

A



Surname _____

Forename(s) _____

Centre Number _____

Candidate Number _____

Candidate Signature _____

I declare this is my own work.

AS

ECONOMICS

Paper 2 The National Economy in a Global Context

7135/2

Monday 22 May 2023

Morning

Time allowed: 1 hour 30 minutes

At the top of the page, write your surname and forename(s), your centre number, your candidate number and add your signature.

[Turn over]



J U N 2 3 7 1 3 5 2 0 1

MATERIALS

For this paper you must have:

- the Insert
- a calculator.

INSTRUCTIONS

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Answer ALL questions in SECTION A.
- Answer EITHER Context 1 OR Context 2 in SECTION B.
- You will need to refer to the Insert provided to answer SECTION B.
- You must answer the questions in the spaces provided. Do not write on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.



INFORMATION

- **The maximum mark for this paper is 70.**
- **The marks for questions are shown in brackets.**
- **No deductions will be made for wrong answers.**

DO NOT TURN OVER UNTIL TOLD TO DO SO



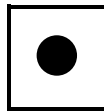
SECTION A

Answer ALL questions in this section.

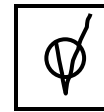
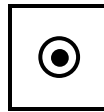
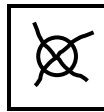
Only ONE answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

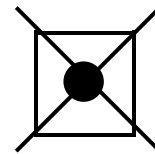
CORRECT METHOD



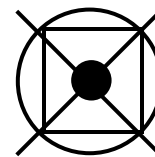
WRONG METHODS



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
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Which one of the following is an injection into the circular flow of income?

A Consumer expenditure

B Exports

C Imports

D Wages

[1 mark]

[Turn over]



0	2
---	---

In which one of the following situations is an increase in aggregate demand most likely to result in higher inflation?

A Household savings are increasing

B Mortgage interest rates are high

C Resources are fully employed

D Unemployment is rising

[1 mark]



03

TABLE 1 shows the Consumer Price Index (CPI) for an economy over a period of time.

TABLE 1

YEAR	CPI
2008	110
2011	108
2014	116
2017	124
2020	130

Which one of the following can be concluded from **TABLE 1**?

- A** The price of a representative basket of goods rose throughout the period.
- B** The rate of inflation from 2011 to 2014 was the same as from 2014 to 2017.
- C** The standard of living reached its highest level in 2020.
- D** The value of money rose between 2008 and 2011.

[1 mark]

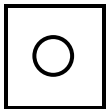
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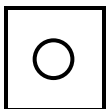
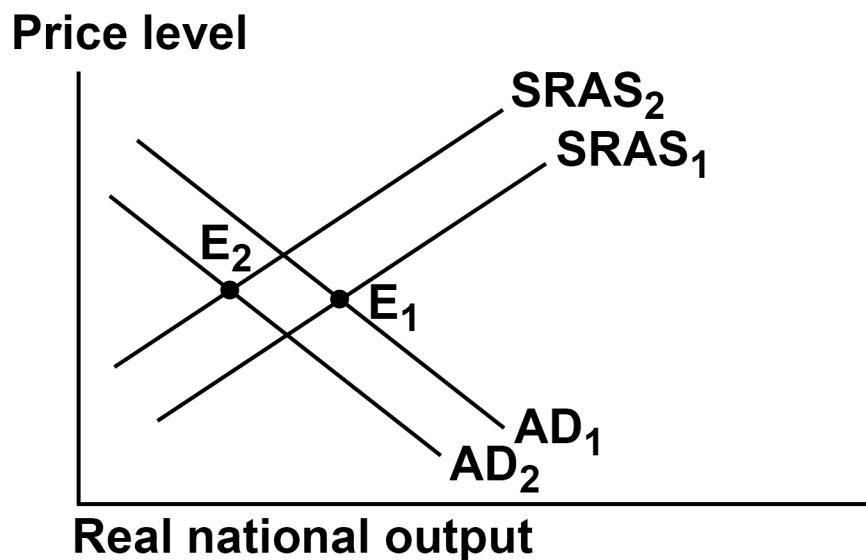
04

A government decides to increase the minimum wage at a time when the rest of the world is coming out of recession. These events cause short-run aggregate supply (SRAS) to shift from $SRAS_1$ to $SRAS_2$ and aggregate demand (AD) to shift from AD_1 to AD_2 .

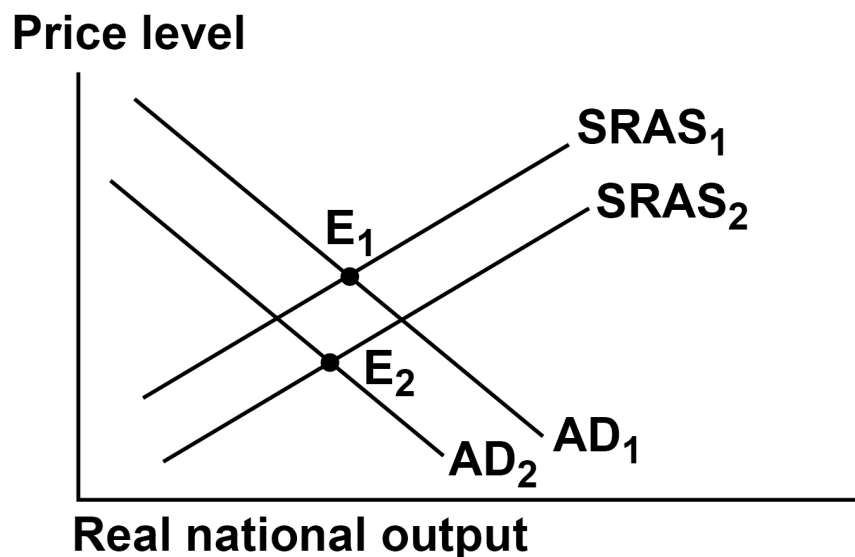
If the initial macroeconomic equilibrium is E_1 , which one of the following diagrams shows the correct new equilibrium E_2 ? [1 mark]

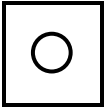


A

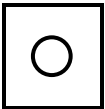
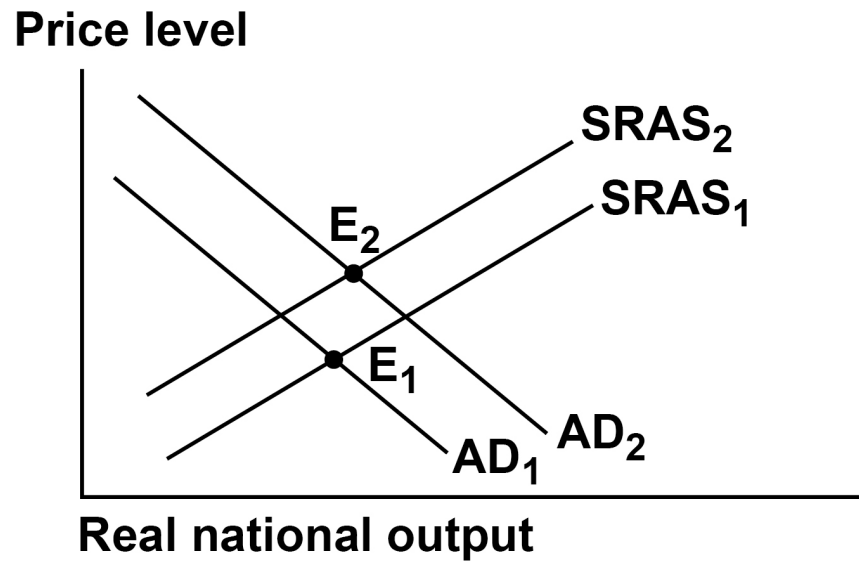


B

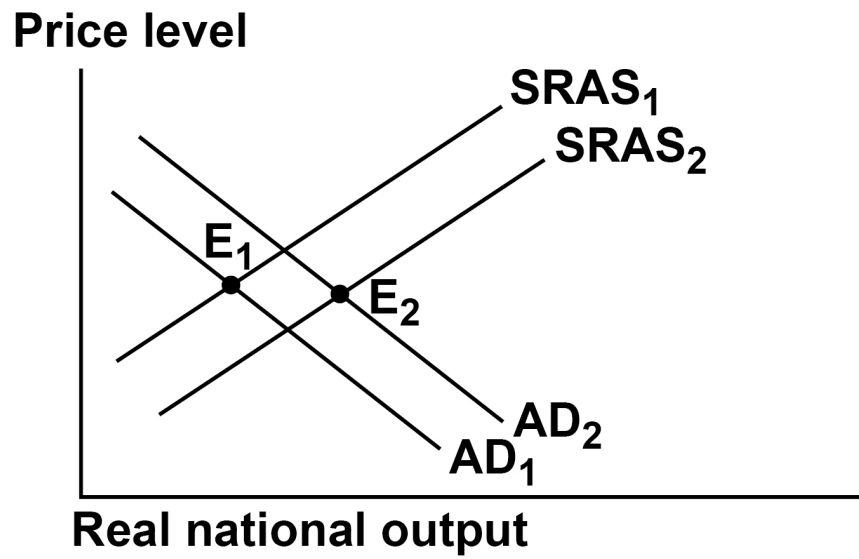




C



D



[Turn over]



0	5
---	---

Which one of the following is a direct tax?

A Corporation tax

B Fuel tax

C Import tax

D Vehicle tax

[1 mark]



06

TABLE 2 shows the components of a country's national income in 2021.

TABLE 2

	£bn
Consumer expenditure	22
Investment	10
Government expenditure	8
Exports	11
Imports	9

It can be concluded from the data in **TABLE 2** that aggregate supply in 2021 must have been

- A** £21bn.
- B** £40bn.
- C** £42bn.
- D** £60bn.

[1 mark]

[Turn over]



0	7
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Which one of the following is most likely to be used to identify a phase of the economic cycle?

A Firms' capacity utilisation

B Structural unemployment

C The economy's productive potential

D The exchange rate

[1 mark]



0	8
---	---

An economy has a low rate of economic growth and high unemployment.

Which one of the following sets of policies would be most likely to increase growth and reduce unemployment whilst avoiding a rise in inflation?

A A cut in income tax and lower interest rates

B Higher interest rates and an appreciation in the exchange rate

C Higher welfare benefits and an increase in the money supply

D Increased expenditure on training and an investment subsidy

[1 mark]

[Turn over]

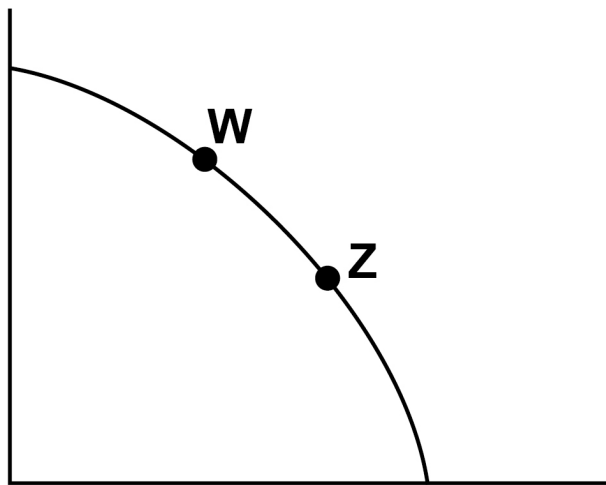


09

FIGURE 1 shows the production possibility curve for an economy producing services and manufactured goods.

FIGURE 1

**Manufactured
goods**



Services



The economy moves from point W to point Z. It can be concluded that

A imports of manufactured goods have risen.

B the international competitiveness of services has increased.

C the pattern of economic activity has changed.

D unemployment in manufacturing has increased.

[1 mark]

[Turn over]



10

TABLE 3 shows the planned change in government spending, the size of the output gap and the size of the multiplier in four economies, W, X, Y and Z.

TABLE 3

	CHANGE IN GOVERNMENT SPENDING (£bn)	OUTPUT GAP (£bn)	MULTIPLIER
W	-80	+100	1.25
X	-150	-225	1.5
Y	+200	+350	1.75
Z	-300	+150	2



All other things being equal, in which one of the economies, W, X, Y or Z, will the planned change in government spending eliminate the economy's output gap?

A W

B X

C Y

D Z

[1 mark]

[Turn over]



1	1
---	---

A government wishing to reduce inflation through the use of fiscal policy could

A cut government borrowing.

B decrease income tax.

C raise interest rates.

D reduce the budget surplus.

[1 mark]



1	2
---	---

TABLE 4 shows the percentage change in real GDP in an economy in the four years 2016 to 2019.

TABLE 4

YEAR	CHANGE IN REAL GDP (%)
2016	4.2
2017	3.1
2018	2.6
2019	1.1

Over the period 2016 to 2019, which one of the following can be concluded from **TABLE 4**?

- A Aggregate demand decreased**
- B Real national income increased**
- C Structural unemployment increased**
- D The inflation rate decreased**

[1 mark]

[Turn over]



1	3
---	---

The national debt is the sum of all past and current borrowing, less repayments, undertaken by

A firms and government.

B firms, government and households.

C government.

D households and firms.

[1 mark]



1	4
---	---

Which one of the following is most likely to be an instrument of industrial policy?

A An increase in manufacturing productivity

B Government grants for firms with growth potential

C Higher investment by firms in research and development

D Investment by firms in artificial intelligence

[1 mark]

[Turn over]



15

An economy experiences a low trend rate of economic growth, no output gap and a fall in total hours worked. In these circumstances, which one of the following combinations of events is most likely to occur?

	National output	Cyclical unemployment	Labour productivity
<input type="radio"/> A	Falling	Absent	Increasing
<input type="radio"/> B	Falling	Present	Decreasing
<input type="radio"/> C	Rising	Absent	Increasing
<input type="radio"/> D	Rising	Present	Decreasing

[1 mark]



1	6
---	---

The UK economy experiences a change in its foreign exchange rate from £1 = \$1.60 to £1 = \$1.75.

Which one of the following is the most likely effect on the UK economy?

A A decrease in employment

B A fall in the budget deficit

C A reduction in productivity

D Higher raw material prices

[1 mark]

[Turn over]



1	7
---	---

An economy is experiencing deflation and high employment.

The most likely cause of this situation is a

A deficit on the balance of payments.

B government budget surplus.

C negative demand-side shock.

D positive supply-side shock.

[1 mark]



18

Which one of the following is an example of a contractionary fiscal policy designed to reduce inflation while, at the same time, minimising the negative impact on the economy's potential for long-run economic growth?

A A decrease in the budget deficit and replacement of a sugar tax with a tax on savings

B An increase in interest rates and replacement of food subsidies with subsidies for innovation

C An increase in the budget surplus and a switch from spending on pensions to spending on new airports

D Restrictions on bank lending and a switch from spending on arts degrees to spending on apprenticeships

[1 mark]

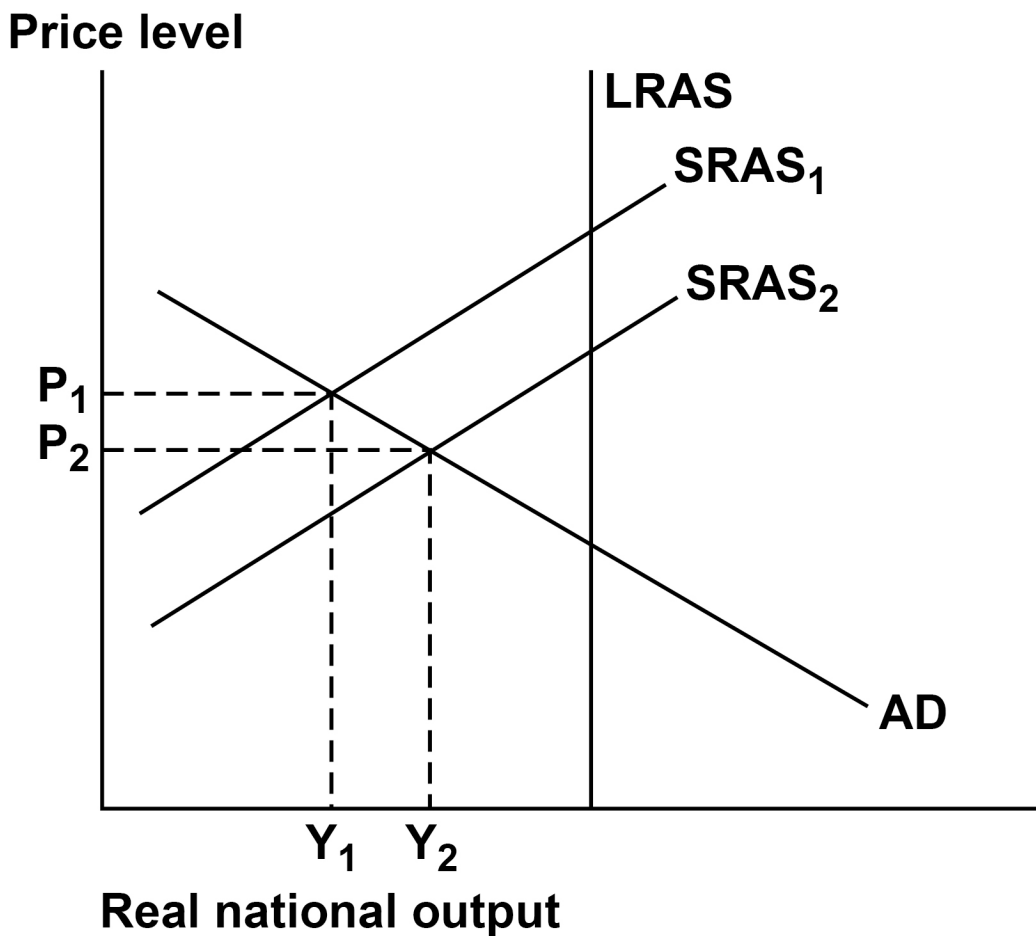
[Turn over]



19

FIGURE 2 shows the aggregate demand curve (AD), short-run aggregate supply curves (SRAS) and long-run aggregate supply curve (LRAS) for an economy.

FIGURE 2



The short-run aggregate supply curve shifts from $SRAS_1$ to $SRAS_2$. Which one of the following is the most likely cause of the resulting increase in real national output?

A An increase in bank lending to households

B An increase in government expenditure

C Productivity rising faster than money wages

D The action of the multiplier

[1 mark]

[Turn over]



2	0
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Which one of the following is most likely to result in an increase in exports from the UK economy?

An increase in

A inflation in other countries.

B productivity in other countries.

C UK incomes.

D UK interest rates.

[1 mark]

20



SECTION B

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

Answer **EITHER** Questions 21 to 26 on pages 30 to 55.

OR

Questions 27 to 32 on pages 56 to 80 of this answer booklet.

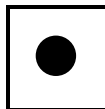
There is a total of 50 marks for either context.

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

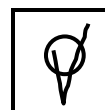
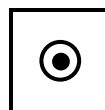
Context 1

Context 2

CORRECT METHOD



WRONG METHODS



[Turn over]



EITHER

CONTEXT 1

Total for this context: 50 marks

INFLATION

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
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Define 'deflation' EXTRACT C (line 4). [3 marks]

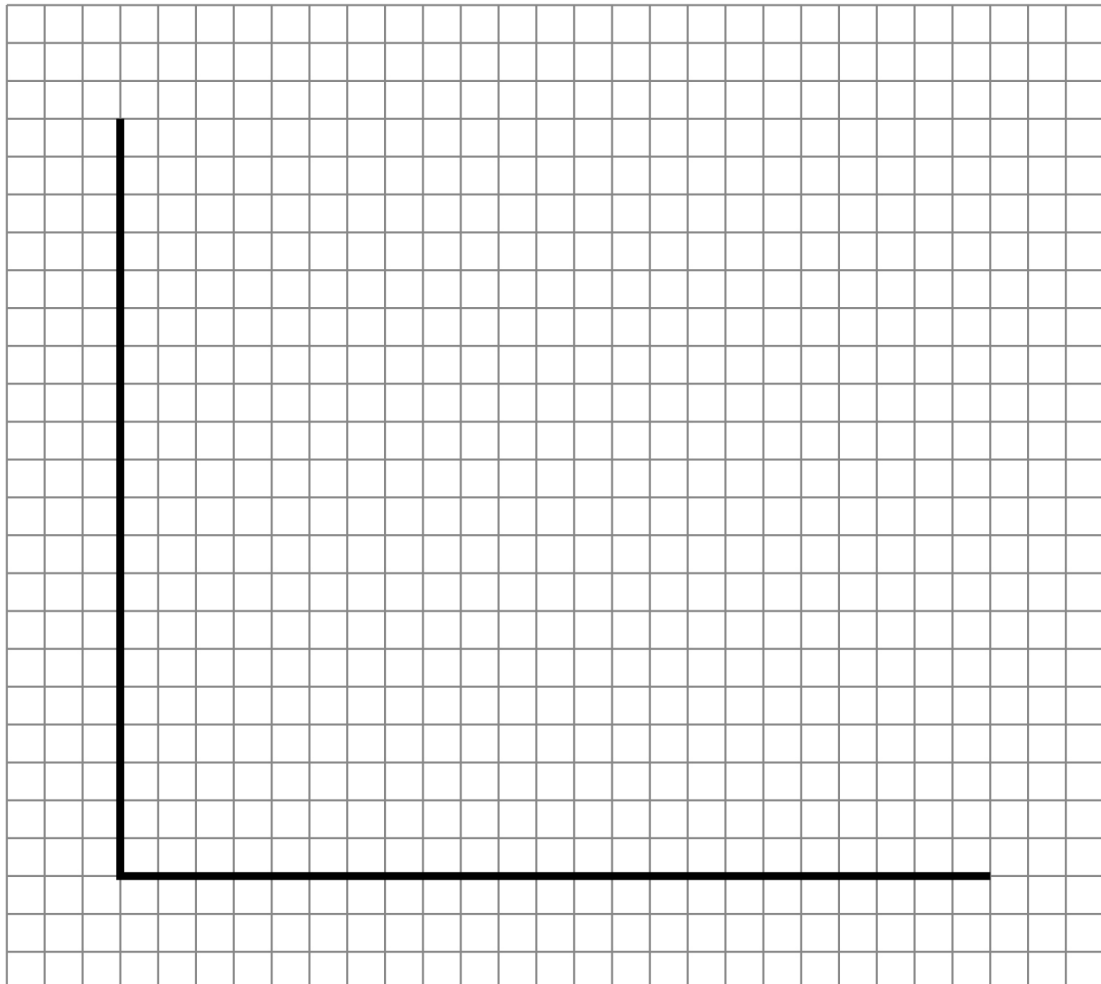
[Turn over]



24

EXTRACT B (lines 27–29) states: ‘In the UK, government policy, such as the temporary reduction in VAT, an indirect tax, from 20% to 5%, also helped to reduce inflation.’

Draw an AD/AS diagram to show the impact of a reduction in indirect taxation on real national income and the price level in an economy. [4 marks]



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[Turn over]



[Turn over]



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

OR

CONTEXT 2

Total for this context: 50 marks

INTERNATIONAL TRADE

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.

27

Define 'economic recovery' EXTRACT E (line 31).
[3 marks]

[Turn over]



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[Turn over]



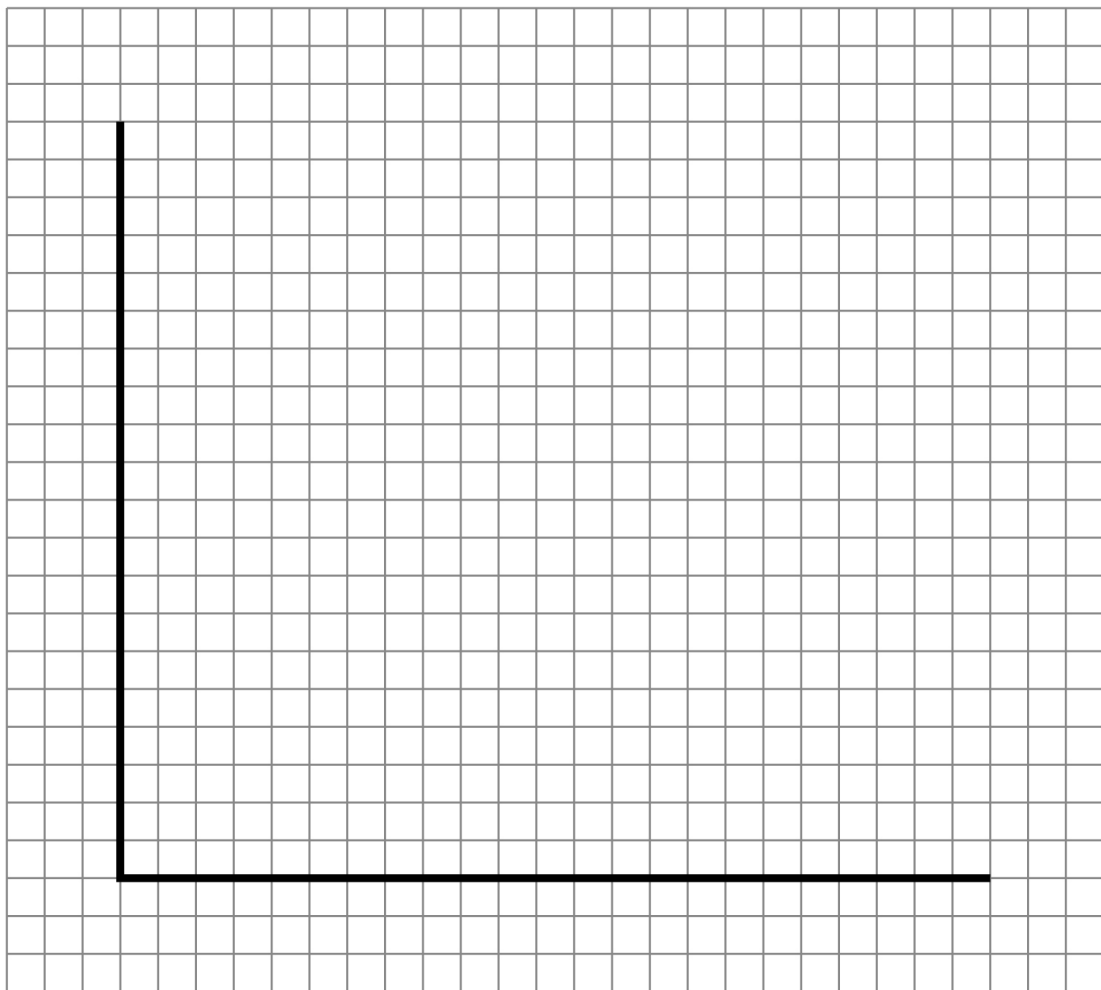
[Turn over]



3	0
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EXTRACT E (lines 8–10) states: ‘Recent favourable trade balances, such as the £8.2 billion surplus achieved in the 12 months to October 2020, have largely been overlooked.’

Draw an AD/AS diagram to show the effect of an improvement in the balance of trade in goods and services on real national income and the price level in an economy. [4 marks]



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[Turn over]



3	1
---	---

EXTRACT F (lines 1–3) states: ‘Many economists believe that the trade balance reflects the strength or weakness of a country’s international competitiveness’.

Explain how a fall in a country’s international competitiveness may affect economic growth in the economy. [10 marks]



[Turn over]



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For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

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