rate of interest in April 2010 to reduce inflationary pressure. 20

Brazil has been operating its Bolsa Familia programme for some years now. The programme pays poor mothers to keep their children in school and take them for regular health checks. The programme is contributing to raising educational standards and reducing poverty. Some economists, however, suggest that more needs to be done. To help make income more evenly distributed, they advocate increasing income tax rates. Others, however, argue that increasing income tax rates would increase unemployment, and suggest not only cutting tax rates but also adopting expansionary monetary policy. 25
30
35

Aggregate demand and aggregate supply look set to continue to grow. In 2010 Brazil's GDP was US\$2,052 billion. Exports increased during the year which contributed both to higher economic growth and a reduction in the country's current account deficit. Higher investment has also contributed to economic growth and there are signs that it will make a larger contribution to GDP in the future. 40

Answer ALL questions.

1 Using information from the case study, state and explain TWO reasons why Brazil's workers may be able to produce more output in the future.

1 _____

2 _____

_____ [4]

2 (a) Define the term 'economic stability'.

_____ [2]

(b) Using information from the case study, calculate Latin America's output in 2010.

[2]

(c) Using information from Fig. 1, comment on whether a higher level of investment always results in a higher economic growth rate.

[6]

3 (a) Define the term 'aggregate supply'.

[2]

(b) Using an aggregate demand and aggregate supply diagram, analyse the effect of an increase in the rate of interest on an economy.

[7]

(b) (i) Decisions on taxes is one of the two components of fiscal policy. Identify the other one.

[1]

(ii) Explain the meaning of the term 'expansionary monetary policy'.

[3]

5 Using information from the case study, explain TWO reasons why Brazil's currency might have appreciated in 2010.

1 _____

2 _____

_____ **[6]**

6 (a) Describe why setting an inflation target may reduce inflation.

[3]

(b)* Discuss whether inflation always harms an economy.

[18]

Additional answer space

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