

INTERNATIONAL GCSE ECONOMICS

Paper 2 How the economy works

Specimen paper

07:00 GMT

Time allowed: 1 hour 45 minutes

Materials

For this paper you may use:

- a calculator

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this 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.
- 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).
- 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.

Section A

Answer **all** questions in the spaces provided

For questions with four responses, 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

Which of the following is a principal economic objective of government policies?

[1 mark]

- A** Growth of inflation
- B** Increased current account deficit
- C** Low employment
- D** Steady economic growth

0 2

A budget surplus is best described as which of the following?

[1 mark]

- A** Where government revenue is greater than government expenditure
- B** Where government revenue is less than government expenditure
- C** Where the value of exports is less than the value of imports
- D** Where the value of imports is less than the value of exports

0 3

Which of the following policies is most likely to reduce cyclical unemployment?

[1 mark]

- A** Increase in direct taxes
- B** Increase in interest rates
- C** Increase in money supply
- D** Increase in taxes on business profits

0 4

Which of the following is an example of a supply-side policy?

[1 mark]

- A** Reduced taxes on company profits
- B** Increased government spending on unemployment benefits
- C** Reduced government spending on education
- D** Increased taxes on expenditure

0 5

Which of the following would be most likely to reduce income inequality?

[1 mark]

- A** Increased taxes on expenditure
- B** Increased tax-free personal allowances on income
- C** Reductions in unemployment benefits
- D** Reduced taxes on businesses

Turn over for the next question

0 6

Table 1 shows a country's economic growth between 2018 and 2022.

Table 1

Year	Economic growth (% change in GDP)
2018	2.1
2019	3.1
2020	2.3
2021	1.9
2022	1.7

Using **Table 1**, the average annual rate of economic growth for this period to one decimal place is:

[1 mark]

- A** 2.0 %
- B** 2.1 %
- C** 2.2 %
- D** 2.3 %

0 7

Which of the following best describes the type of unemployment caused by people not having the skills needed for the jobs available?

[1 mark]

- A** Cyclical
- B** Frictional
- C** Seasonal
- D** Structural

0 8

Which of the following pairs of policy changes would reduce the problem of high inflation?

[1 mark]

	Interest rates	Tax rates	
A	Increase	Increase	<input type="radio"/>
B	Decrease	Decrease	<input type="radio"/>
C	Increase	Decrease	<input type="radio"/>
D	Decrease	Increase	<input type="radio"/>

0 9

Consumption of healthy food can lead to positive externalities.

Which of the following policies is the most appropriate for correcting this type of market failure?

[1 mark]

- A** Indirect taxes on healthy food
- B** Restrictions placed on consumption of healthy food
- C** Restrictions on advertising healthy food
- D** Subsidies for businesses producing healthy food

1 0

Which of the following identifies the most likely effects of a significant increase in economic growth?

[1 mark]

	Effect on unemployment	Effect on budget deficit	
A	Decrease	Increased deficit	<input type="radio"/>
B	Increase	Reduced deficit	<input type="radio"/>
C	Increase	Increased deficit	<input type="radio"/>
D	Decrease	Reduced deficit	<input type="radio"/>

1	1
---	---

State **two** causes of inflation.

[2 marks]

Cause 1 _____

Cause 2 _____

1	2
---	---

Explain **one** reason why a government may want to reduce a budget deficit.

[2 marks]

1	3
---	---

Explain why rapid economic growth may be harmful for individuals in an economy

[2 marks]

1 4

Table 2 shows balance of payments data in an economy for 2018.

Table 2

	\$ billion
Exports of goods	35
Imports of goods	47
Exports of services	3
Imports of services	-5

1 4 . 1

Using **Table 2**, calculate the current account balance for 2018.

Show your working.

[2 marks]

Account balance = _____

1 4 . 2

Explain **one** reason why a government may aim for balance on the current account.

[2 marks]

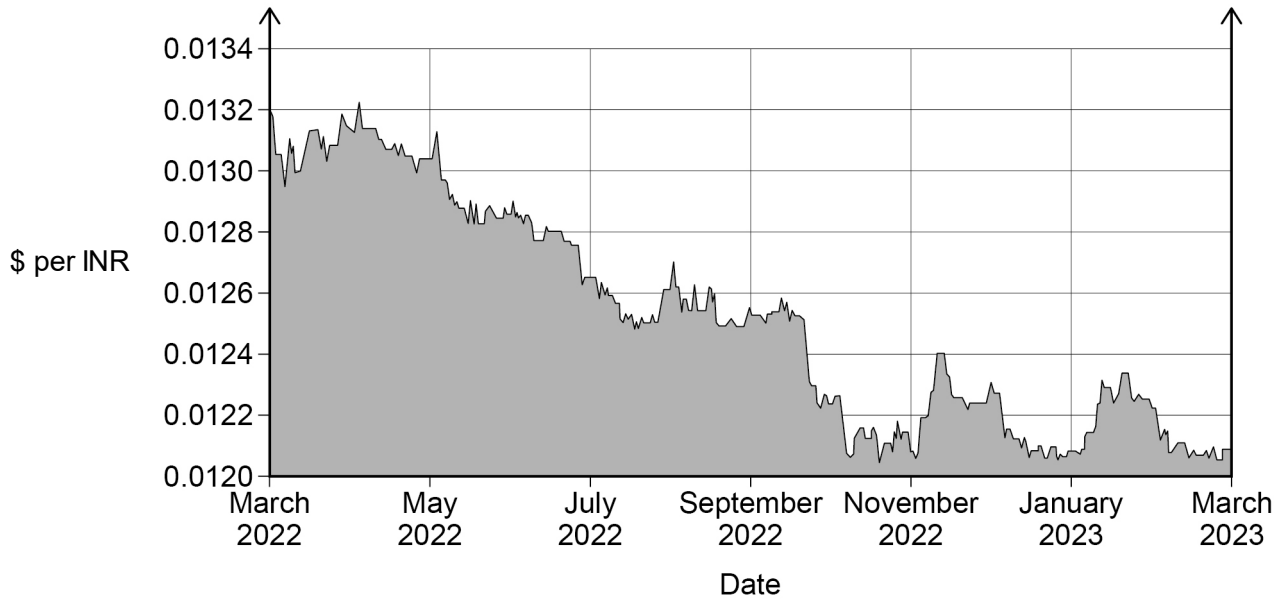
Turn over for the next question

1 5

Figure 1 shows the US Dollar (\$) to the Indian Rupee exchange rate between March 2022 and March 2023.

Figure 1

**US Dollar (USD \$) / Indian Rupee (INR) (USD \$) exchange rate
March 2022 to March 2023**



Using **Figure 1**, analyse the impact of the change in this exchange rate on producers in India.

[6 marks]

1	6
---	---

State **two** functions of money.

[2 marks]

Function 1 _____

Function 2 _____

1	7
---	---

Explain **one** way a central bank differs from a commercial bank.

[2 marks]

1	8
---	---

Explain **one** reason why income inequality occurs.

[2 marks]

1 9**Table 3** show the price index for an economy.**Table 3**

Date	Price Index
December 2021	145.7
December 2022	154.6

1 9 . 1Using **Table 3**, calculate the annual inflation rate at December 2022 to one decimal place.

Show your working.

[2 marks]

Annual inflation rate = _____

1 9 . 2Explain **one** reason why a government aims for a low inflation rate.**[2 marks]**

2 0

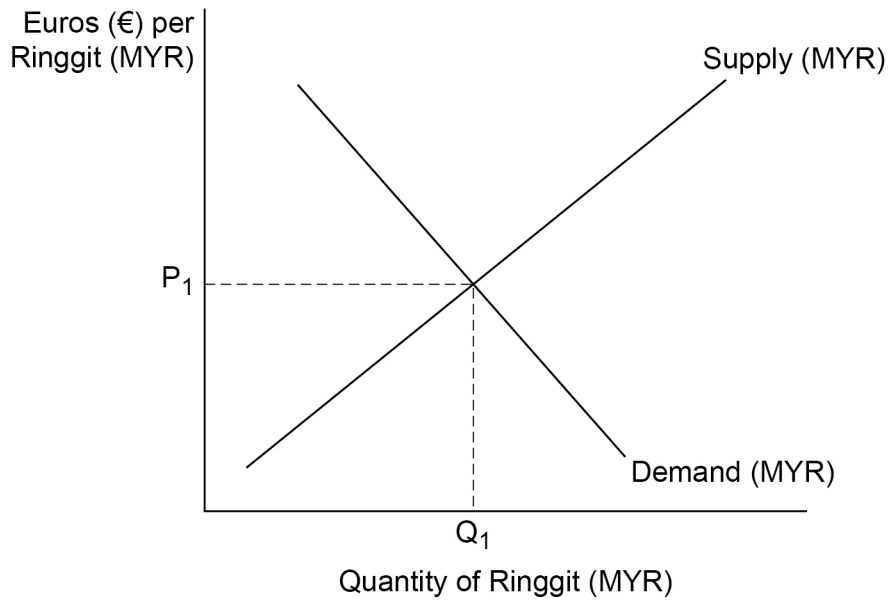
Figure 2 shows the Euro (€) to the Malaysian ringgit (MYR) foreign exchange market.

On **Figure 2**, draw and label the effects on the exchange rate of increased Malaysian imports from countries using the Euro.

[3 marks]

Figure 2

Euro (€) to Ringgit (MYR) foreign exchange market



Turn over for the next question

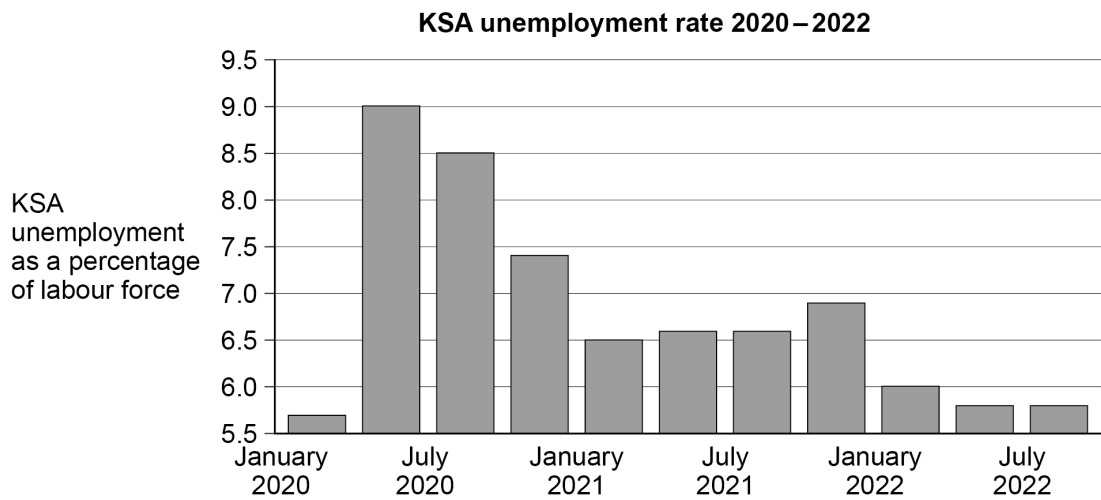
2 1

Figure 3

The Kingdom of Saudi Arabia's (KSA) unemployment rate peaked at 9% in 2020. This was mainly as a result of the Covid pandemic leading to a fall in demand for KSA's main export, oil. Since 2020 the unemployment rate in KSA it has fallen significantly.

Most economists accept that governments should aim to reduce unemployment where possible. This is due to the negative impact unemployment has on individuals and the whole economy. Individuals who are unemployed usually have a lower standard of living compared to those in work. Higher unemployment also leads to government earning less in tax revenue.

Different factors cause unemployment. This makes it difficult to know how best to reduce unemployment. Also, aiming for low unemployment can lead to conflicts in achieving other economic objectives, such as economic growth and inflation.



Extra space _____

Section B

Answer **all** questions in the spaces provided.

Item A: Globalisation in India

The Indian economy was significantly reformed in the early 1990s. Since then it has experienced much higher economic growth. The Indian government has removed the restrictions on Foreign Direct Investment (FDI). This means it is much easier for foreign companies to set up in India. They also involved removal of restrictions on labour markets and the ending of subsidies for some inefficient producers. The level of Gross Domestic Product (GDP) in India was almost ten times larger in 2021 than it was in 1990. This growth has meant that millions of people in India have seen their incomes rise significantly.

India now has millions of households who have incomes similar to households in more economically developed countries.

However, some people think the opening of India to more FDI and greater competition has not been good for the economy. India now attracts many multinational corporations (MNCs) from outside India which Indian companies have struggled to compete with. This has meant business failure for many smaller enterprises in India. Some MNCs have also been accused of unfairly exploiting India's natural resources: Reduction of local water supplies by MNCs based in India has negatively affected local agricultural producers.

Data on India

GDP for 2021 measured in US Dollars	\$3176 billion
Economic growth rate 2022	4.4%
Population for 2022	1.4 billion

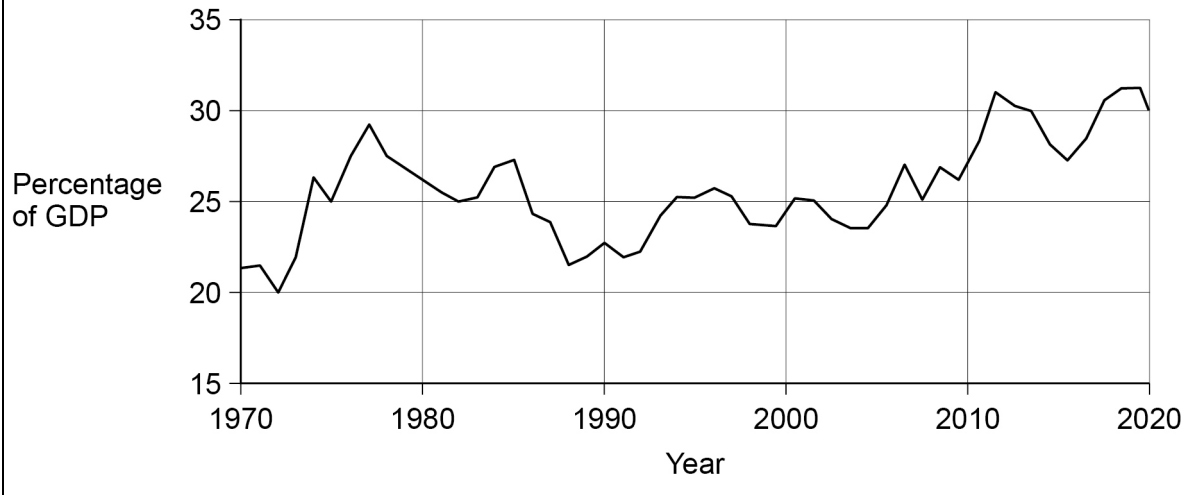
Item B: Has the UK won or lost from globalisation?

Quicker and cheaper transport methods allow countries to specialise in what natural advantages they possess. For more economically developed countries, like the UK, there has certainly been a decline in the number of manufacturing jobs. However, total unemployment in these countries has not always risen despite the decline in manufacturing employment.

British people are concerned they will begin to see service sector jobs in the UK being lost to less economically developed countries due to the lower wages paid there. The increasing use of robots in production and use of online services allows service-based jobs in the UK to actually be provided by workers based in other countries. Faster internet speeds mean robots could be used for jobs that currently need workers, such as office cleaners and security guards. In both cases, those monitoring and controlling the robots would be in a less economically developed country, where they can be employed on a much lower wage than that paid to UK workers doing the same job.

Globalisation is important for the UK. The contribution made from export sales to the UK's GDP has risen over the last fifty years. In 2016, exports contributed 27% to total UK GDP. This contrasts with other countries where exports are less important to the size of their GDP. For example, exports only contributed 12% to the USA's GDP in 2016.

UK exports of goods and services (as % of UK GDP)



2 2

Define globalisation

[2 marks]

2 3

Using **Item A**, calculate GDP per capita in India for 2022 to the nearest US Dollar (\$).

Show your working.

[3 marks]

GDP per capita = _____

2 4

Using **Item B**, explain **two** factors have contributed to increased globalisation.

[6 marks]

Factor 1 _____

Factor 2 _____

2 5

Using **Item A**, analyse the possible consequences of increased globalisation for producers in less economically developed economies, such as India.

[6 marks]

2 **6**

In the UK, some economists claim that globalisation has been bad for more economically developed countries.

Using **Items A and B**, discuss whether increasing globalisation is harmful for more economically developed economies, such as the UK.

Use your own economic knowledge to justify your answer.

[15 marks]

END OF QUESTIONS

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