



GCE AS/A level

1132/01

ECONOMICS – EC2

P.M. WEDNESDAY, 21 May 2014

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a WJEC 20-page answer booklet (pink), which has been specifically designed for this examination paper. No other style of answer booklet should be used. Should you run out of space, use a standard 4 page continuation booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Use both sides of the paper. Write only within the white areas of the book. Write the question number in the two boxes in the left hand margin at the start of each answer. Leave at least two line spaces between each answer.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

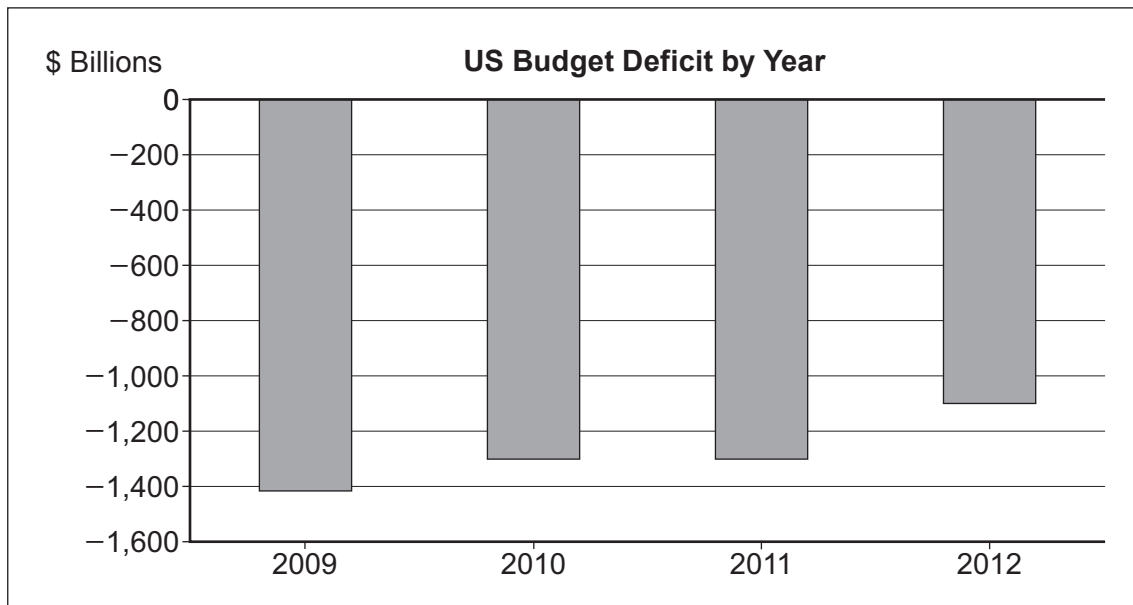
You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in the second part of the questions in Sections B and C.

SECTION A

Answer **all** the questions in this section.

1. THE US FISCAL CLIFF

Figure 1



5 The first major challenge of President Obama's second term in office as US President was to prevent the American economy falling over the so called 'fiscal cliff'. On December 31st 2012 a number of temporary tax cuts were due to end and at the same time a number of government spending cuts were due to be introduced. These totalled over \$600bn and could have pushed both the US and maybe the global economy into another recession.

10 A new budget deal urgently needed to be agreed between President Obama and Congress. The problem was that President Obama was from one political party (the Democrats) whereas Congress was dominated by another political party (the Republicans). Without agreement between the two political parties, the tax increases and cuts in government spending would happen automatically.

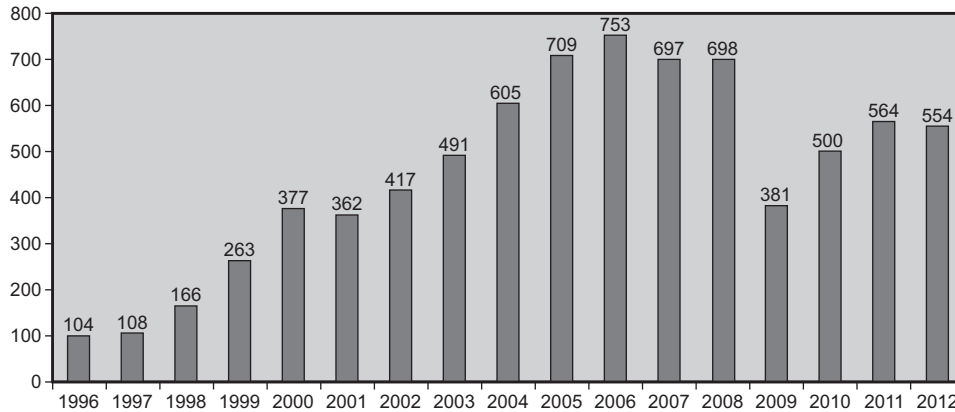
15 At the last minute, a deal was struck. Income tax rates were to rise by 4.6% for those earning over \$400,000 per year. Defence spending cuts of \$110bn due to begin on January 1st 2013 were postponed for two months, although many politicians argued that the US government should be spending less on defence and more on both improving America's crumbling infrastructure and boosting spending on education and training.

20 Despite economic growth of 2.2% in 2012, unemployment is still 7.7% of the labour force, up from only 4.4% back in May 2007. This is nevertheless down from a recent high of 9.9% at the end of 2009. Consequently, the Federal Reserve (the US central bank) has announced that interest rates will remain at 0.25% until unemployment falls to 6.5% or lower. Another problem facing the US is a massive trade deficit, standing at over \$550bn in 2012.

Figure 2

US Trade deficit by Year

\$ Billions



- 1 | 1 | Using examples from the data explain the meaning of the term fiscal policy. [4]
- 1 | 2 | With reference to lines 14-16, explain the concept of opportunity cost. [4]
- 1 | 3 | Using an aggregate demand and supply diagram, explain the Federal Reserve's decision not to raise US interest rates until unemployment falls below 6.5%. [6]
- 1 | 4 | Using a diagram, discuss the view that raising income tax rates for those individuals earning over \$400,000 will increase tax revenue for the US government. [8]
- 1 | 5 | Explain using a diagram why falling over the 'fiscal cliff' "could have pushed both the US and maybe the global economy into another recession" (lines 5-6). [8]
- 1 | 6 | Discuss whether "spending less on defence and more on both improving America's crumbling infrastructure and boosting spending on education and training" (lines 15-16) will be enough to reduce the US trade deficit. [10]

SECTION B

Answer one question from this section.

2. 'LIVING WAGE' £7.65 PER HOUR OUTSIDE LONDON

| | |
|---|---|
| 2 | 1 |
|---|---|

 Explain why the equilibrium wage rate for some jobs is below the national minimum wage. [8]

| | |
|---|---|
| 2 | 2 |
|---|---|

 Discuss the view that the UK national minimum wage of £6.31 per hour is too low. [12]

3. 'WE ARE ONLY INCHES AWAY FROM CEASING TO BE A FREE MARKET ECONOMY' MITT ROMNEY US, PRESIDENTIAL CANDIDATE

| | |
|---|---|
| 3 | 1 |
|---|---|

 Explain the role of profit and price in a market economy. [8]

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| 3 | 2 |
|---|---|

 Discuss the view that education and health are best provided by the free market. [12]

4. EURO MPS SUPPORT LARGE-SCALE FISHING REFORM TO SAVE FISH STOCKS IN THE NORTH SEA

| | |
|---|---|
| 4 | 1 |
|---|---|

 Explain why governments may need to intervene in the market for fish to prevent market failure. [8]

| | |
|---|---|
| 4 | 2 |
|---|---|

 With reference to relevant economic theory, evaluate the policies that could be used to preserve fish stocks in the North Sea. [12]

SECTION C

Answer one question from this section.

5. TAX RISES INEVITABLE IF BUDGET DEFICIT IS TO BE REDUCED

| | |
|---|---|
| 5 | 1 |
|---|---|

 Explain why it might be difficult for a government to achieve all its macroeconomic objectives at the same time. [8]

| | |
|---|---|
| 5 | 2 |
|---|---|

 Evaluate the policies a government could introduce to reduce its budget deficit. [12]

6. CONSUMERS CONTINUE TO PAY OFF DEBTS

| | |
|---|---|
| 6 | 1 |
|---|---|

 What factors determine the level of consumption in the economy? [8]

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|---|---|
| 6 | 2 |
|---|---|

 With the use of a diagram discuss the extent to which a rise in consumption is good for an economy. [12]

7. POUND SET TO FALL AS TRADE DEFICIT WIDENS

| | |
|---|---|
| 7 | 1 |
|---|---|

 Using a diagram show how a fall in the value of the pound might be caused by a widening trade deficit and explain how the weaker pound might improve the price competitiveness of UK firms. [8]

| | |
|---|---|
| 7 | 2 |
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 Discuss whether a sharp fall in the value of the pound will be beneficial for the UK economy. [12]

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