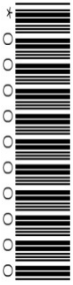


A Level Economics H460/02 Macroeconomics

Practice paper – Set 1 Time allowed: 2 hours



You may use:

- a calculator

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|----------------------|--|--|--|--|--|--|-------------------------|--|--|--|--|
| First name | | | | | | | | | | | |
| Last name | | | | | | | | | | | |
| Centre number | | | | | | | Candidate number | | | | |

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided. If additional space is required, use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the barcodes.

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **28** pages.

SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

Will China be more successful than the UK?

In the first decade of the twenty-first century China saw a significant increase in both income and wealth. In the current decade, however, its economic growth rate has slowed. At the start of 2016, China's president, Xi Jinping, said that the government would concentrate on supply-side reform. He mentioned that the government would no longer try to promote economic growth by just relying on fiscal and monetary policy measures. It would be placing more emphasis on long-term structural change rates rather than short-term stimulus.

In the past China has used short-term demand management to increase consumer expenditure and investment. This has led to an increase in government spending which has had implications for the country's budget position. Table 1 compares the gross domestic product (GDP), government revenue and government expenditure of the six largest economies in 2014.

| Country | GDP | Government revenue | Government expenditure |
|---------|------|--------------------|------------------------|
| China | 10.4 | 2.3 | 2.4 |
| France | 2.8 | 1.5 | 1.6 |
| Germany | 3.9 | 1.7 | 1.7 |
| Japan | 4.6 | 1.5 | 1.8 |
| UK | 3.0 | 0.9 | 1.1 |
| USA | 17.4 | 3.0 | 3.5 |

Table 1 - GDP, government revenue and government expenditure in US\$ trillion of the six largest economies in 2014

The Chinese government is hoping that supply-side policy measures will increase the country's productivity. The UK economy has introduced a number of supply-side policy measures including deregulation, privatisation and tax cuts Fig.1 compares the UK's productivity growth with that of the six other G7 members. It shows after 2007 the gap between the actual growth in productivity and the predicted growth in productivity.

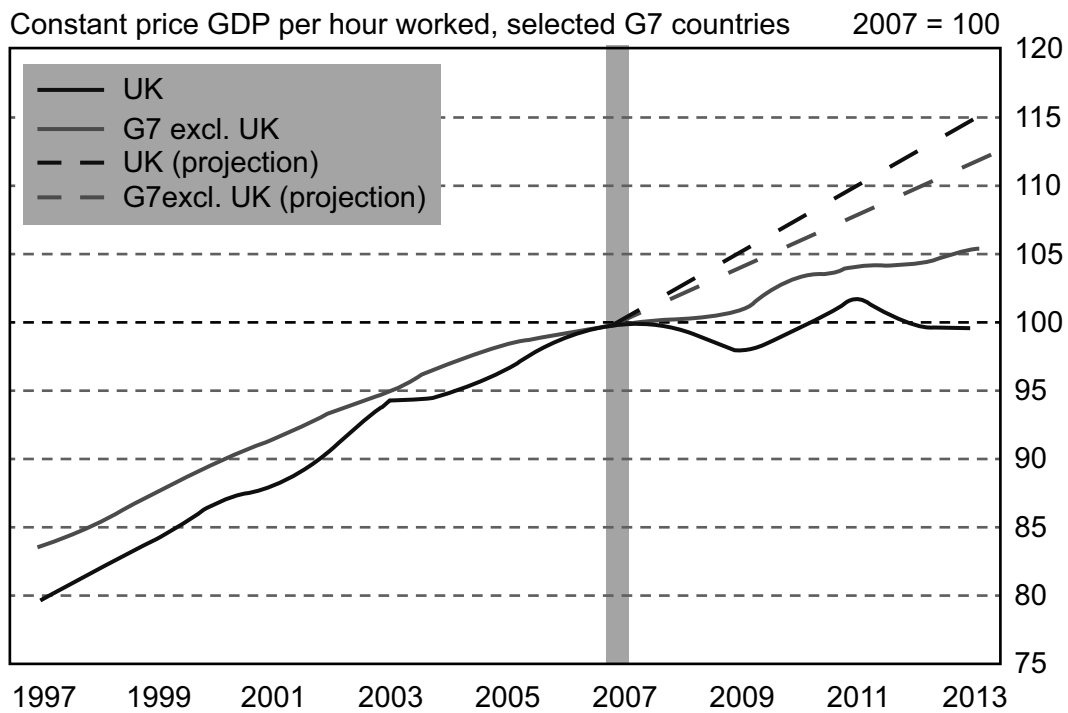


Fig. 1. A comparison of productivity growth in the UK and G7 1997 – 2013

Productivity is influenced by a number of factors including investment. In turn, there are a number of influences on investment including the level of savings. The amount of income saved varies from country to country. Some countries, including China have a relatively high average propensity to save. Others, including Denmark in recent years, have had a negative average propensity to save. Table 2 shows the average propensity to save of the G7 countries in 2014.

| Country | Average propensity to save |
|---------|----------------------------|
| Canada | 0.05 |
| France | 0.15 |
| Germany | 0.09 |
| Italy | 0.05 |
| Japan | 0.02 |
| UK | 0.06 |
| USA | 0.05 |

Table 2 - The average propensity to save in the G7 countries in 2014

SECTION A

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

1 (a) Distinguish between income and wealth.

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..... [2]

(b) Using Table 1, calculate whether Japan or the UK had the larger budget deficit as a percentage of GDP. State which country had the larger budget deficit as a percentage of GDP and give the budget deficit as a percentage of GDP.

Country.....
.....
Percentage of GDP
..... [2]

(c) (i) Using Fig.1, calculate how much greater the UK's productivity gap was than the G7's in 2013.

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..... [1]

(ii) Using Fig.1, compare the trend in UK productivity and G7 productivity over the period shown.

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SECTION B

Answer **EITHER** Question 2 **OR** Question 3.

EITHER

- 2* The UK government is holding a referendum on whether the country should leave the European Union.

Evaluate, with the use of an appropriate diagram(s), whether the economic performance of a country would be strengthened by it leaving the European Union. **[25]**

OR

- 3* Keynesian and neo-classical economists reach very different conclusions about the shape of the long run aggregate supply curve and so to about government policy.

Evaluate, with the use of an appropriate diagram(s), whether the Keynesian view or the neo-classical view of the shape of the long run aggregate supply curve is more useful in designing government economic policy. **[25]**

SECTION C

Answer **EITHER** Question 4 **OR** Question 5.

EITHER

- 4* 'Inflation is always and everywhere a monetary phenomenon'. (Milton Friedman)

Evaluate whether the quantity theory of money provides an adequate explanation of the cause of inflation. **[25]**

OR

- 5* Over the last decade there has been a number of changes in the pattern of employment in most countries.

Evaluate whether a change in the pattern of employment will benefit an economy. **[25]**

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