Please check the examination details below before entering your candidate information

| Candidate surname | Other names |
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| AMLAI | CHRIST |

| Centre Number | Candidate Number |
|---|---|
| 13277 | 3182 |

**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 60

## 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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## 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.**

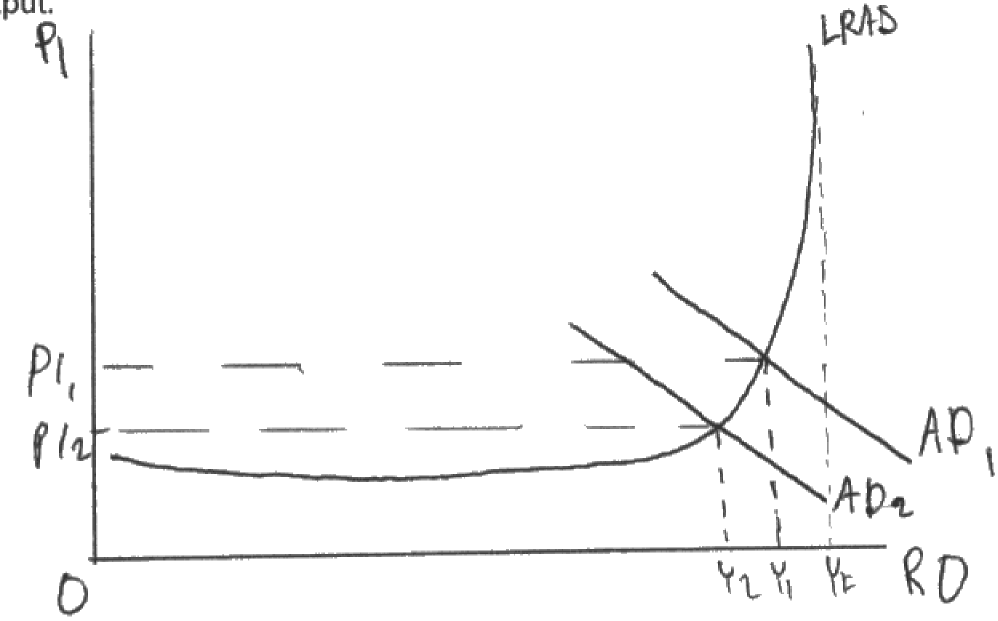
**Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.**

**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)** 4 Q01a




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

**(1)** 1

A decrease in the:

☒ **A** level of demand pull inflation

☒ **B** marginal propensity to save X

☒ **C** rate of cyclical unemployment

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

**(Total for Question 1 = 5 marks)** 5

13:30

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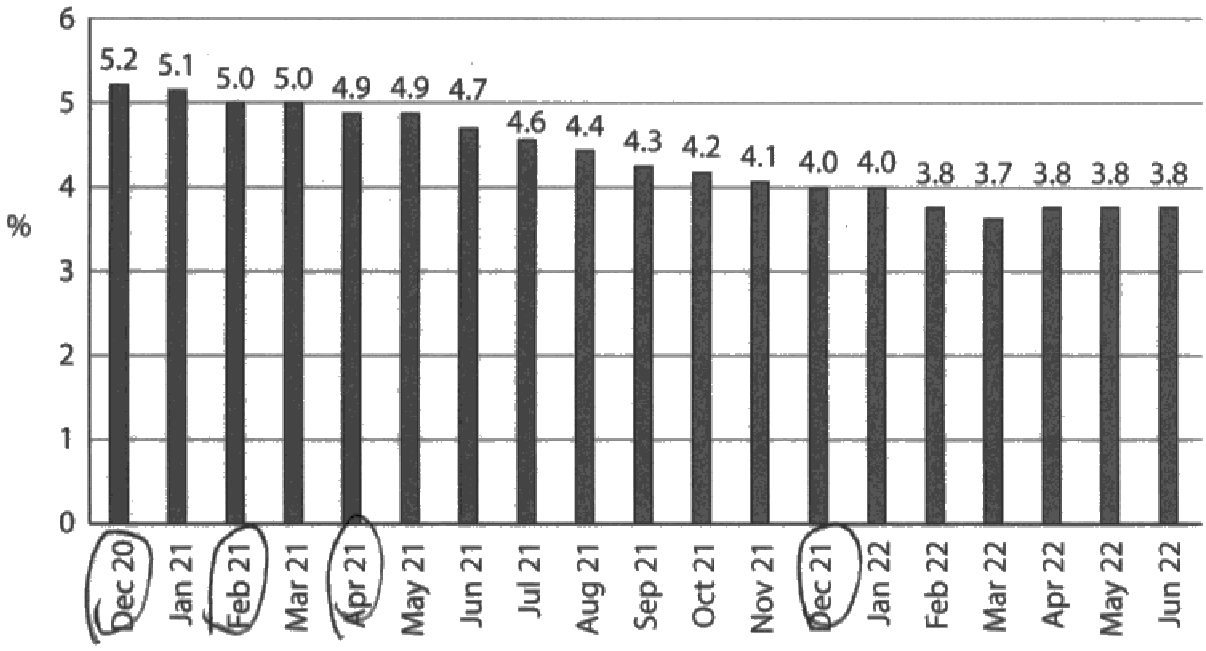
**QUESTION 2 BEGINS ON THE NEXT PAGE.**

13:32

**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)** 1

The unemployment rate:

☒ **A** fell by 1.4% between December 2020 and April 2022 0.3%

☒ **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. 13:33 : 36

**(4)** 1 Q02b

One likely reason for ~~unemployment to peak~~ the change in the UK's rate of ~~e~~ unemployment, is due to seasonal unemployment. Relative to 2021 and 2022 respectively, unemployment rate(%) was lowest in ~~October~~ November 2021 and March 2022, with 4.0% and 3.7% figures. ~~This ma~~ Unemployment rate may be lower as more people would work seasonal jobs, for example in the buildup to Christmas people may have worked in seasonal industries i.e "Santa-Claus reenactors" or in March where there is half-term, there could have been an uptake in amusement-park operators. Thus, when ~~these seasons~~ ends before these seasons, we observe month on month unemployment rate increasing on average 0.1%.

**(Total for Question 2 = 5 marks)** 2

**3** UK real GDP, 2020–2022

| | Annual percentage change on previous year | Total (£ millions) |
|---|---|---|
| 2020 | –9.9% | 2045091 |
| 2021 | 7.5% | 2198473 |
| 2022* | 3.5% | 2,275,419 |

*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.

13:39

**(2)** 2 Q03a

2198473 x 1.035 =

2275419.555

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

**(2)** 1 Q03b

Unemployment and GDP growth are not pro-cyclical, if real GDP falls by 9.9%, unemployment is likely to rise.

13:41

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

(1) 1

An increase in:

☒ **A** consumption

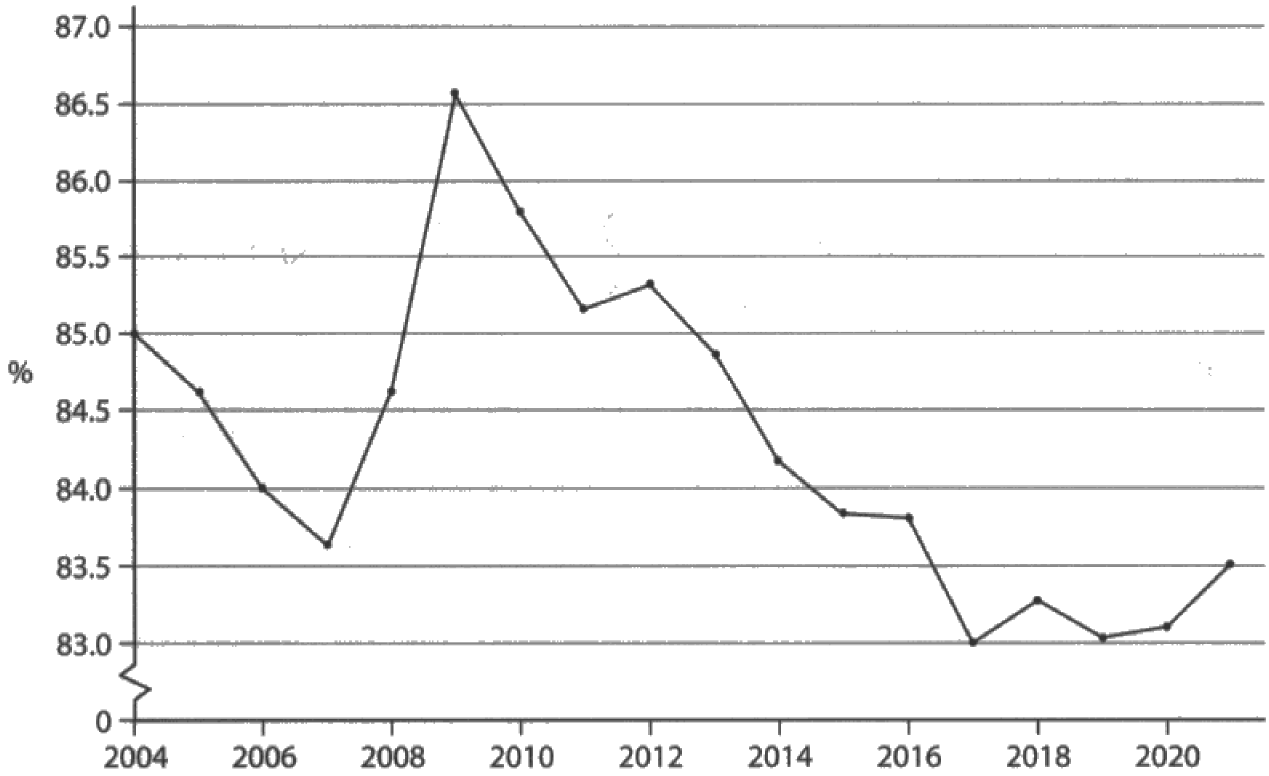
☒ **B** costs of raw materials and energy

☒ **C** income tax

☒ **D** technological advances

**(Total for Question 3 = 5 marks)** 4

**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)** 1

☒ **A** Construction of a new cycle lane

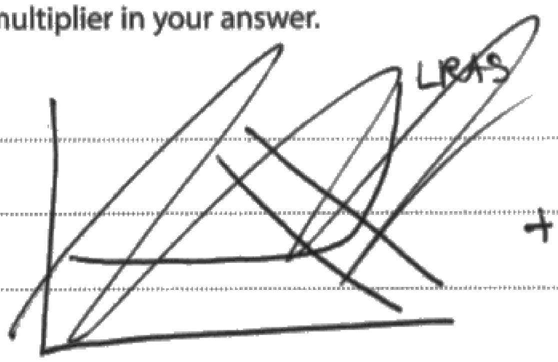
☒ **B** Expansion of Heathrow Airport

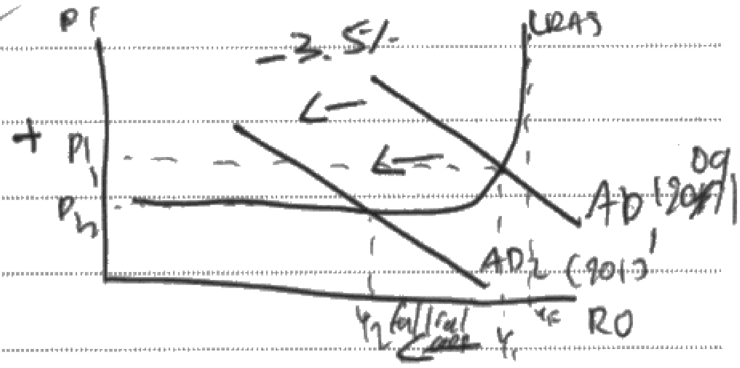
☒ **C** New school buildings

☒ **D** Purchase of new clothes

(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)** 3 Q04b




One likely effect of a fall in MPC on level of real GDP, is a decrease in real GDP. Consumption (C) is one component of AD ((C+I+G+(X−M)=SPENDING) ~~if consump~~, when consumption % of GDP decreased from 86.5% in 2009 to 83% in 2017, ~~and~~ AD shifted inwards, as it decreased, as there was a decrease in demand for goods and services, as consumption fell, such that AD, shifted to $AD_3$, this meant real output decreased from $Y_1$ to $Y_2$. Real output is equivalent to GDP, so decreased real output is a decrease in real GDP.

**(Total for Question 4 = 5 marks)** 4

5 In 2021, the US total GDP was $23 trillion and national debt was $28.4 trillion. 13:47

(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)** 0 Q05a

$(23/28.4) \times 100 = 80.98$ (2 d.p.)

80.99%

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

**(2)** 2 Q05b

Fiscal deficit, is when government spending is greater than taxation, if countries borrow money ~~as~~ to finance an increase in government spending this translates to an increase in national debt – as in debt owned to other countries who are lenders, i.e USA borrows from Switzerland.

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

**(1)** 0

An increase in:

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

**(Total for Question 5 = 5 marks)** 2

**TOTAL FOR SECTION A = 25 MARKS**



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

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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.**

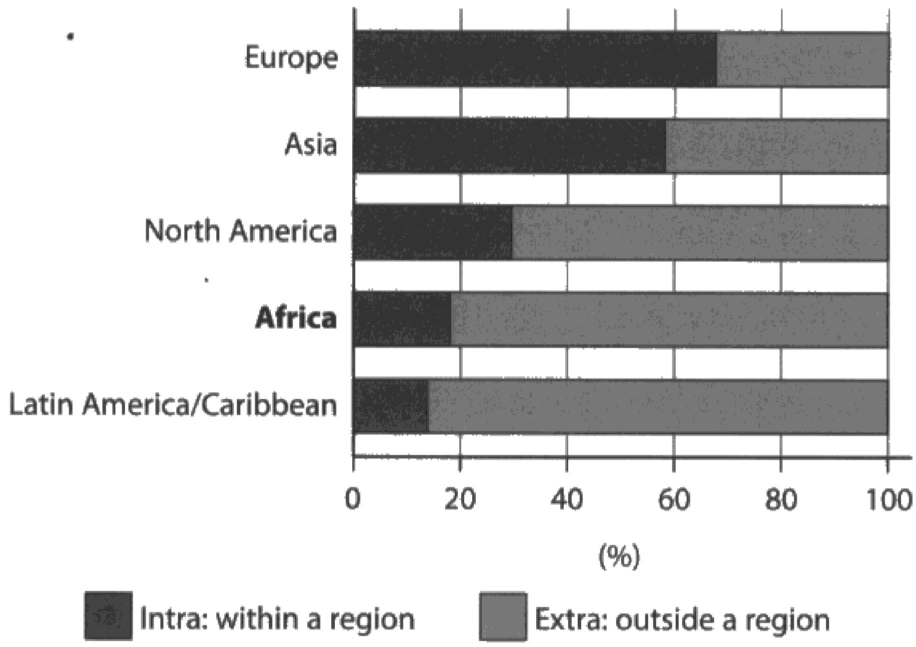
**Write your answers in the spaces provided.**

**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. – BJO E

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).

13:50

(5) 5 Q06a

Regional trade agreements are policies signed by members, "41 of 55 African countries" intended for "easier trade", such that exporters of goods such as "Congo [exporting] cobalt" will see a "reduction in non-tariff barriers" i.e "excessive waiting times, administration, queuing", this enables ~~as~~ a freer flow of access and enable exporters ~~to~~ a larger window to meet supply fixed contracts to deliver goods and less disruptions to supply chain.

Moreover, tariffs themselves are reduced 15%, which through such a policy, is meant to stimulate more export trade between "41" countries, as it is now more profitable to export and the barriers to entry for some of the poorest nations are decreased.





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

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

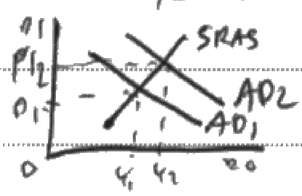
14:00

(8) 5 Q06b

One cause for the high cost of transporting goods is because of a lack of infastructure, "roads → which there are not enough", essentially demand outstrips supply, such that there may be in theory, large congestion times and road traffics, this increases costs, ~~as goods may be delayed to consumers, as the window to make profit is uncertain, so sellers of export~~ as goods reach consumers slower, more wages have to be paid for drivers sitting idle in traffic.

14:05

Another cause may be that incumbent transporters end up bidding for the finite "small port space" and "handling costs", such that this leads to overall transport costs rising, as all transportation firms want their goods to arrive on time, which leads to pl, shift to Pl₂.

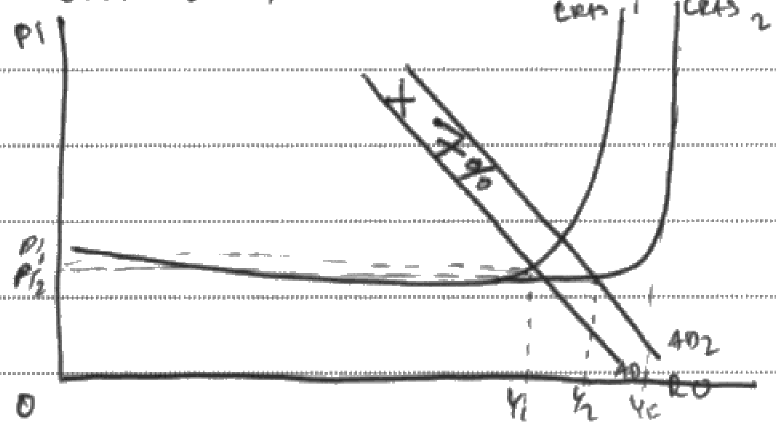



However, to counter-evaluate, the extract doesn't provide information on fuel costs such as petrol/diesel, which may be a significant factor, ~~moreover~~ for transport cost, Furthermore, the estimate doesn't reveal sunk costs, such as vehicle cost which may be ~~m~~ a large proportion of Σ transporting costs.

(c) Discuss the impact of improved transport links between African countries on economic growth rates. – employment procyclical 4-06

(12) 6 Q06c

One impact of improved transport links between African countries is an increase in economic growth rate.




A "7% increase in intra-Africa" trade, may increase previous ~~export~~ intra-African exports of 18%, such that (X-M), the trade position, may increase, (X-M) is a component of AD, thus AD will also in theory increase from $AD_1$ to $AD_2$, which would also see $Y_1$ shift outwards to $Y_2$, which can lead to "more jobs", as employment and economic growth are pro-cyclical, an increase in employment is also an increase in economic growth. Moreover, if real output increases, $Y_1$ to $Y_2$, real GDP increases, which also correlate to economic growth. However, to evaluate the rate at which economic growth increases, may be negligible, a 7% increase in trade may stimulate a small outwards AD shift as illustrated by $AD_1$ to $AD_2$, moreover, the proportion of



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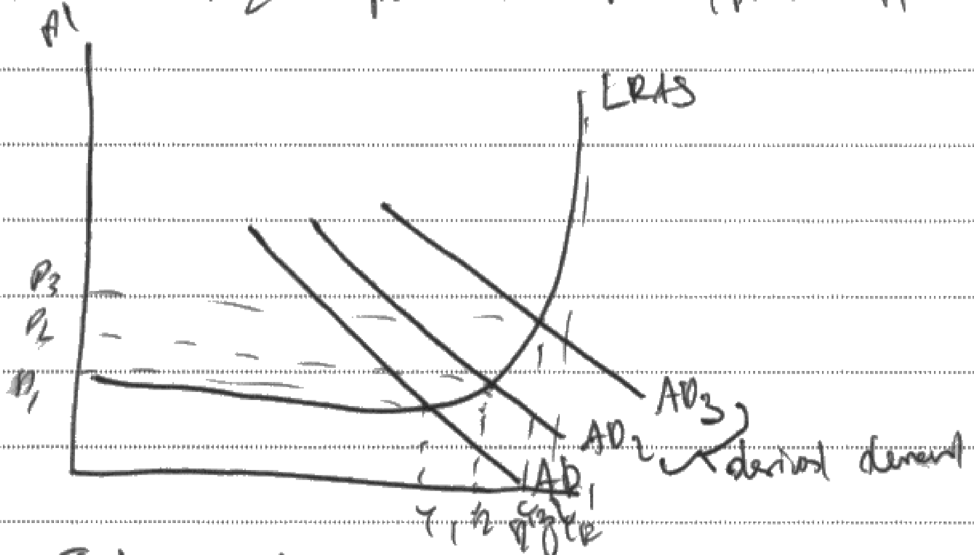
of which LRAS shifts depends on several factors. One factor may be short-run vs long-run, the construction of infrastructure needed to improve transport links may take decades to fruition, such that a high change in economic growth rate is only observable in the long-run, moreover this assumes African politicians will not rent-seek, and appropriate funds designated for transport for personal gain.

However, the ~~&~~ short-run economic growth rate may still be high due to the ~~real~~ positive multiplier effect,




~~Any~~ Take for instance, construction needed to create improvements to transport links, this may boost local economies as construction workers may require services such as food, entertainment, this increases derived demand from $AD_1$ to $AD_2$ to $AD_3$, thus higher economic growth rate can be observed in the short-run, however to counter-evaluate, whether this is scalable to a national level, rather than regional is debatable, as some existing local economies may be under-developed and not be able to properly provide services to increase derived demand i.e., "build new restaurant, barber shops".

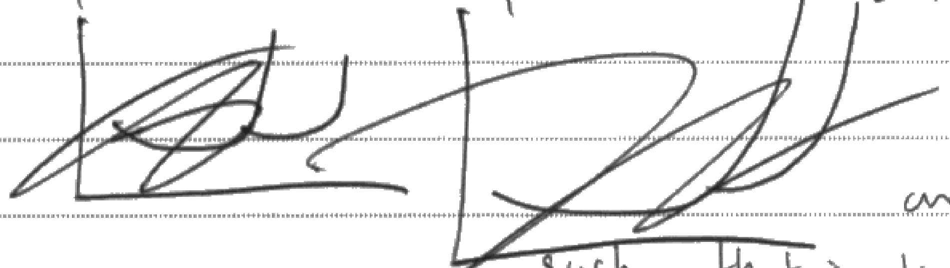
(d) Assess **two** likely benefits of debt relief to Angola. Refer to Extract B in your answer.

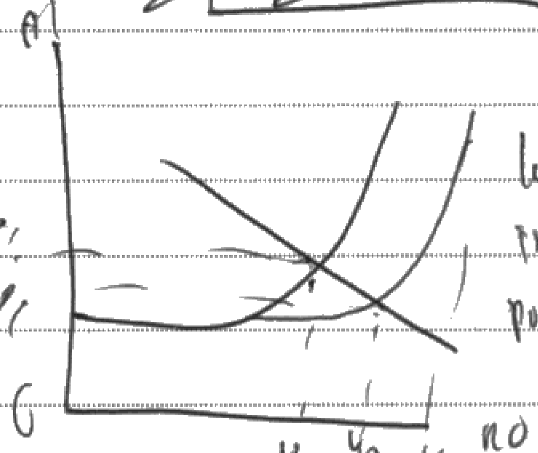
14:25

**(10)** 6 Q06d

One likely benefit from debt relief may be a correction of government failure, through the assistance of the IMF, the advised privatisation of "over 100 oil firms" can in theory reduce excessive government administrative costs, through micro-managing ten of thousands of branches, divisions and departments. Moreover, "diversifying away from oil" may be ~~ben~~ a benefit, in the sense that Angola is less susceptible to volatile commodity prices, which can fluctuate up to 50% in a given year. This promotes economic stability, Angola is less reliant on one export for a revenue stream, rather if oil prices rapidly decrease, the economy is not immediately thrown into a bust, as there will be other sources of government revenue by diversifying. However, to counter-evaluate the IMF is a private-member club, thus may possess self-vested interests, in which it prioritises the 'wants' of its members "UK, Switzerland, USA" over the 'needs' of Uganda. However, in the 1970's, when the UK defaulted, the IMF had given the UK government strict deadline and goals to meet, in order to pay back the debt and encourage economic growth this led to an overall increase in government revenue and was ~~a su~~ relatively successful. However, in 2001 when Argentina failed the IMF target, they were refused a $1.6 bn loan, and the country was ~~f~~ rife with rioting and economic instability afterwards.

Another benefit is the "complete stop of debt repayments" for the next three years, this may allow Angola, in theory, to devote more GDP expenditure on improving infrastructure, such that $LRAS_1$ can shift to $LRAS_2$, increasing real output and GDP such that in the long-run, government revenue may increase as if ~~to~~ education is improved, population may be on higher income, tax base increases so taxation can service debt. To evaluate this is particularly beneficial as during the "Covid years" G6 countries spend more on servicing interest on old debt rather than welfare projects, such that Angola avoids this. However to evaluate, ~~this assumes~~ that in the short-run 3 years may be too little time to increase education infrastructure NATIONWIDE.







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ACTUALISE / footloose

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

14:38

**(15)** 6 Q06e

One interventionist strategy could be to improve education funding, such that ~~both~~ more ~~sch such that~~ schools are built to house a greater capacity of students. This allows a greater proportion of Angolan students to gain qualifications needed to enter tertiary and quaternary sectors of the labour market e.g "a computer science degree - for professional coder, or commerce ~~deg~~ bachelor for tourism". This improves development, as through the accessing of higher income bands, Angolans can have higher quality of life, assuming the extra disposable income is used to purchase more/higher quality housing, food, etc. Moreover, HDI will also improve as if 'mean years of schooling' increases, HDI rises due to it being a composite indicator. However, to counter-evaluate although in theory schools can increase "literacy rates, degree-holders etc it may take decades for these effects to actualise, for example despite an increased

amount of years of schooling, a singular citizen may only enter the the workforce aged 25⁺, thus the improvement in ~~QOL~~ quality of life is felt in the long-run not short-run. A further evaluative comment is that, the tax base ~~to finance~~ such required to finance an increase in education funding is not present, such that this interventionist measure may not be possible. ~~However to counter evaluate~~,
Furthermore, this assumes ceteris paribus development will be equally felt, there may be underlying regional differences i.e "rural place has no internet" which exacerbates difference in quality of learning.
One free market approach could be the ~~decrease in visa immigration requirements~~ privatisation of state-led hospitals such that. Due to the nature of information gaps and administrative costs private hospitals may be more adequately prepared. Which through better training by the more efficient free-market firms, infant ~~of~~ fatality rate may decrease and the amount of doctors per 1000 may increase.

Hence, to evaluate the privatisation of ~~a~~ previously state-run hospitals may have a negligible effect on infant fatality rate and doctors per 1000 if the poverty trap is an underlying factor -significant such that infants will die regardless due to lack of food and,

(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)**

**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** ☒ 15SecC

Write your answer here:

14:39 15:10

PLAN

• contractionary fiscal policy, ~~decrease~~ social transfer MPC goes down, AD goes down PL falls BUT SUPER regressive, Margaret Thatcher decrease government spending crowding out

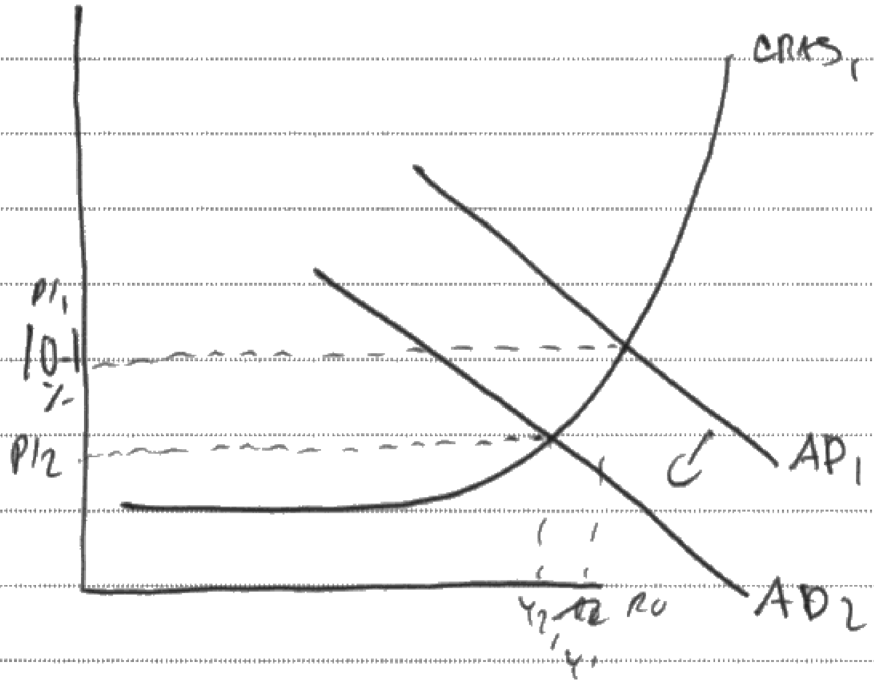
• taxation also regressive BUT depends on type of tax 'sin piguvian tax' or corporation tax, Cameron austerity years, foodbank.

↓G, ↑T, ~~MPS~~ ~~M~~ less disposable income, MPS↑, MPC↓

Regional inequalities.

① Contractionary fiscal policy can be implemented by the UK government to reduce current inflation of 10.1% to ± 2% (as targeted by the BoE.

For example if government spending decreases, ~~4~~ social transfers such as: "Job Seeker allowance, child tax credit, benefits" decrease, as they are included in government expenditure. This reduces the MPC of social transfer recipients such that their ~~ø~~ consumption may decrease. Moreover, increases in taxation, e.g. "income tax" will have a similar effect, such that the MPC of workers decrease. This is because when income tax rises, disposable and discretionary income becomes a smaller proportion of total income after tax. This may increase marginal propensity to save as people feel relatively "poorer" and thus decrease MPC. This can be visualised via an inwards shift of AD.

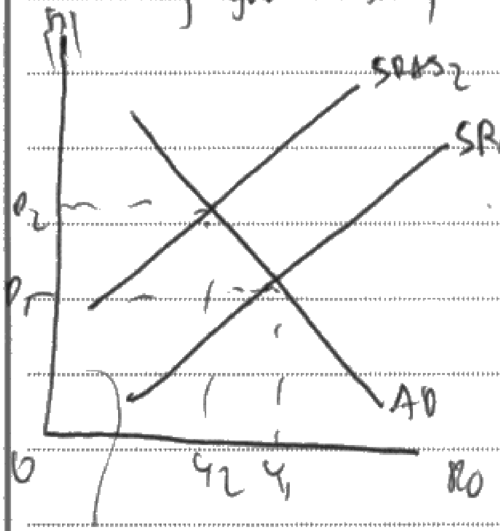



A price-level markdown is seen from Pl1 to P2, which is ~~a decrease~~ in demand-pull deflation, and brings the new inflation rate at Pl2 close to the BofE target of ±2%.

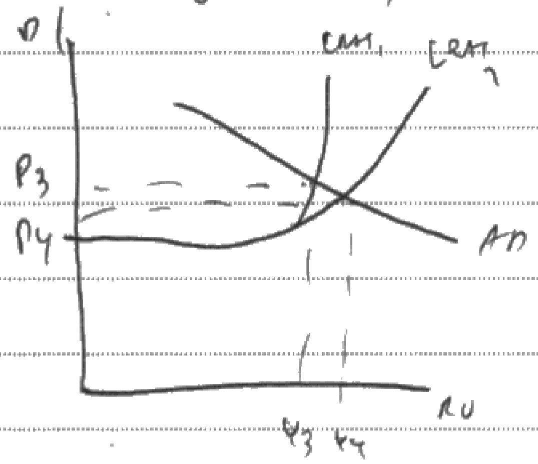
However although Keynesian economists favour contractionary fiscal policy precisely because it leads to the price-level falling this is an extremely cursory view of the UK's national economy. Any decrease in Social transfers may be severely regressive as those on the lowest income bands may struggle to afford necessity goods i.e "oil, food, energy", in practice this is precisely demonstrated in the Cameron 'austerity years' in which a ~~3~~ ~~22.5%~~ 47.5% ~~d~~ reduction in 'benefits' saw food-bank usage 'rise 130% in London. This may ~~be undesirable~~ the lead ~~to~~ contraction fiscal policy to be undesirable as it exacerbates income inequality - a government macro-objective aimed to also be reduced. Moreover, this can exacerbate regional inequalities, the life expectancy for Blackpool is 73.4 years of age (y.o.a), whereas in Kensington and Chelsea it is 84.7, a decrease in government spending may lead to "sticky wages", wages are not rising faster than inflation, which may see NHS strikes and inadequate funding to hospitals which can worsen quality of life for historically working class towns such as Blackpool, much worse than Kensington and Chelsea as the higher income level residents are more likely to have private healthcare.

The regressive nature of contractionary fiscal policy aside, this may lead to ~~the~~ a complete opposite of reducing inflation as, this may in fact lead to cost-push inflation. If government subsidies decrease for ~~firms~~ & agricultural firms, the cost of production may increase, such that unless ~~the~~ a new increased price is passed onto & consumers agricultural firms are unwilling to supply at the old price-level for a given price.

"removing gov-subsidy G↓"




"previous gov subsidy before fiscal policy"




~~B~~ The new $P_2$ is much higher than the previous $P_3$, suggesting rather than remaining the ~~inf~~ 10.1%. inflation, the government ~~may to~~ ~~in~~ policy may lead to cost-push inflation.



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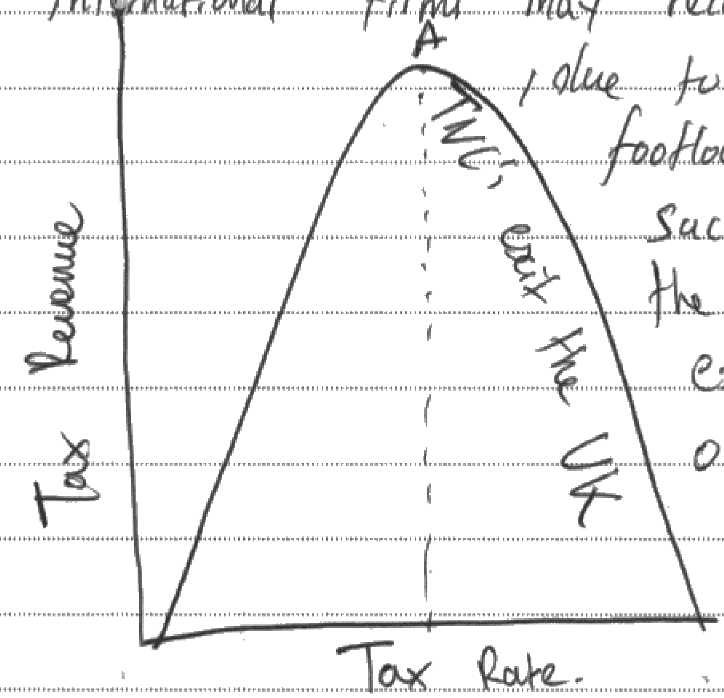
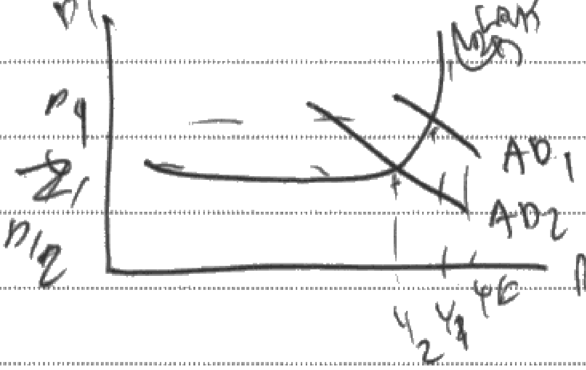
Moreover, if corporation tax increases, such that the UK is less attractive for foreign direct investment, international firms may relocate elsewhere, due to their footloose nature, such that if the tax rate exceeds the optimum point A, firms may leave




the UK, in search of a lower corporation tax elsewhere, i.e. Dublin with a 4.2% corporation tax. This will lead to a potential increase in unemployment and decrease in economic growth which increases the negative output gap and sees $Y_1$ shift inwards to $Y_2$, which decreases Real GDP. This may be undesirable as two other UK macro-economic objectives are low unemployment and economic growth.




However, the price-level also decrease, suggesting in theory, fairs stable inflation.

However, to evaluate cost-push inflation may not necessarily occur, the removal of government subsidies may signal inefficient firms to exit the market, encouraging firms to lower cost-of-production elsewhere thus cost push inflation is unlikely. Furthermore, ~~the~~ taxation may not necessarily be heavily on firms, since taxes a Piguovian tax on demerit goods may work as well, thus firms do not exit the market. However, to counter-evaluate due to information gaps ~~...~~, the UK government dont know the optimum point A, therefore tax increments must be small suggesting inflation can only be properly tackled in the short run.

SEE ANSWER BOOKLET
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**TOTAL FOR SECTION C = 25 MARKS** 15
**TOTAL FOR PAPER = 100 MARKS**

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**ADDITIONAL ANSWER SHEET**

ASL1

Candidate name: CHRIST AMLAI

Centre number: 13277

Candidate number: 3182

Paper reference: ~~9E~~ 9ECO/02

Question number: 8

Sheet number: 1

Question Number: 8

In summation, it is a Sisyphen task to rely on one macroeconomic policy, contractionary fiscal policy, to tackle the U.K. inflation rate, as several external factors, out of the UK's control i.e "Russia-Ukraine war disrupted supply chain"; "global crop-failure" may cause cost push inflation. ~~A~~ Finally, Milton Friedman said "there is a smoke stack on the back of every government program, and the government intervention is usually worse". Therefore, although inflation may be reduced, economic growth decreases as well as employment and FDI, suggesting the UK economy would be better off pre-intervention.

Turn over ▶

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Pearson

| Question Number | |
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