



Oxford Cambridge and RSA

# A Level Economics

## H460/02 Macroeconomics

### Practice paper – Set 2

Time allowed: 2 hours



You may use:

- a calculator

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 **20** pages.

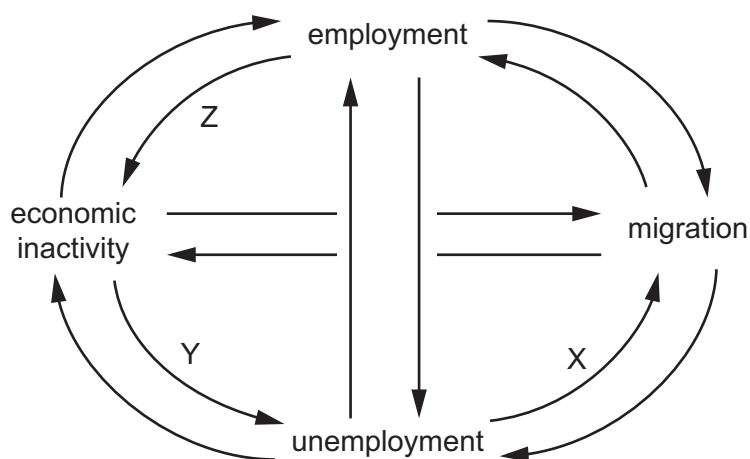
## SECTION A

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

### The UK's twin deficits

For some years now the UK has had a deficit on both its budget balance and on the balance of the current account of its balance of payments. In 2015 the budget deficit fell to 4.1% of GDP. This was the lowest deficit, in percentage terms, since 2007 but it was noticeably higher than the historical average of 2.5% of GDP. In October 2016 the Chancellor of the Exchequer announced that he was abandoning the objective of achieving a budget surplus by 2020. He also said he was prepared to borrow for public sector investment in infrastructure.

Changes in the budget position can influence activity in the labour market. Fig. 1 shows the stocks of employment, unemployment, economic inactivity and migration and the flows between them. For instance, the stock of unemployment (the number of people unemployed at any particular time) is affected by flows into and out of unemployment (some people becoming unemployed while others stop being unemployed).



**Fig. 1 Stocks and flows in the labour market**

The budget position, in turn, is influenced by a range of factors including the level of economic activity, the rate of interest and any tax reforms undertaken. A number of European countries have recently introduced flat rate tax systems. Fig. 2 shows when a flat tax was introduced in a number of European countries and how the rate of income tax changed due to the introduction and the rate in 2016.

Country	Tax rate(s) before introduction (%)	Year introduced	Initial tax rate after introduction %	Tax rate in 2016 %
Estonia	16–35	1994	26	21
Lithuania	18–33	1994	33	15
Latvia	25–10	1995	25	25
Russia	12–30	2001	13	13
Georgia	12–20	2005	12	20
Macedonia	15–24	2007	12	10
Czech Republic	12–32	2008	10	10

**Fig. 2 Flat rate taxes on personal income (%) in selected countries**

Changes in economic activity at home and abroad, the rate of interest and the exchange rate can also influence the current account position of the balance of payments. In 2015 the UK's current account deficit was £96.2 billion. This was the largest deficit as a percentage of GDP (5.2%) since annual records began in 1948 and the largest of the G7 countries. Fig. 3 shows some details of the UK's balance of payments position in 2014.

Current account balance	–£92.9 bn
Trade in goods	–£123.7 bn
Trade in services	£89.1 bn
Secondary income	–£25.2 bn
Capital account	–£0.8 bn

**Fig. 3 Selected details of the UK's balance of payments 2014**

The current account deficit has increased every year since 2011. One significant cause of this has been the rise in the deficit on primary income. Throughout the nineteenth century and the first half of the twentieth century the UK invested heavily abroad which resulted in a high yield of profits, interest and dividends. In more recent decades the UK has seen a net inflow of foreign investment. Multinational companies from a range of countries, including the USA, Germany, India and China have entered in a number of UK industries.

SECTION A

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

- 1 (a) Identify **one** example of discretionary fiscal policy in the stimulus material and explain how it could affect aggregate demand.

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- (b) Explain **one** of the flows, X, Y or Z shown in Fig. 1.

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- (c) Using information from the stimulus material, calculate the UK's budget deficit in pounds in 2015.

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- (d) (i) Using Fig. 3, calculate the deficit on primary income in the UK in 2014.

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- (ii) Using Fig. 3, explain whether the financial account would have been in deficit or surplus in the UK in 2014.

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**SECTION B**

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

**EITHER**

**2\*** The Venezuelan Government’s attempts to promote economic growth are thought to have contributed to the country’s inflation rate, which was predicted to reach 480% in 2016.

Evaluate, with the use of an appropriate diagram(s), whether macroeconomic policy measures can only promote economic growth at the cost of higher inflation. **[25]**

**OR**

**3\*** The central bank of Kenya cut the country’s interest rate twice in 2016. The first time it was followed by a fall in the value of the country’s currency, the Shilling, but the second time its exchange rate appreciated.

Evaluate, with the use of an appropriate diagram(s), whether a reduction in a country’s rate of interest would reduce its exchange rate. **[25]**

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SECTION C

Answer EITHER Question 4 OR Question 5.

**EITHER**

**4\*** In June 2016 Afghanistan joined the World Trade Organisation, becoming its 164th member.

Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development. **[25]**

**OR**

**5\*** In 2015 the State Bank of Pakistan did not achieve the 5.5% target the government had set it for the growth of the Pakistani economy.

Evaluate whether the UK government should set the Bank of England an economic growth rate target. **[25]**

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**END OF QUESTION PAPER**



**ADDITIONAL ANSWER SPACE**

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

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A blank sheet of lined paper. On the left side, there is a solid vertical line that serves as a margin. The rest of the page is filled with horizontal dotted lines, providing a guide for writing. The lines are evenly spaced and extend across the width of the page.

A blank sheet of lined paper. On the left side, there is a solid vertical line that serves as a margin. The rest of the page is filled with horizontal dotted lines, providing a guide for writing. The lines are evenly spaced and extend across the width of the page.

