Oxford Cambridge and RSA

Monday 22 May 2023 – Afternoon

A Level Economics

H460/02 Macroeconomics

Time allowed: 2 hours

You can use:
- a scientific or graphical calculator

Please write clearly in black ink. **Do not write in the barcodes.**

Centre number | | | | | | Candidate number | | | | |

First name(s) ____________________________

Last name ____________________________

INSTRUCTIONS
- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions in Section A, **one** question in Section B and **one** question in Section C.

INFORMATION
- The total mark for this paper is **80**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **20** pages.

ADVICE
- Read each question carefully before you start your answer.

SECTION A

Read the stimulus material and answer **all** parts of Question 1.

International competitiveness

In 2019, the UK had a trade in goods and services deficit of £30.5bn and a current account deficit of £95.3bn. A country's international competitiveness is influenced primarily by the relative price and quality of its products.

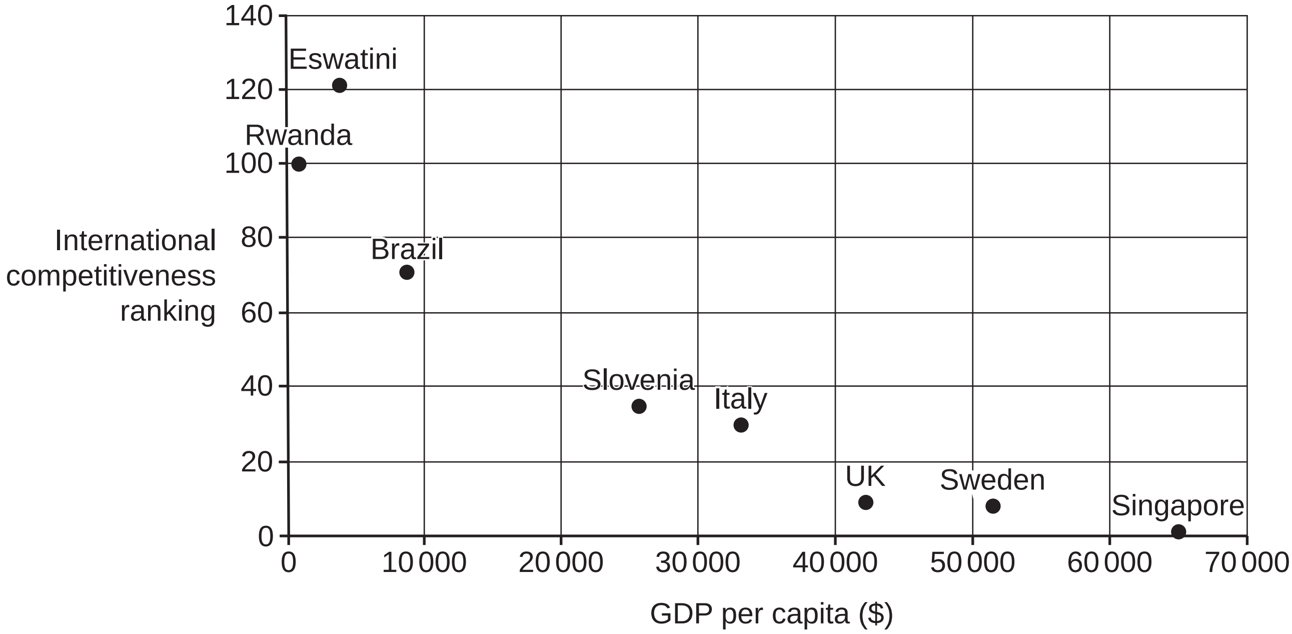
In the 2019 global competitiveness index, published by the World Economic Forum, the UK was ranked 9th out of 141 countries. This position was down one on 2018. Singapore was placed 1st in 2019 and 2nd in 2018.

The World Economic Forum considers 12 categories of influences on a country's international competitiveness. These include the country's financial system, the skills of its workers and its macroeconomic stability. The UK has a strong financial system and was placed 7th in this category. Its central bank has experience in, for instance, maintaining price stability and engaging in quantitative easing. The country's commercial banks provide savings facilities, loans and other services for their customers.

The UK was placed 11th in the skills category. A more skilled labour force is likely to have higher productivity. In turn, productivity can also be affected by working hours. Between 2018 and 2019, average working hours fell in Germany, the UK and the USA and labour productivity rose. In contrast, both average working hours and labour productivity rose in Poland and both fell in Mexico over this period.

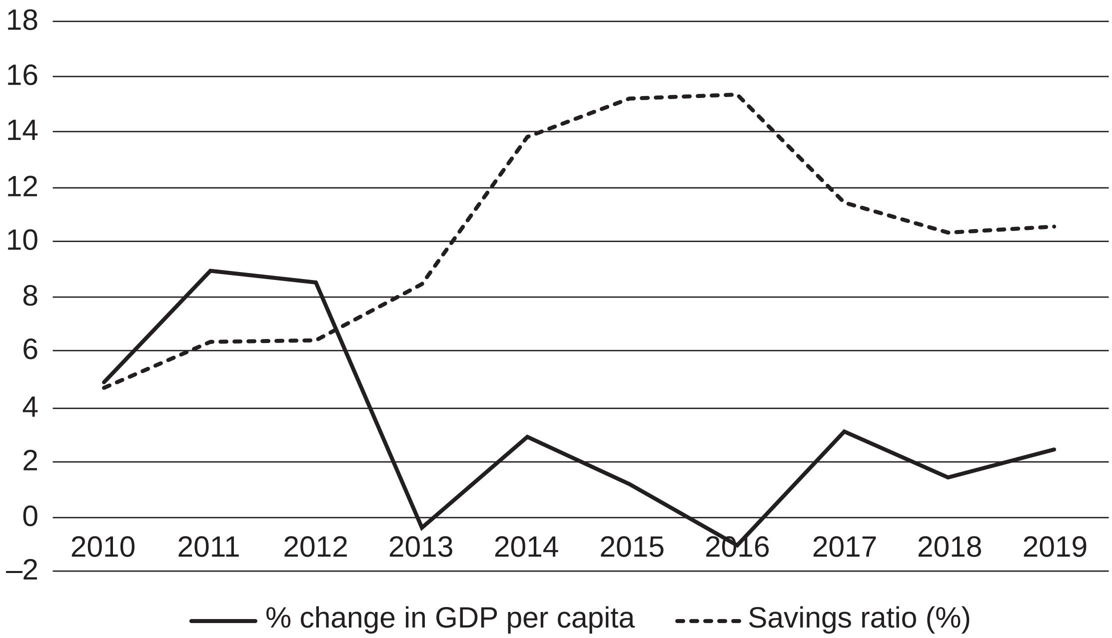
The category in the global competitiveness index which the UK performed best in was macroeconomic stability. It came 1st achieving a maximum score of 100. Macroeconomic stability can increase business confidence. This can increase investment, international competitiveness and GDP per capita. Fig. 1 shows the international competitiveness ranking of eight countries and their GDP per capita.

Fig. 1
International competitiveness ranking and GDP per capita of selected countries



The country which experienced the largest increase in international competitiveness ranking between 2018 and 2019 was Rwanda. The main destination of Rwanda's exports is the UAE and its main source of imports is China. Rwanda's imports to GDP rose from 28% in 2010 to 35% in 2019 and GDP per capita increased from \$610 to \$802. Fig. 2 shows the savings ratio (average propensity to save) and the changes in GDP per capita in Rwanda over the period.

Fig. 2
Rwanda's savings ratio and change in GDP per capita 2010–2019



The Rwandan government tried to increase the savings ratio over the period. The government wanted to increase the domestic supply of finance for investment. It encouraged adults to open savings accounts at banks and students to join savings clubs. It did not, however, change tax rates over this period.

Higher investment would be likely to increase Rwanda’s international competitiveness. The country’s inflation rate also affects international competitiveness. Table 1 shows Rwanda’s, China’s and the UAE’s inflation rates and the global average inflation rate over the period 2010 and 2019.

Table 1
Inflation rates for Rwanda, China and the UAE and the global average inflation rate 2010 to 2019

Year	Rwanda’s inflation rate (%)	China’s inflation rate (%)	UAE’s inflation rate (%)	Global average inflation rate (%)
2010	–0.3	3.2	0.9	3.3
2011	3.1	5.5	0.9	4.8
2012	10.3	2.6	0.7	3.7
2013	5.9	2.6	1.1	2.6
2014	2.3	1.9	2.3	2.3
2015	2.5	1.4	4.1	1.4
2016	7.2	2.0	1.6	1.5
2017	8.3	1.6	2.0	2.2
2018	–0.3	2.1	3.1	2.5
2019	3.4	2.9	–1.9	2.3

Wages rose in Rwanda between 2010 and 2019 at a higher rate for skilled than unskilled workers. Unemployment fell and foreign direct investment increased slightly, although it was still low.

1 **(a)** Using information from the stimulus material, calculate the balance on the UK's primary and secondary income in 2019.

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.... **[2]**

(b) Using information from the stimulus material, identify **two** causes of an increase in the money supply.

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[2]

(c) Explain how a change in working hours is likely to affect productivity.

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(d) Using **Fig. 1**, explain the relationship between international competitiveness and GDP per capita.

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(e) Using information from the stimulus material, evaluate whether the size of Rwanda's multiplier is likely to have increased between 2010 and 2019.

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(f) Using information from the stimulus material, evaluate whether the changes in Rwanda's price level between 2010 and 2019 is likely to have harmed Rwandan households and firms.

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SECTION B

Answer Question **2 or** Question **3**.

EITHER

2* Consumer expenditure rose in the USA in 2019. In that year, US unemployment fell to a 50-year low of 3.5%.

Evaluate, with the use of an appropriate diagram(s), whether an increase in consumer expenditure will always reduce a country's unemployment rate. **[25]**

OR

3* Between July 2018 and August 2020, the value of the Turkish lira fell from 4.73 lira to 1 US dollar to 7.32 lira to 1 US dollar. The Turkish central bank spent much of its foreign currency reserves in attempt to stop the decline in the country's exchange rate.

Evaluate, with the use of an appropriate diagram(s), whether a central bank should try to stop a decline in a country's exchange rate. **[25]**

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SECTION C

Answer Question **4 or** Question **5**.

EITHER

4* Since 1978, more than 800 million people have been lifted out of poverty in China. In this period, the Chinese government has made increasing use of supply side policy measures.

Evaluate the effectiveness of using supply side policy measures to reduce poverty. **[25]**

OR

5* In 2020, the Saudi Arabian government tripled Value Added Tax from 5% to 15%. It did not change the country's corporate tax rate.

Evaluate whether a government should rely more on indirect or direct taxation as a source of revenue. **[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).