Please check the examination details below before entering your candidate information

Candidate surname	Other names
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Centre Number: 1 3 2 7 7

Candidate Number: 3 1 6 0

Pearson Edexcel Level 3 GCE

Monday 22 May 2023

Afternoon (Time: 2 hours)

Paper reference **9EC0/02**

Economics A

Advanced

PAPER 2: The National and Global Economy

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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Pearson

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

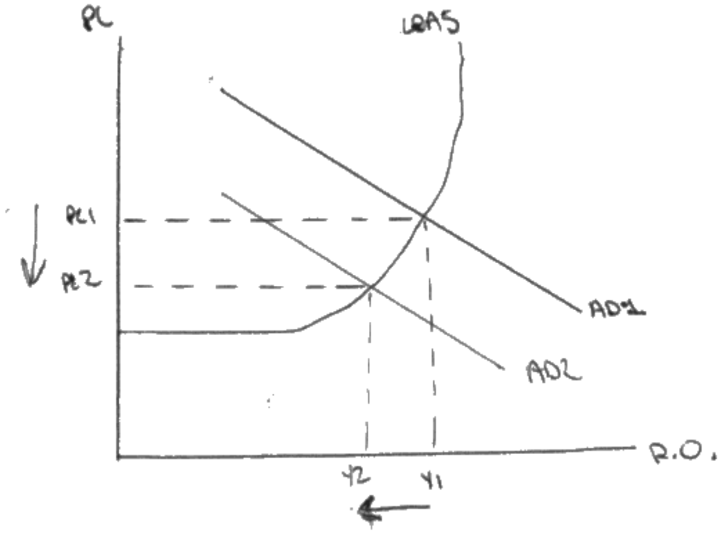
Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 In September 2022 the Bank of England increased the base interest rate from 1.75% to 2.25%.

(Source: adapted from https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp)

(a) Draw an aggregate demand and aggregate supply diagram to illustrate the likely impact of an increase in the UK base interest rate on the average price level and real output.

(4)



(b) Which **one** of the following is the most likely impact of an increase in the base interest rate?

(1)

A decrease in the:

☒ **A** level of demand pull inflation ✓

☐ **B** marginal propensity to save ×

☐ **C** rate of cyclical unemployment ×

☐ **D** value of the pound against the dollar

(Total for Question 1 = 5 marks)

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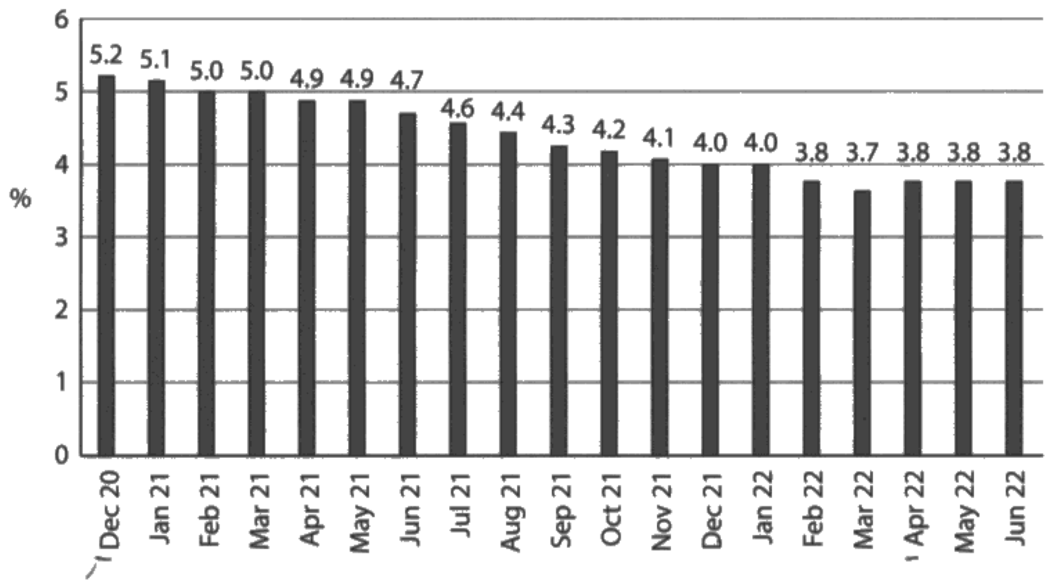
QUESTION 2 BEGINS ON THE NEXT PAGE.

2 UK unemployment rate (%), December 2020 – June 2022



(Source: adapted from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/august2022)

(a) With reference to the chart, which **one** of the following is true?

(1)

The unemployment rate:

☒ **A** fell by 1.4% between December 2020 and April 2022

☒ **B** fell by one percentage point between February 2021 and December 2021 ✓

☒ **C** was highest in March 2022 and lowest in December 2020

☒ **D** will continue to rise but at a slower rate

(b) With reference to the chart on the previous page, explain **one** likely reason for the change in the UK's rate of unemployment.

(4)

A likely reason for the change in the UK's rate of unemployment is improved education/skills of the labour force. If the UK government increased government spending on education (e.g. through funding apprenticeship training), the individuals who experience this training develop more skills and qualifications. In the long-run this will make them more productive and so they are more attractive to employers. As a result, they can now become employed which can be implied through the chart as the UK unemployment rate fell by 1.4 percentage points between Dec 20 and Jun 22.

(Total for Question 2 = 5 marks)

3 UK real GDP, 2020–2022

	Annual percentage change on previous year	Total (£ millions)
2020	–9.9%	2 045 091
2021	7.5%	2 198 473
2022*	3.5%	

*2022 figures are forecast

(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp)

(a) Calculate the value of the total forecast GDP in 2022.

(2)

2198473 × 1.035
= £2275419.56 (2 d.p.)
(£millions)

(b) Explain **one** likely cost of UK real GDP falling by 9.9% in 2020.

(2)

One cost of UK real GDP falling in 2020 is less foreign direct investment. There will be less FDI as the fall in economic growth reduces business confidence and animal spirits. Therefore, FDI into the UK will decrease which reduces potential growth.

(c) Which **one** of the following is most likely to lead to an increase in potential economic growth?

(1)

An increase in:

☒ **A** consumption AD

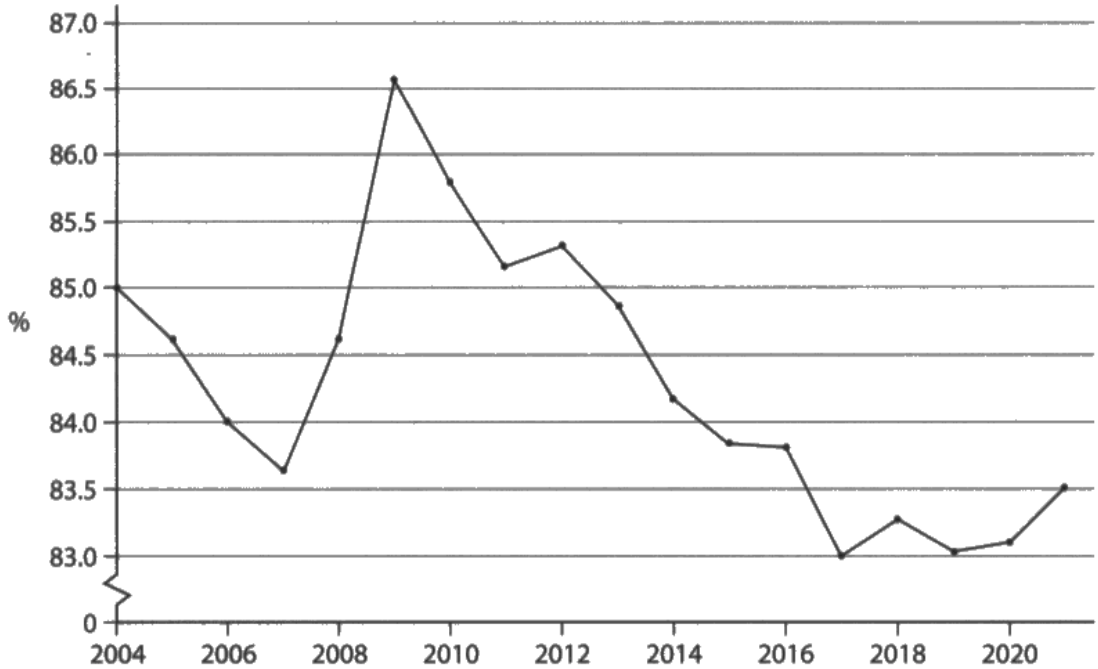
☒ **B** costs of raw materials and energy

☒ **C** income tax

☒ **D** technological advances

(Total for Question 3 = 5 marks)

4 UK consumption, % of GDP, 2004–2021



(Source: adapted from https://data.worldbank.org/indicator/NE.CON.TOTL.ZS?end=2021&locations=GB&start=2002)

(a) Which **one** of the following is an example of consumption?

(1)

- ☒ **A** Construction of a new cycle lane G
- ☒ **B** Expansion of Heathrow Airport
- ☒ **C** New school buildings G
- ☒ **D** Purchase of new clothes

P 7 2 9 8 1 A 0 8 3 6

(b) With reference to the chart on the previous page, explain the likely effect of a fall in the marginal propensity to consume on the level of real GDP. Refer to the multiplier in your answer.

(4)

A fall in the marginal propensity to consume will decrease the level of GDP. In 2007 UK consumption was at 83.6% which was a decrease in consumption since 2004 when it was at 85%. Consumption is a component of aggregate demand and so a decrease in consumption will decrease AD, causing AD to shift inwards. Furthermore, as consumption decreases, there is less money in the circular flow of income and firms/workers are paid less. This directly causes the negative multiplier effect as the initial ~~[illegible]~~ reduction in consumption has a knock on effect onto the rest of society. Ultimately, real GDP will ~~significantly~~ fall due to the negative multiplier effect which causes AD to shift inwards twice.

(Total for Question 4 = 5 marks)

P 7 2 9 8 1 A 0 9 3 6

Turn over ▶

5 In 2021, the US total GDP was $23 trillion and national debt was $28.4 trillion.

(Source: adapted from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US and https://fiscaldata.treasury.gov/national-debt/)

(a) Calculate the US national debt in 2021 as a percentage of GDP.

(2)

debt = 28.4 trillion

GDP = 23 trill

$\frac{28.4}{23} \times 100 = 123.48\%$ (2d.p.)

(b) Explain the relationship between a fiscal deficit and the national debt.

(2)

As ~~there~~ is a fiscal deficit, the national debt increases. they are proportional.
National debt is the accumulative sum of past fiscal deficits.

(c) Which **one** of the following is the most likely consequence of an increase in the US national debt?

(1)

An increase in:

- ☒ **A** crowding out
- ☒ **B** inequality
- ☒ **C** poverty
- ☒ **D** unemployment

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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QUESTION 6 BEGINS ON THE NEXT PAGE.

SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

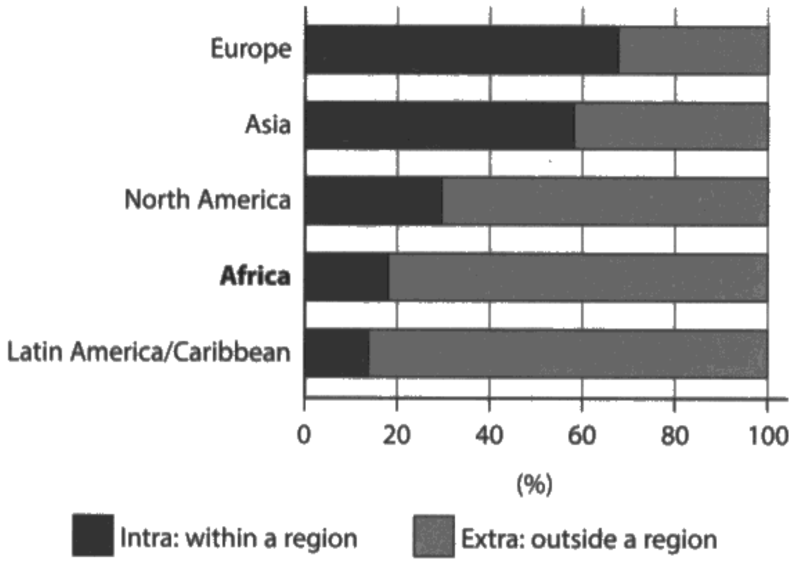
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and development in Africa

Figure 1: Intra- and extra-regional exports as a percentage of total exports, 2020



(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract A: Why it costs so much to move goods around Africa

Lorries carrying, among other things, cobalt from Congo, copper from Zambia and tea from Malawi queued for miles as they waited to cross the Limpopo river into South Africa. Many were there for days. Some drivers bribe their way to the front; 1 000 rand (£49) is the going rate. Others cannot afford to.

African politicians say they want to end such delays. The African Continental Free Trade Area (AfCFTA) regional trade agreement, so far agreed by 41 of Africa's 55 countries, could boost the region's economies by making it easier to trade between themselves. In 2020 just 18% of exports were to other African countries (see Figure 1), lower than the equivalent in North America (30%), Asia (58%) or Europe (68%). More trade within the region could lead to more jobs, higher wages and less poverty.

The AfCFTA pledges to improve trade in two ways. The first is by reducing tariffs. This could boost intra-African trade by 15% to 25%, says the IMF. The second is to reduce non-tariff barriers which could cause a 50% rise in intra-African trade.

Poor infrastructure is a major barrier to trade. Africa's land area is bigger than China, India, the United States and much of Europe combined. Yet its railway network is not very much bigger than France's and Germany's put together. Many lines were built by colonial companies to link mines to ports, rather than countries to one another. Newer Chinese-built railways across African borders are under-used, either because they struggle to compete on price with road transport or because they lack additional services such as storage yards.

Ports are small and slow. Cargo waits for more than two weeks on average, compared to less than a week in Asia, Europe and Latin America. Handling costs are around 50% higher than in other parts of the world.

Nearly 90% of transport of goods goes by road, of which there are not enough. Road quality is poor. Just 800 000 km of the total of 2.8 million km in sub-Saharan Africa are paved.

The IMF estimates that if the quality of Africa's infrastructure were brought up to the global average this would increase intra-African trade by 7%. However, even bigger gains could be made by improving how trade flows. The key problem is a lack of information. In much of the world large firms can buy space on trains or lorries as they need it. But in Africa, where markets for this do not exist, firms such as miners have to sign long-term contracts with larger transport firms in which they agree to pay for capacity, whether they use it all or not.

(Source: adapted from https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa)

Extract B: Economic reform in Angola

When the new president, João Lourenço, took power in the southern African country of Angola in 2017, he pledged to reform the economy. This is a challenging task. The oil industry accounts for nearly all of Angola's exports and two-thirds of government revenues. The government is heavily involved in oil production along with significant foreign direct investment from international firms such as Chevron and Total. Declining production and falling oil prices brought about a collapse in GDP and rapidly rising debts to China and the IMF.

To reduce the cost of debt repayments, improve the country's fiscal position, and support a steadily declining debt-to-GDP ratio, the government of Angola has opted for debt relief. Together with a complete stop on debt repayments for the next three years, Angola will gain additional cash flow of $6.9 billion in 2020–22. This will help bring Angola's total annual borrowing to a much more manageable level of around 8.7% of GDP. With improved finances the government will have more money to spend supporting the economy and providing vital public services to its citizens, over 17 million of whom still live in absolute poverty.

The IMF, which has since 2018 agreed to lend $4.5 billion to Angola, is also encouraged by the country's fiscal policies. The finance minister, Vera Daves de Sousa, wants the state oil firm to sell shares to the public and for over one hundred state firms to be privatised. There have been delays – just 34 sales have taken place so far. But, she says, private firms must be the 'main driver' of growth and the economy must diversify away from oil.

Since 2019 Angola has ended government intervention in the foreign exchange market and moved towards a floating exchange rate. This led to a rapid depreciation in the kwanza (the Angolan currency) before stabilising after a few months.

(Sources: adapted from https://www.economist.com/middle-east-and-africa/2021/02/20/joao-lourencos-reforms-in-angola-are-pleasing-the-imf, https://www.cabri-sbo.org/en/blog/2021/country-spotlight-angolas-commitment-to-prudent-and-proactive-public-debt-management, and https://www.focus-economics.com/countries/angola/news/special/kwanza-dives-to-all-time-low-as-central-bank-floats-the-currency)

6 (a) With reference to Extract A, explain what is meant by a 'regional trade agreement' (Extract A, line 7).

(5)

(b) With reference to Extract A, examine **two** causes of the high cost of transporting goods between African countries.

(8)

(c) Discuss the impact of improved transport links between African countries on economic growth rates.

(12)

(d) Assess **two** likely benefits of debt relief to Angola. Refer to Extract B in your answer.

(10)

(e) Discuss market-orientated strategies the Angolan government could use to improve development.

(15)

6 (a) With reference to Extract A, explain what is meant by a 'regional trade agreement' (Extract A, line 7).

(5)

A regional trade agreement, such as the African Continental Free Trade Agreement (AfCTA) is a form of trade liberalisation which aims to make it easier for a specific region to "trade between themselves". Regional trade agreements aim to enhance trade through "reducing tariffs" which would increase intra-African trade by "15-20%". They also aim to "reduce non-tariff barriers" which would see a "30% rise in intra-African trade. All in all, regional trade agreements will enhance trade in a specific region with select member states.

(b) With reference to Extract A, examine **two** causes of the high cost of transporting goods between African countries.

(8)

One cause of high cost of transporting goods between African countries is poor infrastructure. As Extract A suggests, "handling costs are around 50% higher than the rest of the world" in African countries due to ports being "small and slow". Poor infrastructure reduces the productivity of workers and output which therefore leads to greater costs when transporting goods between African countries. Government spending into infrastructure will enhance productivity levels and output which will reduce costs.

However, developing infrastructure is costly which will force governments to increase direct and indirect taxes. This will lead to higher costs and so underdeveloped infrastructure may be more cost-efficient.

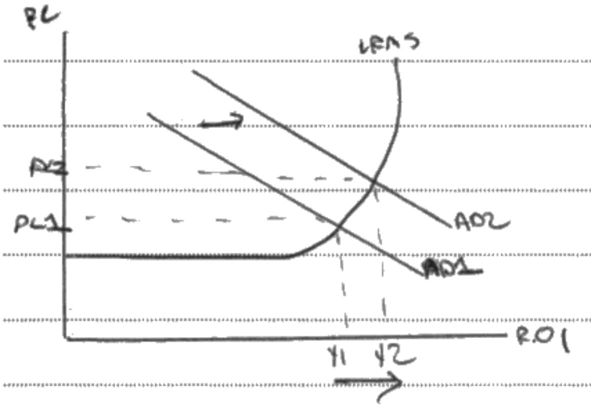
Another cause of high cost of transporting goods between African countries is the presence of protectionist policies. For example, tariffs are in place between African countries. Tariffs increase the costs to producers for their output which makes transporting goods expensive.

However, this can be challenged as African countries are liberalising trade through regional trade agreements (AfCFTA) which will remove tariffs and lower/remove costs of transporting goods.

(c) Discuss the impact of improved transport links between African countries on economic growth rates.

(12)

Improved transport links between African countries will increase economic growth rates due to export-led growth



As transport links are improved the cost of transporting goods, which were originally "30% higher than the rest of the world", will decrease. This is because transporting goods becomes more efficient. As the costs of transporting goods decrease, the costs to African producers also decreases. As a result, African producers can sell goods at a lower price, meaning ~~meaning~~ that their exports become relatively cheaper to the rest of the world. As African ~~exports~~ are relatively cheaper, African countries become more internationally competitive. Subsequently exports significantly increases and the trade balance (X−M) improves. As exports are a component of AD, AD will shift outwards (AD1 → AD2, diagram above). This export led growth will directly lead to increased economic growth rates as shown in the diagram, Y1 → Y2.

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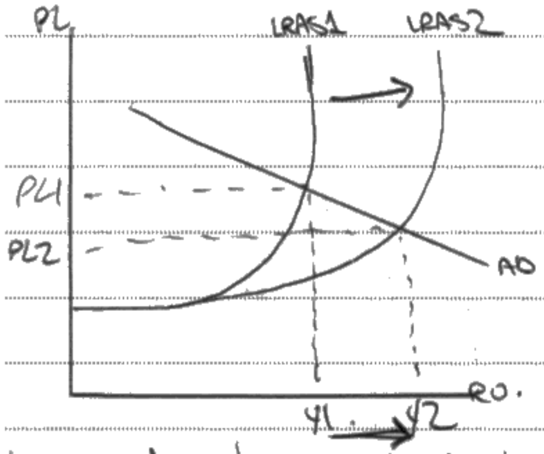
Turn over ▶

However, economic growth may not sustain through export-led growth. This is because as X>M, the currency of African countries appreciates as their is increased inflow of foreign currencies. As a result, the purchasing power of other export countries will relatively decrease, making African goods more expensive. Therefore, there will be a decline in African exports which limits economic growth.



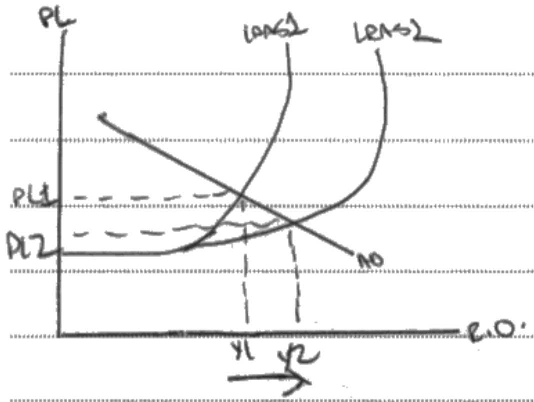
Improved transport links between African countries will enhance the productive capacity of the economy which will boost economic growth rates. The improvement of African transport links, such as "ports and railways" will use any spare capacity ~~and~~ and maximise productivity. This eliminates inefficiencies and wasted factors of production - in this instance land. Maximising the economy's capacity will ~~be~~ increase aggregate supply as shown in the diagram above.

LRAS 1 → CRAS2. Due to the efficient use of ~~the~~ land in African countries, there is subsequent economic growth, as seen in the diagram, Y1 → Y2. ~~[illegible]~~
However, this depends on time lags as developing transport links, such as railways, can take months to years. Therefore, improving transport links will not instantaneously enhance economic growth rates, but rather in the long-term.

increasing economic
growth

(d) Assess **two** likely benefits of debt relief to Angola. Refer to Extract B in your answer.

(10)



One benefit of debt relief to Angola would be increased economic growth. As Angola opted for debt relief which "stopped debt repayment for the next 3 years" and granted "$6.9 billion" of additional cash flow, the government could pursue expansionary fiscal policy. Due to not having to pay debt (which is a huge opportunity cost), the Angolan government can spend elsewhere ~~to~~ due to the relief received from the IMF/World Bank. Angola can spend $6.9 billion on ~~key sectors~~ "vital public services" such as education and healthcare. In doing so, Angola will enhance the productivity of the labour force who develop skills and live longer lives through this strategy. The increase in quality of factors of production, in this instance labour, will cause aggregate supply to increase. This can be seen in the diagram above as LRAS shifts from LRAS1 → LRAS2 which leads

P 7 2 9 8 1 A 0 2 2 3 6

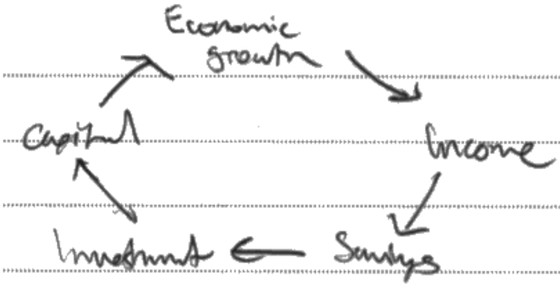
to strong economic growth from Y1-Y2. However, this depends on the restrictions that the IMF/World Bank impose on Angola. In reality, Angola may be forced to adopt different strategies, such as tackling absolute poverty, rather than boosting economic growth.

Another benefit of debt relief to Angola would be eliminating absolute poverty. By not having to pay debt for "3 years" and gathering $6.9 billion, the Angolan government can help its citizens that are in absolute poverty. ("17 million Angolans live in absolute poverty"). The Angolan government can make social transfer payments to support impoverished families to feed themselves and afford other basic necessities. Ultimately, debt relief will contribute to development in Angola through the process of ~~eli~~ tackling absolute poverty to reduce inequality. This can also improve Angola's gini coefficient.

However, this depends on whether the government is rational. If there are rent-seeking politicians who are corrupt, they ~~may~~ will not support Angolan citizens living in absolute poverty which restricts development.

(e) Discuss market-orientated strategies the Angolan government could use to improve development.

(15)



One market oriented strategy the Angolan government could use to improve development is access to credit / finance through microfinance. The Angolan government can establish financial markets which provide microfinance, in the form of loans, to citizens. This can be targeted at those living in absolute poverty (17 million in Angola) in order to help them overcome the poverty trap and savings gap. By providing loans to poor Angolan citizens, those citizens can invest into ~~cattle~~ capital. In doing so, Angolan citizens can see a return on their investment which will then provide an income for them. This will overcome the poverty trap and savings gap. It will further reduce income inequality which is important for improving development. As a result, Angola's gini coefficient ($^{A}/_{A+B}$) will improve as income inequality decreases.

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Turn over ▶

However, microfinance can rather perpetuate the poverty trap and savings gap. This is because the loans given to Angolan citizens have interest attached. Failing to repay these loans will cause Angolan citizens that are already living in absolute poverty to fall into the debt trap. This will only worsen income inequality and impede development.

Another method to increase development would be switching to a floating exchange rate. "Since 2019 Angola switched to a floating exchange rate". This strategy led to a "rapid depreciation in the Kwanza". A depreciation in the Kwanza can support development as Angolian exports become relatively cheaper and more internationally competitive. This will lead to export-led growth as AD increases in the Angolan economy. As GDP then increases, so does national income and government tax revenues. Combined together this will reduce income inequality and the government can spend on public services.

However, floating exchange rates are volatile and can impact consumers. High prices when the Kwanza depreciates will exemplify poverty as basic necessities become unaffordable - this impedes development.

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 In 2022 the value of UK exports fell by 14% compared with 2020. In contrast, the global average increase in exports was 8.2% over the same time period. The UK's competitiveness also fell, dropping five places from 18th in 2021 to 23rd in 2022 in the world competitiveness rankings.

(Sources: adapted from https://www.ft.com/content/021c629d-5853-4111-9600-ab5f0eb65a35 and https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness)

Evaluate macroeconomic policies that could be used to increase international competitiveness in the UK's export markets.

(Total for Question 7 = 25 marks)

OR

8 UK inflation, as measured by the CPI, rose to 10.1% in the 12 months to July 2022, compared to 2.0% in the 12 months to July 2021.

(Source: adapted from https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2022)

Evaluate macroeconomic policies, **apart from** monetary policy, the UK government could use to reduce inflation.

(Total for Question 8 = 25 marks)

1

Contract Fiscal [illegible]

- Tax ↑
- corp 19 → 25 april 2023
- cut ~~G~~ (UC 2021 £20 ↓ week)

- Automatic Stabilisers
- Laffer curve

2

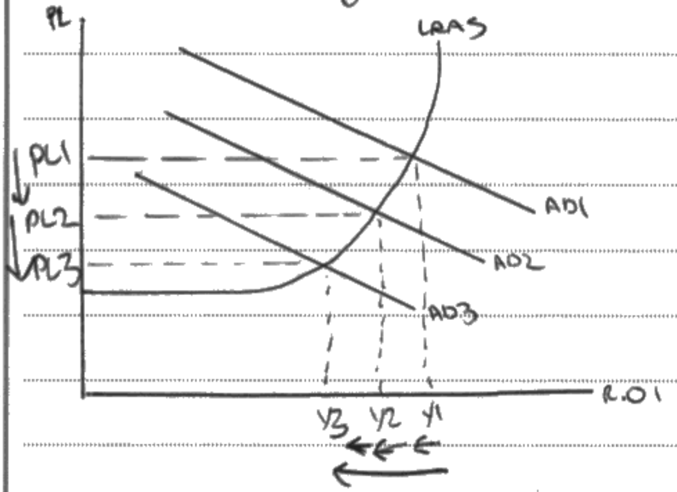
Supply-side

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☐ **Question 8** ☒

Write your answer here:

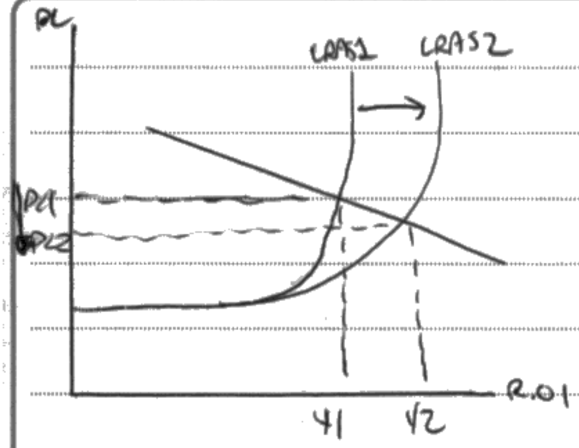
One macroeconomic policy the UK government could use to reduce inflation is contractionary fiscal policy.



Contractionary fiscal policy involves increasing taxation and reducing government spending to decrease aggregate demand in the economy to reduce inflation. In February 2023 the UK inflation rate was 10.4% which is five times higher than the Bank of England's CPI target of 2%. To tackle high inflation the UK government can ~~[illegible]~~ increase taxation. For example, corporation taxes were increased from 19% → 25% in ~~[illegible]~~ April 2023. An increase in taxes reduces the amount of ~~revenue~~ profits earnt for firms and disposable income for consumers. Consumption and investment by firms therefore decrease. Consumption and investment are components of AD (C+I+G+(X-M)), which combined together sum up to 80% of AD in the UK. As a result, AD shifts inwards, as shown on the diagram (AD1->AD2). This decrease in AD also causes a decrease in general price levels (PL1 -> PL2). Furthermore, cuts in government spending also occurs. For example, the UK government reduced Universal Credit payments by £20 a week in 2021 which means that there is less money in the circular flow of income as consumers have less disposable income. Foreign direct investment may also decrease due to the lack of government spending as it makes the UK look less prosperous and attractive. Consequently, there is a negative multiplier effect as AD continues to decrease from AD2 -> AD3. This further reduces inflation from PL2 -> PL3. This displays how contractionary fiscal policy can effectively reduce inflation in the UK through the means of increasing taxes and reducing government spending.

~~[illegible]~~ However, the effectiveness of contracting fiscal policy depends on whether there are automatic stabilisers in place which are counter-cyclical to the business cycle. ~~[illegible]~~ Despite attempts to reduce AD and consumption through contracting fiscal policy, automatic stabilisers, such as Job Seeker's Allowance will naturally occur. This means that consumers can still gain access to more disposable income which will increase consumption and AD. This counters contracting fiscal policy and can lead to inflation.

Nevertheless, automatic stabilizers are not always effective. Job seekers allowance has been made difficult to access, meaning that consumption may not increase and lead to inflation whilst the government pursues contracting fiscal policy.



The UK government can pursue supply side policies in an effort to reduce inflation. By aiming to increase aggregate supply, the UK government can hope to see a reduction in inflation. For example, by building new homes in the UK, more workers can reduce their commute time and spend more time working. As productivity increases of the labour force, LRAS will shift out (LRAS 1 -> LRAS 2). Due to increased productivity of the UK labour force, real output increases from Y1 -> Y2, but most significantly price levels fall from PL1 -> PL2. This demonstrates how supply side policies can effectively reduce inflation.

However, building new homes can cause the positive wealth effect. As workers

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become new homeowners, they will feel wealthier and more confident as their wealth / value of assets increases. This will lead to an increase in consumption which increases AD, ultimately causing demand-pull inflation.

~~Ho~~ Although, new homeowners may chose to save rather than consume. This will prevent AD from increasing and so supply side policies can still effectively reduce inflation.

Overall, both policies can effectively reduce inflation despite slight limitations.

TOTAL FOR SECTION C = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

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