

Section AAnswer **all** questions in this section.Only **one** answer per question is allowed.

For each answer 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?

- A** Consumer spending
- B** Government spending
- C** Imports
- D** Wages

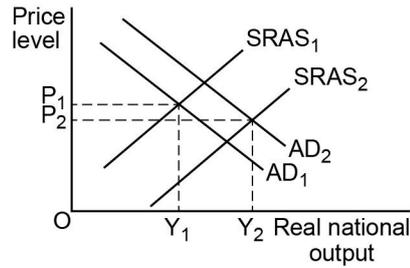
[1 mark]

0 2

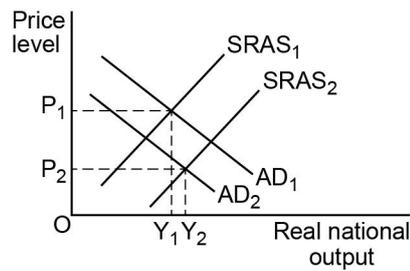
The diagrams below show the aggregate demand (AD) and short run aggregate supply (SRAS) curves for an economy. AD_1 and $SRAS_1$ show the initial positions of the curves and AD_2 and $SRAS_2$ the new positions.

Which one of the following diagrams, **A**, **B**, **C** or **D**, illustrates a fall in world commodity prices as well as a fall in government spending?

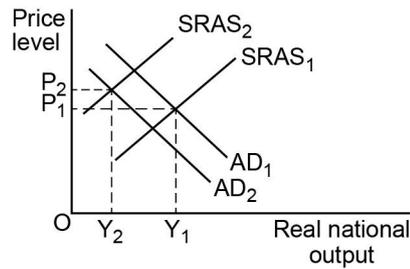
A



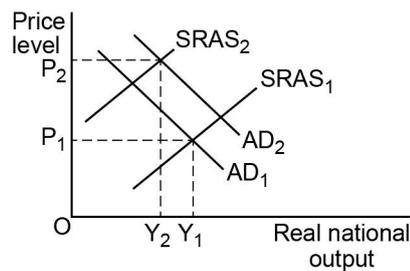
B



C



D



[1 mark]



0 3

Which one of the following is not part of the role of the Monetary Policy Committee of the Bank of England?

- A** Achieving the target rate of inflation
- B** Changing Bank Rate
- C** Reviewing various pieces of macroeconomic data
- D** Setting the target rate for inflation

[1 mark]

0 4

The table below shows the components of gross domestic product (GDP) for an economy in 2016.

	£bn
Consumption	850
Imports	210
Government expenditure	300
Investment	180
Exports	230

Aggregate demand in the economy is

- A** £1310bn
- B** £1350bn
- C** £1560bn
- D** £1770bn

[1 mark]

0 5

Which one of the following would be most likely to generate growth in an economy without producing an increase in inflation?

- A** A decrease in the exchange rate
- B** An increase in labour productivity
- C** An increase in the budget surplus
- D** An increase in the rate of interest

[1 mark]**0 6**

Which one of the following is an objective of UK government macroeconomic policy?

- A** A fall in the supply of money
- B** A stable labour force
- C** An increase in real GDP per head
- D** Low interest rates

[1 mark]

Turn over for the next question



0 7

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

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

[1 mark]

0 8

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

- A entering a positive output gap.
- B entering a recovery period.
- C experiencing deflation.
- D experiencing disinflation.

[1 mark]



0 9

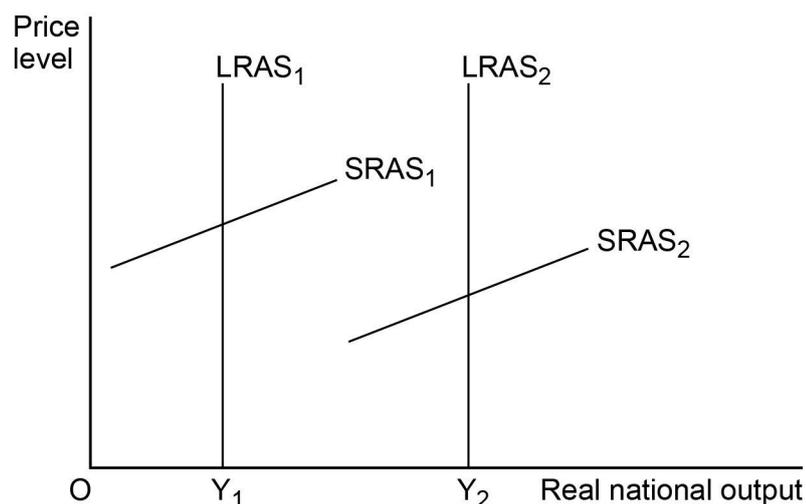
Which one of the following represents investment expenditure?

- A** A firm spends £7m on new computer software
- B** A government spends £10m more on nurses wages
- C** A household puts £10 000 into an interest paying account
- D** An individual spends £28 000 buying company shares

[1 mark]

1 0

The diagram below shows the initial short run aggregate supply curve ($SRAS_1$) and long run aggregate supply curve ($LRAS_1$) for an economy. $SRAS_2$ and $LRAS_2$ 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

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

[1 mark]



1 1

All other things being equal, under which of the following circumstances is an economy most likely to experience deflation?

	Exchange rate	Labour productivity	Employment	
A	Falling	Falling	Rising	<input type="radio"/>
B	Falling	Rising	Falling	<input type="radio"/>
C	Rising	Falling	Rising	<input type="radio"/>
D	Rising	Rising	Falling	<input type="radio"/>

[1 mark]

1 2

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

- A 0.75
- B 1
- C 1.2
- D 1.25

[1 mark]

1 3

An economy has a surplus on the current account of its balance of payments. Under which of the following circumstances is the economy most likely to experience a reduction in its current account surplus?

	Growth in the world economy	Domestic inflation	Domestic productivity	
A	Falling	Rising	Falling	<input type="radio"/>
B	Falling	Falling	Falling	<input type="radio"/>
C	Rising	Falling	Falling	<input type="radio"/>
D	Rising	Rising	Rising	<input type="radio"/>

[1 mark]



1 4

Which one of the following policy changes represents a contractionary fiscal policy?

- A** A decrease in income tax
- B** A decrease in the budget deficit
- C** An increase in government spending
- D** An increase in the rate of interest

[1 mark]

1 5

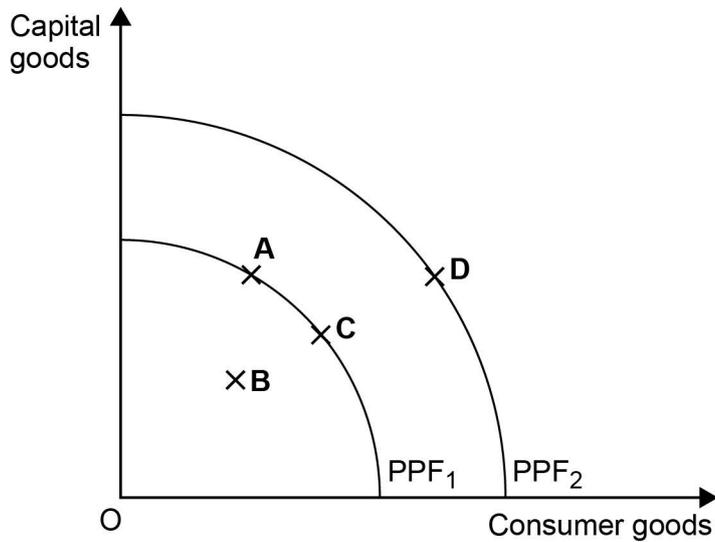
Changes are regularly made to the weights used in the UK's Consumer Prices Index. This means that the index takes account of changes in

- 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.

[1 mark]**Turn over for the next question**

1 6

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?

A A to B

B A to C

C B to C

D C to D

[1 mark]

1 7

The table below shows four possible combinations of circumstances facing the UK economy. All other things being equal, which one of the following combinations is most likely to lead the Monetary Policy Committee of the Bank of England to lower Bank Rate?

	Output gap	Exchange rate	Inflation rate	
A	Negative	Falling	Above target	<input type="radio"/>
B	Negative	Rising	Below target	<input type="radio"/>
C	Positive	Falling	Below target	<input type="radio"/>
D	Positive	Rising	Above target	<input type="radio"/>

[1 mark]



1 8

Which one of the following is most likely to reduce cyclical unemployment in the UK?

- A** A cut in the UK budget deficit
- B** An increase in the pound sterling exchange rate
- C** An increase in the UK retirement age
- D** Higher economic growth in the Eurozone

[1 mark]**1 9**

All other things remaining the same, which one of the following events would directly increase the size of the UK's national debt? An increase in

- A** mortgage borrowing from UK banks.
- B** overseas lending to UK firms.
- C** the UK's current account deficit.
- D** the UK government's budget deficit.

[1 mark]**2 0**

Which one of the following is most likely to improve the supply-side performance of an economy? An increase in

- A** government spending on welfare benefits.
- B** growth in the rest of the world.
- C** labour productivity.
- D** the basic rate of income tax.

[1 mark]

**QUESTION 20 IS THE LAST
QUESTION IN SECTION A.**



Section B

Look at the insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

OR

Questions 27 to 32 on pages 22 to 32 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context 0 1

Context 0 2

WRONG METHODS



CORRECT METHOD



EITHER

Context 1

Total for this Context: 50 marks

MANAGING THE UK ECONOMY

Use the insert provided to study **questions 21 to 26** and **Extracts A, B and C**, and then answer the questions in the spaces which follow.

2 1

Define the term 'real interest rate' **Extract B** (line 5).

[3 marks]

Extra space _____



2 2

The price of a television is £500 without VAT. Use **Extract C** to calculate the decrease in the amount of VAT that would have to be paid on this television as a result of the tax cut introduced by Alistair Darling.

[4 marks]

2 3

Use **Extract A** to identify **two** significant points of comparison between the growth of mortgage lending and the growth of consumer credit over the period shown.

[4 marks]

Comparison 1 _____

Extra space _____

Comparison 2 _____

Extra space _____

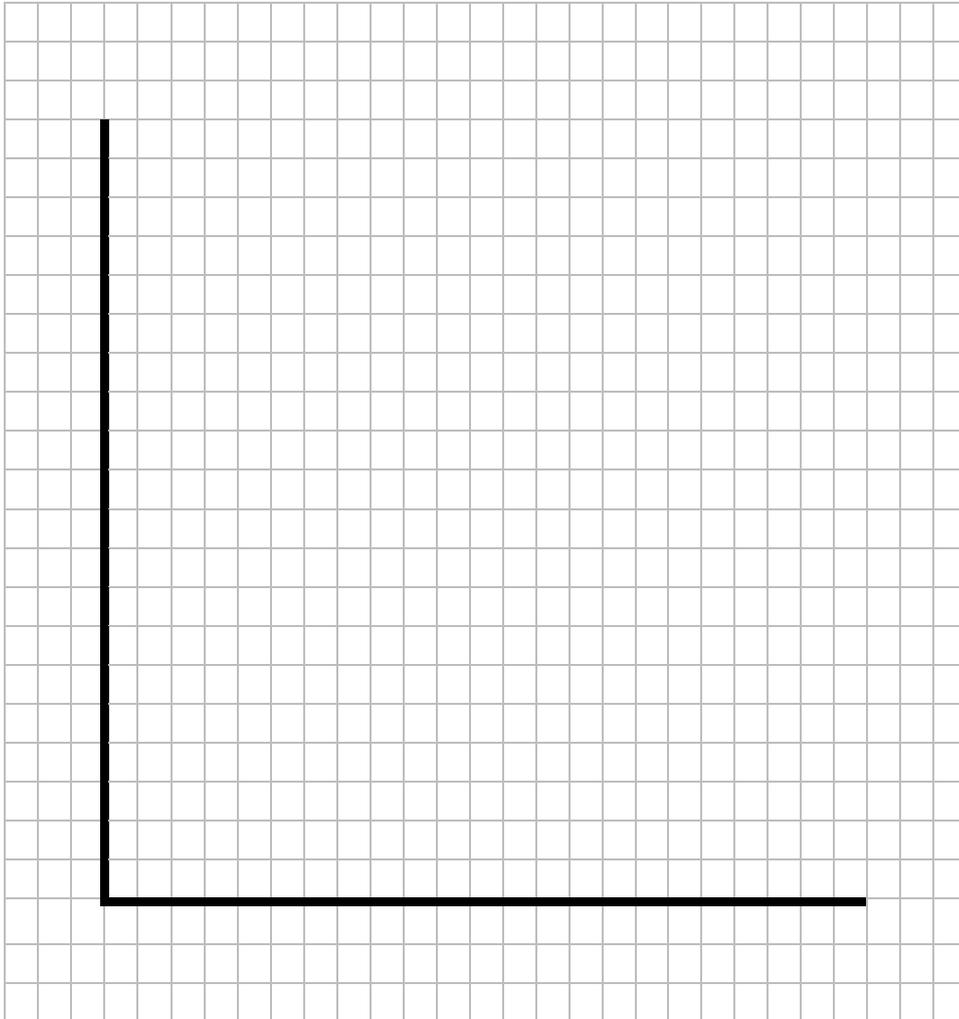


Turn over ►

2 4

Extract B (lines 8–10) states ‘House prices have been rising over the past few years and this has increased homeowners’ wealth.’

Draw an AD/AS diagram to show the impact of an increase in household wealth on both real national income and the price level.

[4 marks]

Turn over for the next question.



Do **NOT** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this Context: 50 marks

UK WAGES AND COMPETITIVENESS

Use the insert provided to study **questions 27 to 32** and **Extracts D, E and F**, and then answer the questions in the spaces which follow.

2 7

Define the term 'deficit on the balance of trade in goods and services' **Extract E** (line 14).

[3 marks]

Extra space

2 8

Use **Extract E** to calculate, to **two** decimal places, the percentage change in the median real wage between 2004 and 2015.

[4 marks]



2 9

Use **Extract D** to identify **two** significant points of comparison between the balance of trade in goods and the balance of trade in services over the period shown.

[4 marks]

Comparison 1

Extra space

Comparison 2

Extra space

Turn over for the next question

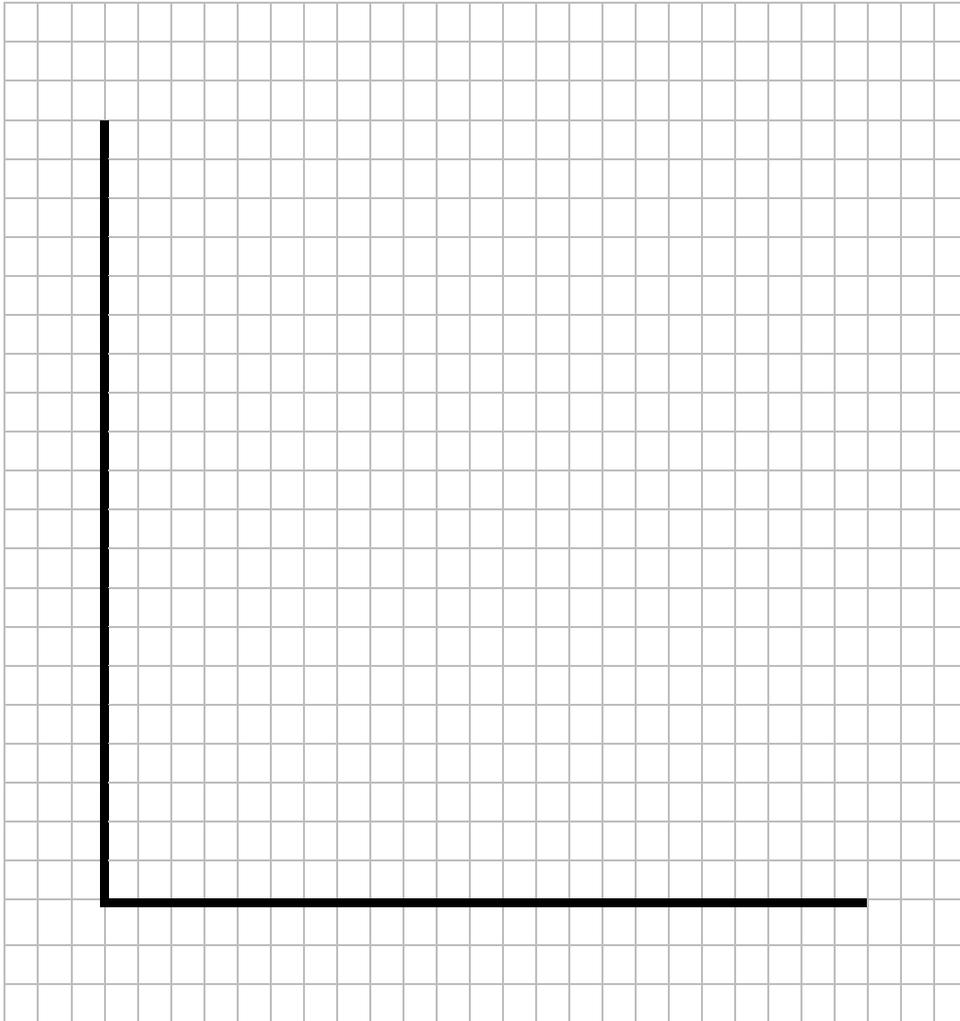


Turn over ►

3 0

Extract E (lines 1-2) states ‘...the causes include a stronger pound, higher energy prices’.

Draw an AD/AS diagram to show the impact of higher energy prices on the price level and real output.

[4 marks]

AS ECONOMICS

Paper 2 The National Economy in a Global Context

Insert

DO NOT WRITE ANY ANSWERS IN THIS INSERT. YOU MUST ANSWER THE QUESTIONS IN THE ANSWER BOOKLET PROVIDED.

CONTEXT 1: MANAGING THE UK ECONOMY

Questions 21 to 26

- **Extract A:** Lending to households and businesses, annual percentage change, 2004 to 2015
- **Extract B:** Consumer borrowing is rising
- **Extract C:** Is history repeating itself?

CONTEXT 2: UK WAGES AND COMPETITIVENESS

Questions 27 to 32

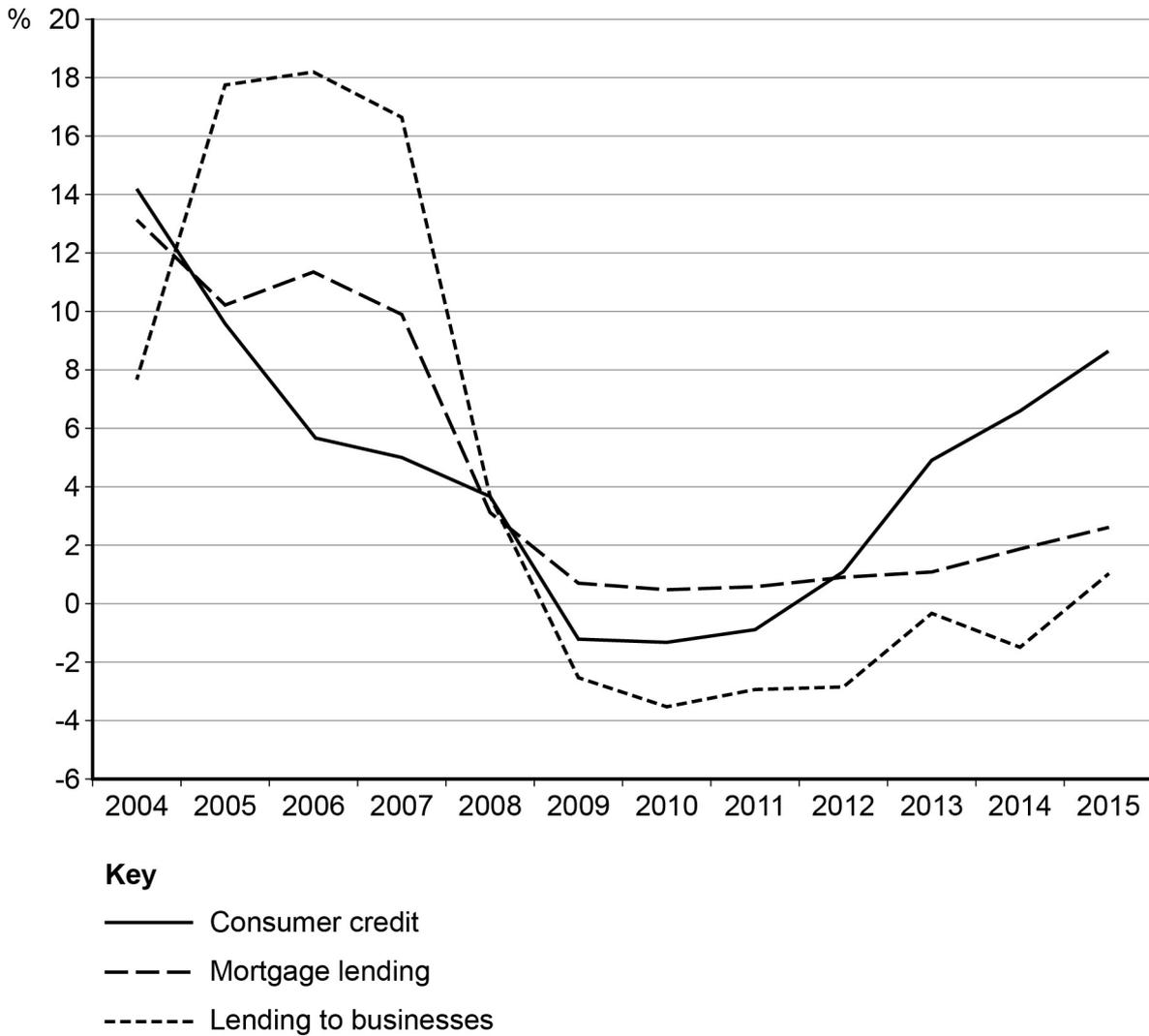
- **Extract D:** UK balance of payments on current account, January 2014 to March 2016, £ billion
- **Extract E:** Balance of payments problems
- **Extract F:** Productivity and competitiveness

Context 1

Total for this context: 50 marks

MANAGING THE UK ECONOMY

Extract A: Lending to households and businesses, annual percentage change, 2004 to 2015



Note: Consumer credit is unsecured borrowing such as credit cards, personal loans and overdrafts

Source: Bank of England Inflation Report, February 2016

Extract B: Consumer borrowing is rising

Japan's central bank introduced negative interest rates in January 2016, joining some European countries that have already followed this route in an attempt to stimulate their economies. Should the UK follow the same route? With the economy growing and unemployment falling, many economists see no reason for such a move. Some nominal interest rates are lower than inflation, and for many in the UK the real interest rate on their savings has been negative for a while. 1
5

Although wages have risen, consumers are still borrowing more and using their savings to fund their spending. Despite the introduction of tighter controls on mortgage lending, house prices have been rising over the past few years and this has increased homeowners' wealth, contributing to the growth in household consumption. Household debt at the end of December 2015 stood at £1455bn compared to £1424bn at the end of December 2014. The average debt per household, including mortgages, was £53 904 in December 2015. Cheaper credit may be a reason for the rise in borrowing and debt but other factors, such as the Government's 'Help to Buy' scheme may have caused house prices to rise. 10

The concern is that a recovery based on consumer spending and rising debt may not be sustainable in the long run. As consumers continue to borrow more and empty their savings accounts, what will happen when interest rates eventually rise? 15

Source: News reports, January 2016

Extract C: Is history repeating itself?

In 2006, the UK economy was in a very different place. Unemployment was around 5%, inflation was close to its 2% target and earnings were rising at 4% per year. Today, although employment remains strong, average earnings are rising more slowly than before the financial crisis. 1

When the crisis began, the UK responded with a number of both fiscal and monetary policy measures. Fiscal policy was relaxed during the height of the crisis when the then Chancellor of the Exchequer, Alistair Darling, cut Value Added Tax (VAT) from 17.5% to 15% and allowed the budget deficit to increase from around £40bn in 2007 to over £154bn in 2009. The Bank of England cut Bank Rate from 5.75% in 2007 to 0.5% in 2009 and introduced a programme of quantitative easing (QE), designed to boost lending and reduce long-term interest rates. The pound sterling exchange rate also fell by about 25% between 2007 and 2009. 5
10

In 2010, the Coalition Government introduced austerity measures. A tighter fiscal policy was adopted to reduce the budget deficit. Meanwhile, loose monetary policy was used to bring about a recovery of the UK economy. Some economists have blamed the tightening fiscal policy for the slow growth of the UK economy between 2010 and 2012. 15

Austerity measures have continued but concessions have been made. There have been significant tax cuts. Corporation Tax was reduced between 2010 and 2016 from 28% to 20%, and the tax-free personal allowance for individuals has increased from £6 475 to £11 000. However, VAT is now 20% and there are continued cuts to public expenditure. 20

Some believe that the government should be spending more on infrastructure, support for industry and measures to encourage improvements in productivity.

Source: News reports, January 2016

Turn over for Context 1 questions

Turn over ►

Context 1 – Questions 21 to 26

- 2 1** Define the term 'real interest rate' **Extract B** (line 5). **[3 marks]**
- 2 2** The price of a television is £500 without VAT. Use **Extract C** to calculate the decrease in the amount of VAT that would have to be paid on this television as a result of the tax cut introduced by Alistair Darling. **[4 marks]**
- 2 3** Use **Extract A** to identify **two** significant points of comparison between the growth of mortgage lending and the growth of consumer credit over the period shown. **[4 marks]**
- 2 4** **Extract B** (lines 8–10) states 'House prices have been rising over the past few years and this has increased homeowners' wealth.'
- Draw an AD/AS diagram to show the impact of an increase in household wealth on both real national income and the price level. **[4 marks]**
- 2 5** **Extract B** (line 12) states 'The average debt per household, including mortgages was £53 904 in December 2015.'
- Explain **two** factors that influence the willingness of UK households to borrow. **[10 marks]**
- 2 6** **Extract C** (lines 13–15) states 'A tighter fiscal policy was adopted to reduce the budget deficit. Meanwhile, loose monetary policy was used to bring about a recovery of the UK economy.'
- Use the extracts and your knowledge of economics to assess the contribution that fiscal policy **and** monetary policy can make in sustaining the recovery of an economy, such as the UK. **[25 marks]**

There are no questions printed on this page

Turn over for Context 2

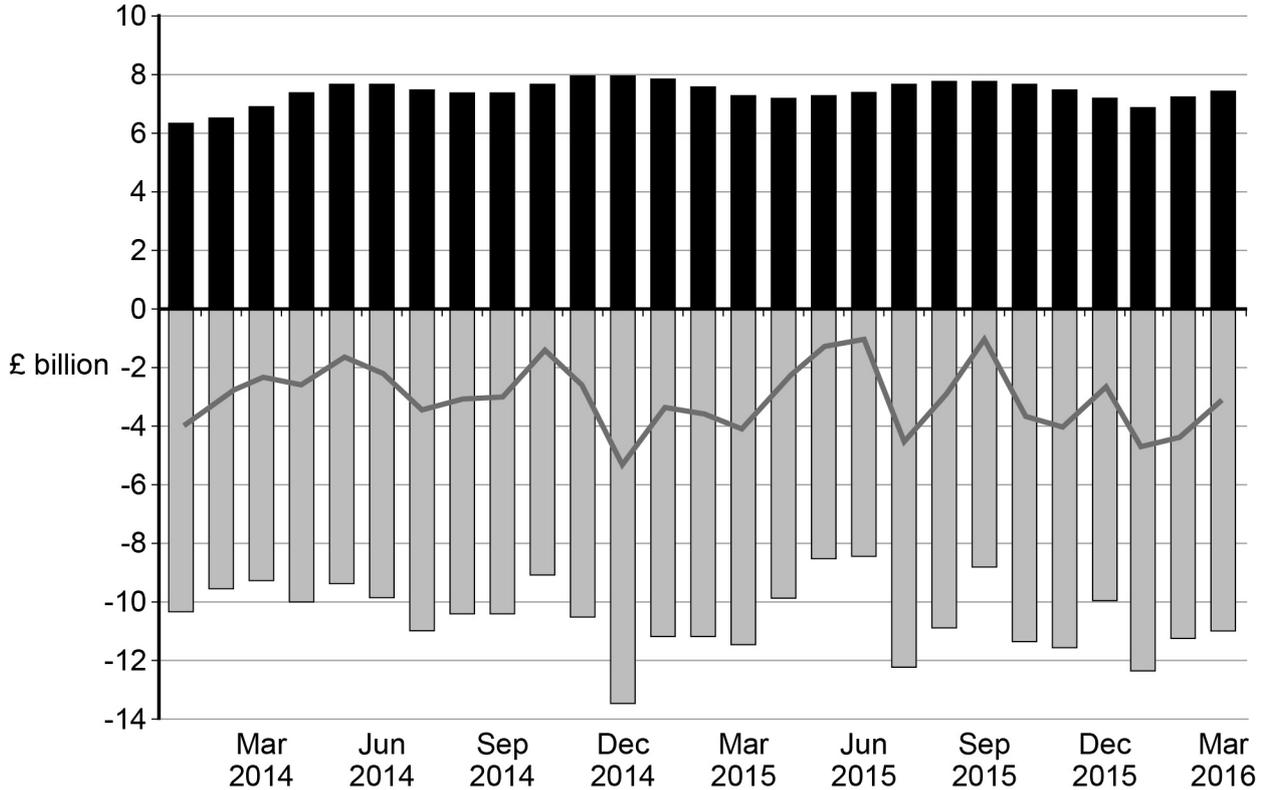
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Context 2

Total for this Context: 50 marks

UK WAGES AND COMPETITIVENESS

Extract D: UK balance of trade in goods and services, January 2014 to March 2016, £ billion



Key

- Balance of trade in goods
- Balance of trade in services
- Balance of total UK trade

Note: The data show the balance of trade in goods and services for each month between January 2014 and March 2016.

Source: Office for National Statistics, May 2016

Extract E: Balance of payments problems

The manufacturing sector fell into recession in 2015; the causes include a stronger pound, higher energy prices and weakening global growth. In addition, the threat of a crisis in emerging market economies such as Mexico, Indonesia and Thailand has done little to fuel confidence in the growth of the global economy. 1

However, it is not all doom and gloom as the UK economy continues to grow and low inflation has led to a rise in real wages. Nevertheless, the median real wage is below the 2004 level of £548.60 per week, standing at £527.70 in 2015. If real wages are to continue to increase, a sustained growth in productivity is essential. Without an increase in productivity, UK manufacturing industry will not be able to compete on the world stage. 5

Consumers have seen a small increase in their real wages since 2014 and the savings ratio has slipped to almost half its 10% long-run average. Consumers have increased their spending by using their savings and taking advantage of cheap loans, as interest rates remain historically low. The increase in spending may be a factor contributing to the growing deficit on the balance of trade in goods and services. 10

Source: News reports, January 2016

Extract F: Productivity and competitiveness

In January 2016, the International Monetary Fund (IMF) reduced its forecasts of global growth for the next two years. Falling oil prices and fears over China's slowdown have led the Governor of the Bank of England to indicate that interest rates are unlikely to rise in the near future. 1

Following the IMF's announcement, the pound fell against the dollar. This may give a boost to the UK's exporting industries and result in an improvement in the balance of trade. However, productivity remains a key issue in improving competitiveness and aiding the recovery of the economy. Without an increase in productivity, it is unlikely that a rise in real wages can be sustained. The government is hoping for an export-led recovery but, at present, the growth in the UK economy is heavily dependent on increasing consumption. 5
10

The British Chambers of Commerce (BCC) reported that manufacturing exports are stagnating and with the economy overly dependent on the service sector, export-led growth may take some time to achieve. The BCC claim a number of supply-side measures will be required, such as improving the economy's infrastructure and the skills of the workforce. However, with the European Union economies struggling to recover, it may be some time before exports and the balance of trade improve. It is clear that there is much to be done if the UK is to pay its way with the rest of the world. 15

Source: News reports, January 2016

Turn over for Context 2 questions

Turn over ►

Context 2 – Questions 27 to 32

- 2 7** Define the term 'deficit on the balance of trade in goods and services' **Extract E** (line 14).
[3 marks]
- 2 8** Use **Extract E** to calculate, to **two** decimal places, the percentage change in the median real wage between 2004 and 2015.
[4 marks]
- 2 9** Use **Extract D** to identify **two** significant points of comparison between the balance of trade in goods and the balance of trade in services over the period shown.
[4 marks]
- 3 0** **Extract E** (lines 1-2) states '...the causes include a stronger pound, higher energy prices'.
Draw an AD/AS diagram to show the impact of higher energy prices on the price level and real output.
[4 marks]
- 3 1** **Extract F** (lines 7–8) states 'productivity remains a key issue in improving competitiveness and aiding the recovery of the economy.'
Explain **two** factors that may have contributed to low productivity in the UK.
[10 marks]
- 3 2** **Extract F** (lines 16-17) states 'there is much to be done if the UK is to pay its way with the rest of the world.'
Use the extracts and your knowledge of economics to assess the policies that could be used to reduce the UK's balance of trade deficit.
[25 marks]

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