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Other names

Pearson Edexcel
Level 3 GCE

Centre Number

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Candidate Number

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Economics A

Advanced

Paper 2: The national and global economy

Sample assessment material for first teaching

September 2015

Time: 2 hours

Paper Reference

9EC0/02

You must have a calculator.

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.*
- Calculators may be used.

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.*

Advice

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

Turn over ►

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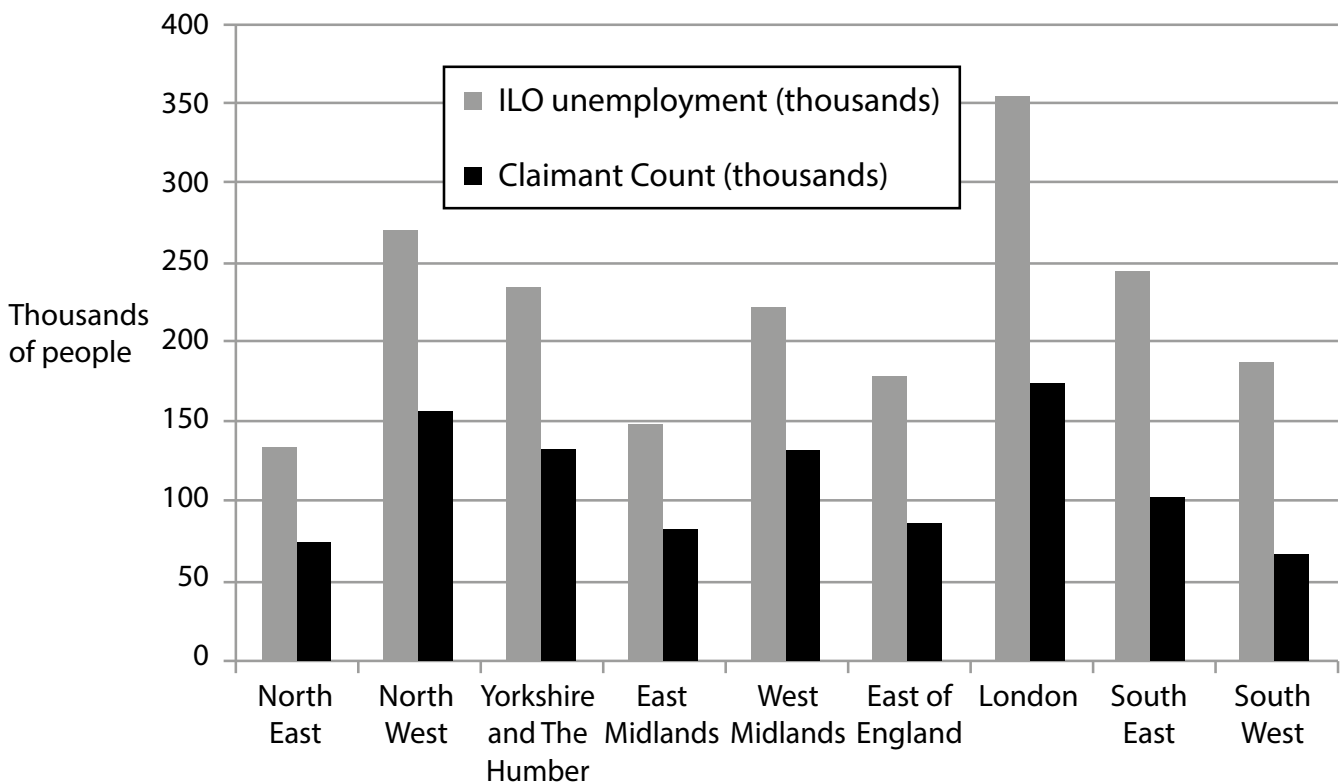
SECTION A

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

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

- 1 The chart below shows UK regional unemployment in December 2013, as measured by both the International Labour Organisation (ILO) measure of unemployment and the Claimant Count.

UK regional unemployment, December 2013 (thousands)



(Source: ONS, Regional Labour Market Statistics, February 2014, <http://www.ons.gov.uk/ons/rel/subnational-labour/regional-labour-market-statistics/february-2014/stb-regional-labour-market-february-2014.html>)

(a) Which **one** of the following can be inferred from the chart?

(1)

- A** The North East had the lowest number of unemployed people according to both measures of unemployment
- B** According to the Claimant Count measure, there were more than twice as many people unemployed in London as in the South East
- C** London had the highest number of unemployed people according to both measures of unemployment
- D** According to the ILO measure of unemployment, there were more than twice as many people unemployed in the North West as in the East Midlands

Answer

(b) With reference to the chart, explain why the ILO measure of unemployment is different to the Claimant Count for all regions.

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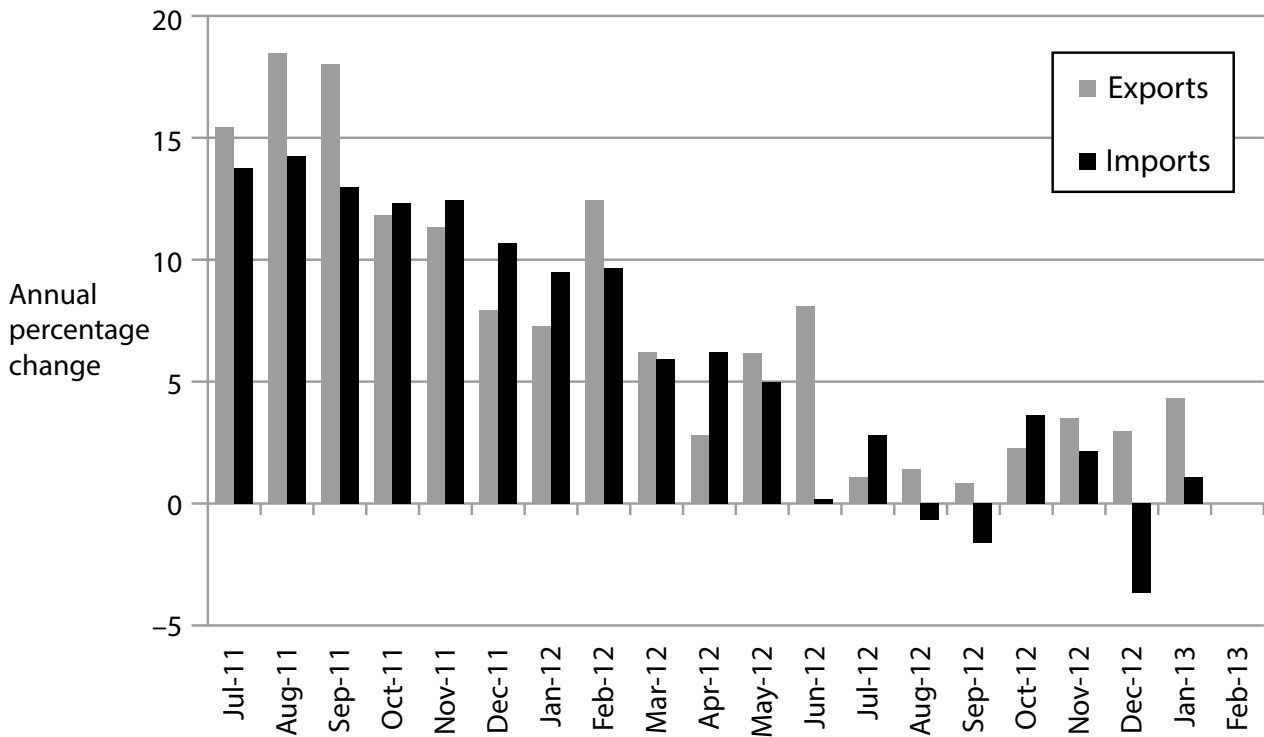
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(Total for Question 1 = 5 marks)

- 2 The chart below shows the annual percentage change in the value of US exports and imports. Throughout this period, the USA has run a trade deficit.

**Annual percentage change in the value of US exports and imports
(nominal values), July 2011–January 2013**



(Source: WTO Press Release, 10 April 2013, Press/688, http://www.wto.org/english/news_e/pres13_e/pr688_e.htm)

- (a) With reference to the chart above, which **one** of the following statements is correct?

(1)

- A In the year to December 2012, the US trade balance improved
- B In the year to September 2012, the US trade balance worsened
- C In the year to November 2011, the US trade balance improved
- D In the year to August 2012, the US trade balance worsened

Answer

(b) Explain the likely effect of an increase in US income tax rates on the US trade balance.

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(Total for Question 2 = 5 marks)

3 (a) Explain **one** role of financial markets.

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(b) Explain **one** reason why the UK central bank used quantitative easing following the Global Financial Crisis of 2008.

(2)

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(c) Which **one** of the following would be the most likely cause of market failure in the financial sector?

(1)

- A Banks charge higher interest rates on higher risk loans
- B Banks do not create any external costs or benefits in their operations
- C Banks know that the government will bear the risk of customers defaulting on loans
- D Banks and their customers have symmetric information

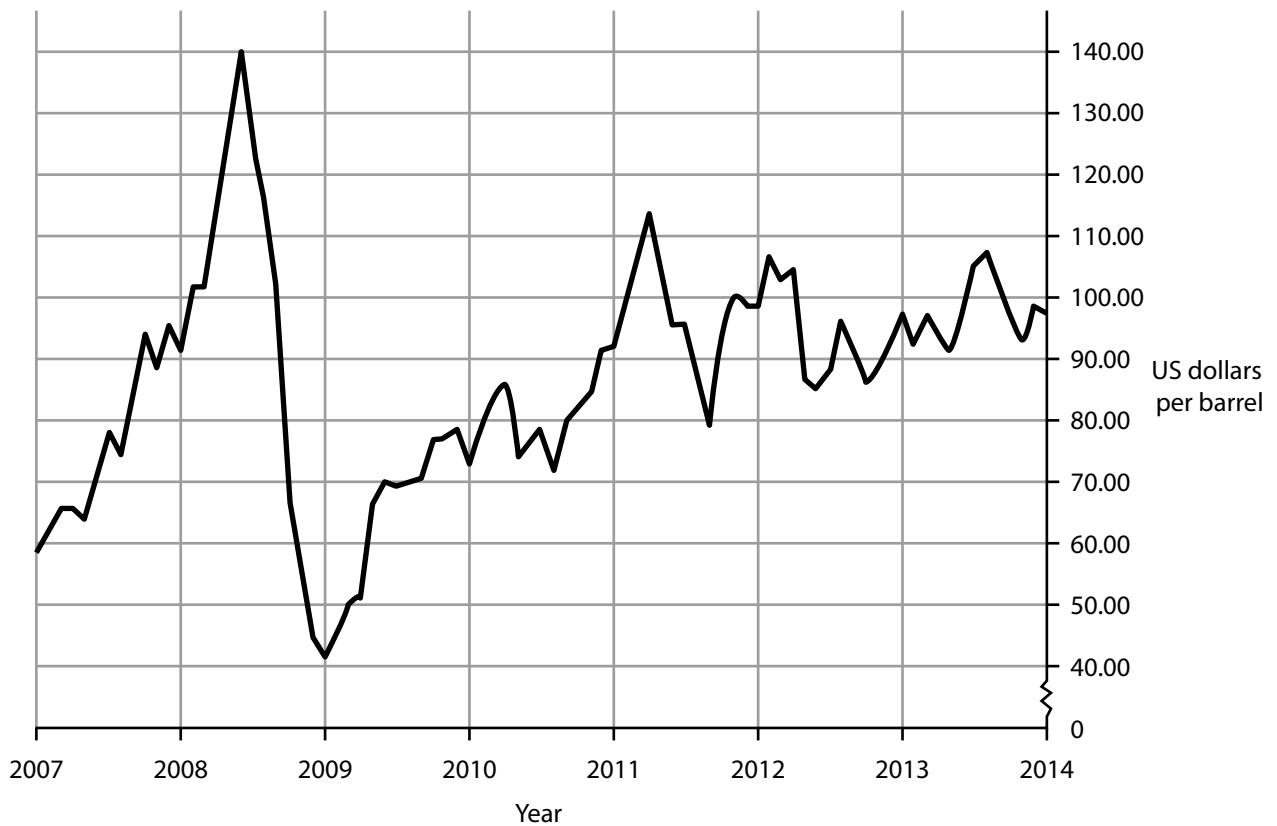
Answer

(Total for Question 3 = 5 marks)

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QUESTION 4 BEGINS ON THE NEXT PAGE.

4 The chart below shows the price of crude oil from 1 January 2007 to 1 January 2014.

Crude oil price, 1 January 2007 to 1 January 2014, US\$ per barrel



(Source: [http://oilprice.com/commodity-price-charts?1=&page=chart&sym=CL*1&name=Crude Oil WTI&domain=advancedmedia&sg=true&display_ice=1&studies=Volume;&cancelstudy=&type=LINE&a=M](http://oilprice.com/commodity-price-charts?1=&page=chart&sym=CL*1&name=Crude%20Oil%20WTI&domain=advancedmedia&sg=true&display_ice=1&studies=Volume;&cancelstudy=&type=LINE&a=M))

(a) The best approximation of the percentage increase in crude oil price per barrel from 1 January 2009 to 1 January 2014 is:

(1)

- A 40%
- B 60%
- C 110%
- D 130%

Answer

(b) An economy is a net exporter of crude oil. Draw an AD/AS diagram to show the effect of an increase in global crude oil price on the equilibrium level of real national output of this economy.

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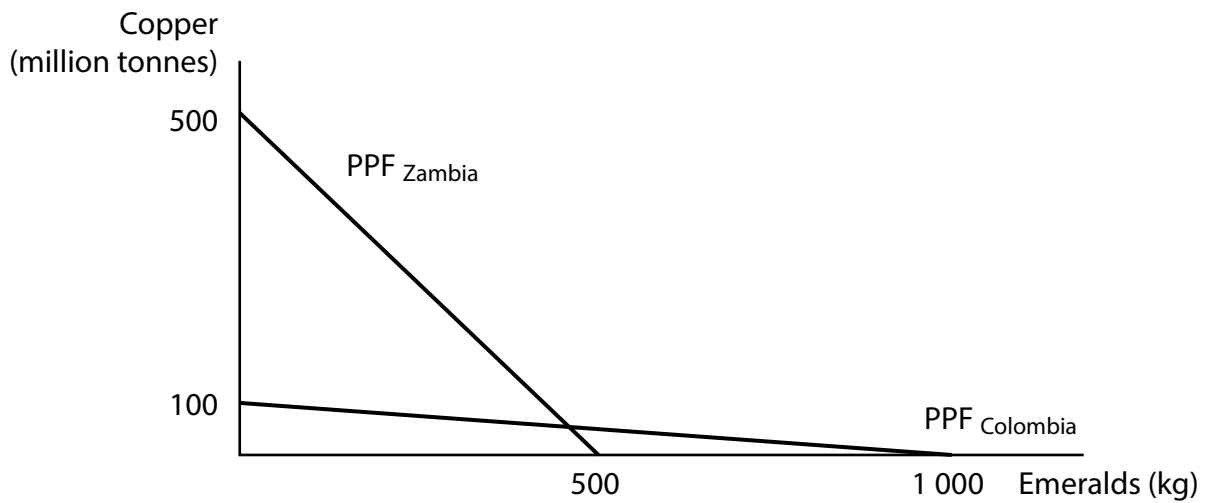
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(Total for Question 4 = 5 marks)

- 5 Colombia and Zambia each produce copper and emeralds. The production possibility frontiers below show the two countries' productive capacities for these goods.



- (a) With reference to the diagram above, which **one** of the following statements is correct?

(1)

- A Colombia has an absolute advantage in the production of copper
- B Zambia has an absolute advantage in the production of copper
- C Zambia has an absolute advantage in the production of emeralds
- D Neither Colombia nor Zambia has an absolute advantage in the production of emeralds

Answer

(b) Using appropriate calculations, explain which country has a comparative advantage in the production of emeralds.

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(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering question 6.

Write your answers in the spaces provided.

The East African Community (EAC)

	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP (US\$ bn)	2.47	37.23	7.10	28.25	19.80
Population (mn)	16.14	62.78	18.21	58.43	48.89
GDP per capita (US\$)	390	483.48	405
GDP per capita PPP (US\$)	483	1 517	1 167	1 380	1 165
HDI	0.355	0.519	0.434	0.476	0.456
IHDI	no data	0.344	0.287	0.346	0.303

(Sources: www.tradingeconomics.com, United Nations)

Figure 1

Economic indicators for the five EAC member countries, 2012

Extract A

Burundi's economic growth

Burundi has maintained a stable macroeconomic environment and over recent years improved its performance in health, education and gender equality. However, in spite of this recent progress, Burundi's economic growth has been modest compared to neighbouring countries in the EAC.

Burundi is a small, land-locked country and is one of the most aid-dependent countries in the world. The country is vulnerable to external shocks, such as volatile food and energy prices, declining aid flows, and the adverse impact of climate change.

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These factors are made worse by the high proportion of current expenditure in the government budget, and a high level of tax exemptions – counting for as much as 3% of GDP.

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Coffee and tea make up almost 70% of Burundi's total export earnings. This lack of export diversity makes it difficult to widen the tax revenue base and finance public investments.

(Source: adapted from 'Burundi: more fiscal resilience will improve government effectiveness', All Africa, 19 December 2013, <http://allafrica.com/stories/201312190925.html>)

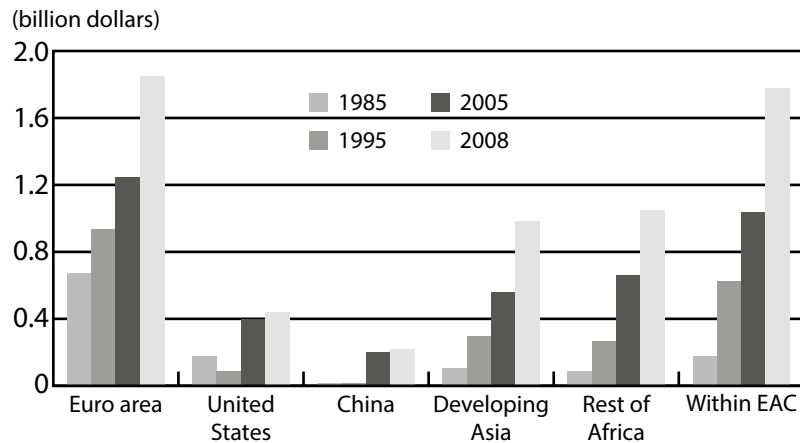


Figure 2

Value of EAC exports 1985–2008 (US\$ billions)

Extract B

Trade in East Africa

The EAC was established as a free trade area in 2000 by Kenya, Tanzania and Uganda, with Burundi and Rwanda joining in 2007. Its objectives are the promotion of free trade and the free movement of capital and labour among its members. In 2013, an agreement was signed outlining plans for launching a monetary union by 2024.

Between 2000 and 2011, lower tariffs within the EAC boosted regional trade, offering the five member countries a route to faster growth. During 2000–10, intra-regional exports increased from US\$700 million to US\$2 billion. Rwanda’s exports have grown the most during this period, from US\$1.6 million to US\$156 million, but are still a fraction of those of Kenya, the region’s largest economy. Kenya’s exports to the other EAC members were about US\$1.2 billion in 2010. In contrast, export growth in Burundi – the poorest member – has remained constant and imports have declined, mainly because of civil war and inferior infrastructure, such as airports, roads, and docks.

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(Source: adapted from 'Trade in East Africa', Finance & Development, IMF, December 2011, Vol. 48, No. 4, <http://www.imf.org/external/pubs/ft/fandd/2011/12/data.htm>)

Extract C

The costs and benefits of monetary union

There are major costs and benefits of a monetary union between EAC members. One of the issues is the different degrees of economic openness of their economies. The level of economic openness is measured by trade as a percentage of GDP. Kenya is the most open economy in the region (60.6%), followed by Tanzania (49.5%), Uganda (41.3%), Rwanda (35.4%) and Burundi (28.8%). However, economic openness has been increasing in all countries except Burundi where the situation deteriorated between 2006 and 2010. These differences in the degree of trade openness indicate that EAC countries may face asymmetric shocks, a situation which does not support the EAC monetary union in the current situation. However, if the observed trends continue, the increase in economic openness will contribute to building a solid foundation for the success of the EAC common currency, which would help to reduce the transaction costs for trade and investment between EAC members.

However, according to the EAC Trade Report, gross intra-EAC trade was only 3.1% of their GDP in 2010. In the EU, by contrast, the value of intra trade was 26% of GDP in 1998 in the area that would adopt the euro; by 2007 this had increased to 33%. Thus trade integration in the EU was much deeper than in the EAC. The benefits, in the form of reduced transaction costs, derived from a common currency were small in the European Monetary Union, and will thus be even smaller in the EAC monetary union.

(Source: adapted from 'Towards a common currency in the East African Community (EAC): issues, challenges and prospects', UNECA, 2012, http://www.uneca.org/sites/default/files/publications/towards_a_common_currency_in_the_eac-2012.pdf)

6 (a) With reference to Figure 1, calculate the ratio of Burundi's GDP per capita to Kenya's GDP per capita in 2012.

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(d) Assess the benefits Kenya has gained from its membership of the EAC since 2000.

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(e) Discuss the likely costs and benefits of monetary union to the five members of the EAC.

(15)

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION C

Answer **ONE** question from this section.

Write your answers in the spaces provided.

EITHER

- 7** In 2012, it was estimated that Japan's national debt was equal to 214.3% of its GDP, and Greece's national debt was equal to 161.3% of its GDP.

Evaluate the likely impact of measures which a government could take to reduce the economy's national debt. Refer to a developed economy of your choice in your answer.

(Total for Question 7 = 25 marks)

OR

- 8** Over the past 25 years, income inequality has been increasing in many developed countries. For example, from 2007 to 2011 Spain's Gini coefficient rose by 6.0 percentage points, and Ireland's by 6.6 percentage points.

Evaluate the factors which may have caused this **increase** in income inequality. Refer to a developed economy of your choice in your answer.

(Total for Question 8 = 25 marks)

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

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