

Please write clearly in block capitals.

Centre number

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# INTERNATIONAL AS ECONOMICS

## UNIT 2: THE NATIONAL ECONOMY IN A GLOBAL ENVIRONMENT

Specimen 1 2019

Morning

Time allowed: 1 hour 45 minutes

### Materials

For this paper you must have:

- the source booklet, provided as an insert (enclosed)
- a calculator, which you are expected to use where appropriate.

### Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of the page.
- Answer **all** questions.
- You must answer the questions in the spaces provided.
- Do not write outside the box around each page or on blank pages.
- Do not write in the source booklet.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- All working must be shown.
- Do all rough work in this book. Cross through any work you do not want to be marked.

### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You may use a bilingual dictionary for this exam.
- You may **not** use an English dictionary

### Section A


Answer **all** questions in the spaces provided


Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD

WRONG METHODS

If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

**0 1** In the circular flow of income model, which one of the following is an injection?

[1 mark]

- |          |                     |                       |
|----------|---------------------|-----------------------|
| <b>A</b> | Consumer spending   | <input type="radio"/> |
| <b>B</b> | Government spending | <input type="radio"/> |
| <b>C</b> | Imports             | <input type="radio"/> |
| <b>D</b> | Wages               | <input type="radio"/> |

**0 2** Which one of the following is an example of expansionary monetary policy?

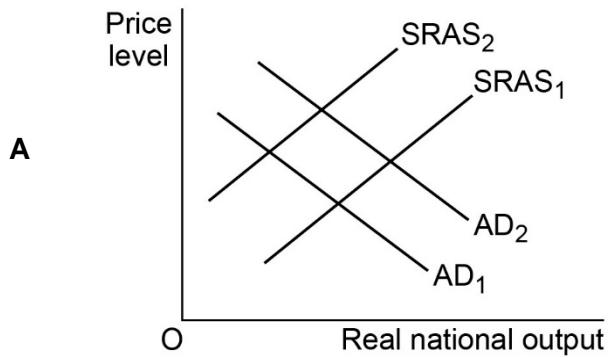
An increase in

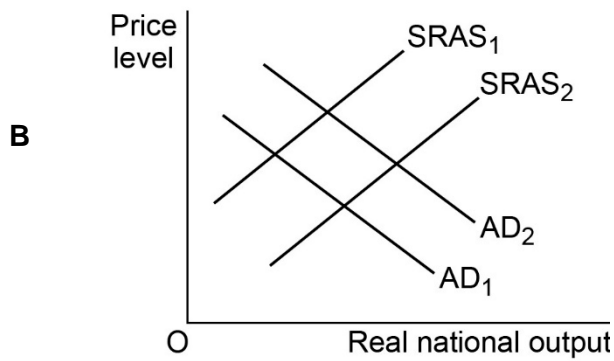
[1 mark]

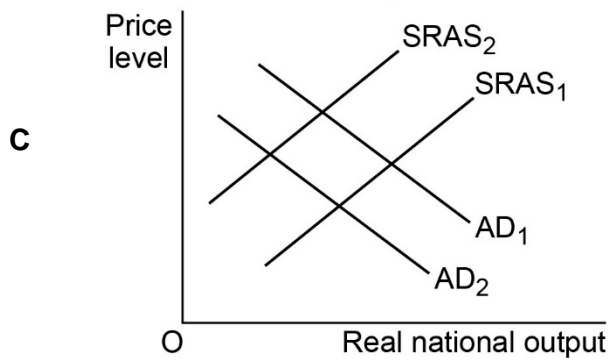
- |          |                        |                       |
|----------|------------------------|-----------------------|
| <b>A</b> | government expenditure | <input type="radio"/> |
| <b>B</b> | interest rates         | <input type="radio"/> |
| <b>C</b> | the exchange rate      | <input type="radio"/> |
| <b>D</b> | the money supply       | <input type="radio"/> |

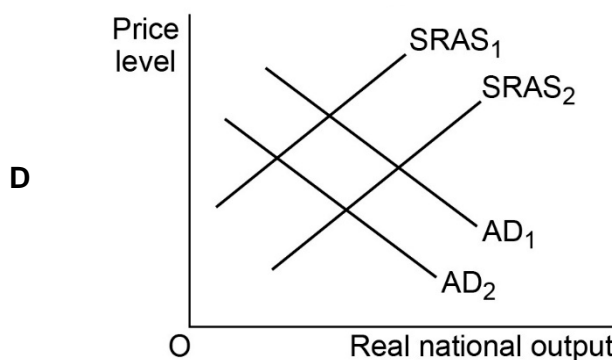
0 3

The diagrams below show aggregate demand (AD) and short-run aggregate supply (SRAS) curves for the UK. All other things being equal, which one of the diagrams, **A**, **B**, **C** or **D**, shows the most likely effects of an increase in government spending financed by an increase in indirect tax?







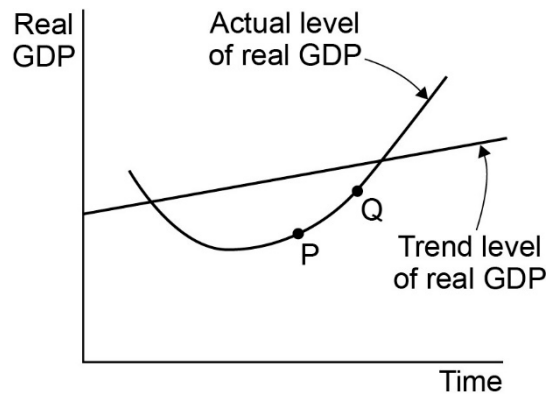



[1 mark]

Turn over ►

0 4

The diagram below shows the actual level of real GDP and the trend level of real GDP over time for an economy.



Between the points P and Q, which one of the following is most likely to be correct?

[1 mark]

- A** The actual rate of economic growth is negative while the rate of inflation is falling.
- B** The actual rate of economic growth is rising while the level of unemployment is falling.
- C** The trend rate of economic growth and the output gap are both positive.
- D** The trend rate of economic growth is rising while the balance of payments on current account is deteriorating.

0 5

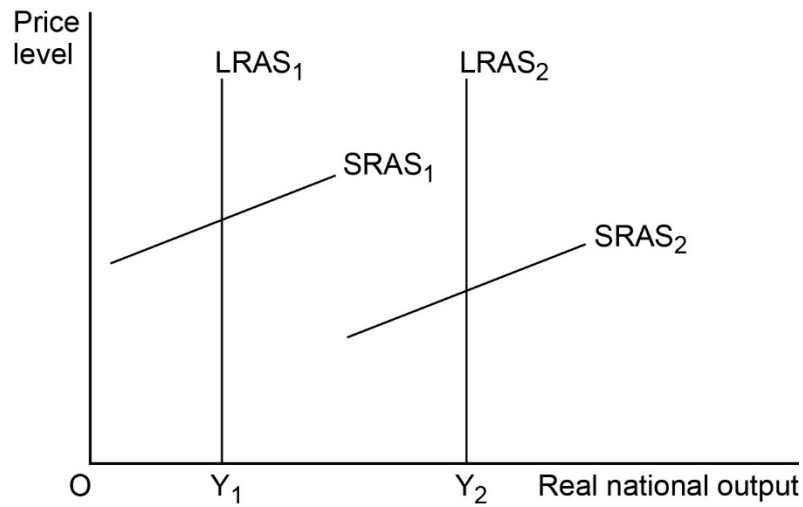
Changes are regularly made to the weights used in a country's consumer price index. This means that the index takes account of changes in

[1 mark]

- A** month on month increases in the general price level.
- B** spending patterns throughout the economy.
- C** the growth of real output in the economy.
- D** total spending on all domestic goods and services.

0 6

The diagram below shows the initial short run aggregate supply curve (SRAS<sub>1</sub>) and long run aggregate supply curve (LRAS<sub>1</sub>) for an economy. SRAS<sub>2</sub> and LRAS<sub>2</sub> are the new positions of the two aggregate supply curves.



The most likely combination of causes of the shifts in the short run and long run aggregate supply curves is

[1 mark]

- A** a fall in productivity and a rise in emigration.
- B** a fall in subsidies and a fall in skill levels.
- C** a rise in immigration and a fall in money wages.
- D** an increase in oil prices and more investment in renewable energy.

0 7

Structural unemployment is most likely to be caused by

[1 mark]

- A** a change in the pattern of demand.
- B** a fall in the exchange rate.
- C** a fall in unemployment benefits.
- D** an increase in interest rates.

**0 8**

In an economy, the government reduced its spending by \$4bn at the same time as exports rose by \$20bn. As a result of these changes, national income rose by \$20bn. The size of the multiplier is

**[1 mark]****A** 0.8**B** 1**C** 1.2**D** 1.25**0 9**

All other things being equal, a rise in a country's exchange rate is most likely to

**[1 mark]****A** increase inflation and increase the budget deficit.**B** increase the negative output gap and increase inflation.**C** reduce the positive output gap and reduce inflation.**D** reduce unemployment and increase economic growth.**1 0**

The annual rate of change in the consumer prices index for an economy falls from 6% to 3%. All other things being equal, this economy is best described as

**[1 mark]****A** entering a positive output gap.**B** entering a recovery period.**C** experiencing deflation.**D** experiencing disinflation.

1 1

The table below shows annual income before tax for three different households and the total annual amount of income tax that each household pays.

Household income before tax	Income tax
\$18 000	\$7 000
\$40 000	\$12 000
\$80 000	\$22 400

This income tax is

[1 mark]

- A** flat rate.
- B** progressive.
- C** proportional.
- D** regressive.

1 2

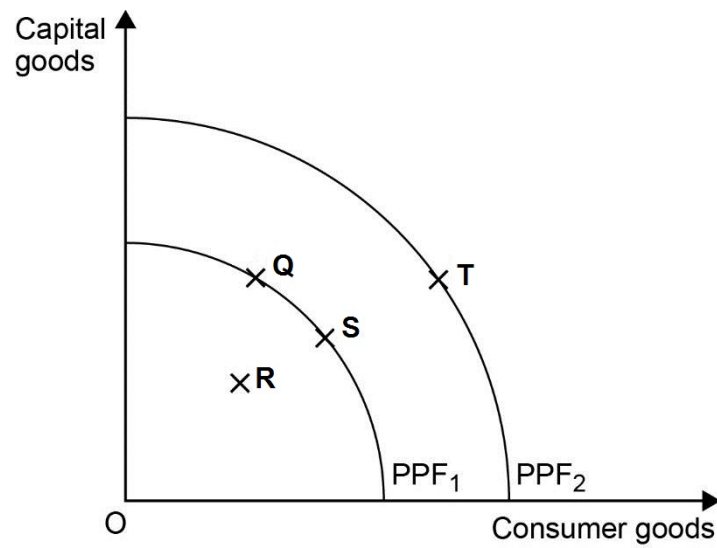
All other things being equal, which one of the following is most likely to increase the current account deficit on the balance of payments?

[1 mark]

- A** A decrease in the level of consumption
- B** A decrease in the rate of inflation
- C** An increase in productivity
- D** An increase in the exchange rate

1 3

The diagram below shows two production possibility frontiers (PPF) for an economy.



Which one of the following movements represents an economy that has experienced short-run but not long-run economic growth?

[1 mark]

A Q to R

B Q to S

C R to S

D S to T

1 4

The accelerator process illustrates the relationship between investment and the rate of change of

[1 mark]

A government spending.

B national income.

C prices.

D unemployment.



**1 5**

The table below shows values (\$billion) for components of aggregate demand (AD) in an economy:

Components of AD	(\$billion)
Consumption	500
Investment	50
Government spending	250
Exports	?
Imports	50
Aggregate demand	825

What is the value of exports in \$ billion?

[1 mark]

- A** 25  
**B** 75  
**C** 100  
**D** 125

**Turn over for Section B**

**Section B**

Look at the source booklet and answer **all** questions in the spaces provided

Do **not** write in the source booklet

1 6 . 1

Define 'economic growth' **Extract B** (line 2).

**[3 marks]**

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1 6 . 2

Define 'productivity' **Extract B** (line 18).

**[3 marks]**

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1 7

**Extract A** shows selected economic indicators for three economies.

You are advised to show your working for the calculations below.

1 7 . 1

Calculate, to one decimal place, the mean world GDP growth rate for the five years listed in **Extract A**, 2009 to 2017.

**[3 marks]**

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1 7 . 2

If the index of world GDP was 100 at the start of 2009, using **Extract A**, calculate, to one decimal place, the index of world GDP at the start of 2010.

**[3 marks]**

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1 8 . 2

To what extent do the data suggest that there is a trade-off between inflation and unemployment? Use the data in **Extract A** to help support your answer.

[6 marks]

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Turn over for the next question



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**Turn over for the next question**





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**Turn over for the next question**







Question  
number

**Additional page, if required.**  
**Write the question numbers in the left-hand margin.**

A large rectangular area with horizontal dotted lines for writing, intended for providing answers to questions.

