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# A-level Economics (7136)

## Paper 2 National and international economy

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Specimen 2015

Morning

2 hours



### Materials

For this paper you must have:

- an answer book
- a calculator.

### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is 7136/2.
- In **Section A**, answer **either** Context 1 **or** Context 2.
- In **Section B**, answer **one** essay.

### Information

- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.



## Section A

Answer **either** Context 1 **or** Context 2.

Either

Context 1

Total for this Context: 40 marks

**Economic growth and development in Africa**Study **Extracts A, B** and **C** and then answer **all** parts of Context 1 which follow.**Extract A: Macroeconomic indicators for UK and selected African economies, 2012**

| Economy                        | Real GDP growth<br>(% change on<br>previous year) | Real GDP per<br>capita<br>(\$) | Life expectancy<br>(years) | Rural<br>population<br>access to<br>improved<br>water source<br>(%) |
|--------------------------------|---|--------------------------------|----------------------------|---|
| UK                             | 0.7   | 36 617                         | 82                         | 100   |
| Central<br>African<br>Republic | 4.1   | 932                            | 50                         | 76  |
| Egypt                          | 2.2   | 10 686                         | 70                         | 99  |
| Ethiopia                       | 8.6   | 1 240                          | 63                         | 42  |
| Zambia                         | 6.7   | 3 678                          | 57                         | 49  |

Source: official statistics, accessed on 29 June 2014

**Extract B: Living standards**

|  |         |
|--|---------|
| Economic growth in Africa is expected to accelerate in 2014 and 2015. However, this growth is failing to translate into job creation and the broad-based development that is needed to reduce high poverty and rising inequality rates in many countries, the UN has said.   | 1       |
| Economists can generally agree on the causes of economic growth such as investment, innovation and improvements in productivity. There is greater disagreement over the consequences. An important part of the debate is the impact of economic growth on economic development and living standards. The debate has become more complex as measurement of economic development has become more sophisticated. However, real GDP per capita (income per head) remains one of the basic measures. Various indices, such as the Human Development Index, incorporate a number of factors into their calculations in order to give as comprehensive a view of living standards as possible and to allow more accurate international comparisons. Factors include life expectancy, infant mortality and nutritional levels. | 5<br>10 |
| Supporters of continued economic growth point to increased employment, greater welfare, more support for the disadvantaged and more resources for health, education and infrastructure. Opponents of unconstrained economic growth point to the rapid depletion of exhaustible natural resources, environmental deterioration and a widening inequality in the distribution of income and wealth.  | 15      |

Source: News reports 2013

**Extract C: Problems in Africa**

Many African countries should continue to enjoy strong economic growth and attract investment, especially in oil, natural gas and minerals. In some areas this has been accompanied by a decline in labour unrest. As a result of this economic change, living standards in Africa should improve. However, some parts, noticeably north and central Africa, continue to suffer from political instability and civil war. 1  
5

Africa's recent growth has been driven by the increasing production and export of commodities but it remains far below the continent's potential for growth. Meaningful job creation is weak and is not tackling the high rates of poverty in many countries. The informal sector is still large and opportunities remain limited for many seeking to enter the labour market. Continual pressure on labour markets from a steady stream of new entrants due to population growth has also meant that economic growth rates have not impacted strongly on poverty and inequality. 10

When governments squander valuable natural resources, geographic advantages do not always result in sound development, while land-locked African countries often struggle to trade with global economies. 15

Heavy dependence on minerals and agriculture has led to weak job creation in areas such as construction, transport and telecommunications. Political unrest continues to pose a significant threat to economic activity and a reliance on agriculture leaves many countries prone to weather-related shocks.

Source: news reports 2014

0 | 1

Using the data in **Extract A**, calculate, to the nearest £, the real GDP per capita of the UK in 2012 in pounds, assuming the pound to dollar exchange rate was £1 = \$1.70.

[2 marks]

0 | 2

Explain how the data in **Extract A** show that a higher real GDP per capita results in greater life expectancy.

[4 marks]

0 | 3

**Extract B** (lines 4–5) states: 'Economists can generally agree on the causes of economic growth such as investment, innovation and improvements in productivity'.

With the help of a diagram, explain why investment can lead to increased economic growth.

[9 marks]

0 | 4

**Extract C** (lines 6 – 8) argues that: 'Africa's recent growth has been driven by the increasing production and export of commodities but it remains far below the continent's potential for growth. Meaningful job creation is weak and is not tackling the high rates of poverty in many countries'.

Using the data in the extracts and your knowledge of economics, assess the view that sustained economic growth is likely to improve living standards in African countries.

[25 marks]

Do **not** answer Context 2 if you have answered Context 1.

or

**Context 2**

**Total for this Context: 40 marks**

**The Balance of Payments**

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

**Extract D: UK trade figures and real GDP growth 2006 - 2012**

|      | UK trade balance              |                                  |   | Real GDP<br>(% change on previous year) |
|------|-------------------------------|----------------------------------|---|---|
|      | Trade in goods<br>(£ million) | Trade in services<br>(£ million) | Balance of trade in goods and services<br>(£ million) |   |
| 2006 | -76 842                       | 41 643                           | -35 199   | 2.8                                     |
| 2007 | -90 535                       | 53 802                           | -36 733   | 3.4                                     |
| 2008 | -94 261                       | 61 689                           | -32 572   | -0.8                                    |
| 2009 | -82 933                       | 59 560                           | -23 373   | -5.2                                    |
| 2010 | -98 585                       | 65 733                           | -32 852   | 1.7                                     |
| 2011 | -100 092                      | 76 832                           | -23 260   | 1.1                                     |
| 2012 | -108 700                      | 75 319                           | -33 381   | 0.3                                     |

Source: official statistics, accessed on 08 July 2014

**Extract E: Re-balancing the UK economy**

|   |    |
|---|----|
| The UK government wants to re-balance the economy more towards investment, manufacturing and exports, and away from consumption and government spending. Manufacturing only accounts for around 11% of what is produced in Britain, while the service sector accounts for over three-quarters of UK GDP.  | 1  |
| Britain, which until recently exported more to Ireland than to the combined BRIC economies (Brazil, Russia, India, and China), wants to export more to emerging economies and help its companies access the fastest-growing markets in the world.   | 5  |
| In 2012, Britain's trade deficit hit its highest level since 2007. The hope was that with sterling having lost about a quarter of its value since the financial crash five years previously, this depreciation would have boosted exports in the same way that it did during the early 1990s, when the pound depreciated after a sterling crisis. The last time that Britain had a trade surplus was towards the end of that decade, in 1997. | 10 |

Source: news reports, February 2014



**Extract F: Warning on UK's current account deficit**

The UK is one of only eight countries to see its current account deficit increase since 2008, and its deficit has increased the most. Should overseas investors be worried? The UK has lived with large current account deficits for decades. From the 1940s to the early 1970s, when the country was operating a fixed exchange rate system, the UK was forced to use contractionary policies to keep the balance of payments in check and had to devalue the pound sterling in 1949 and 1967. From the 1980s onward, with the exchange rate floating, persistent current account deficits stopped being a cause for concern.

In the boom years before the global financial crisis, the current account deficit remained large, exceeding 3% of GDP in 2006. With hindsight, this should have rung alarm bells that the economy had become seriously unbalanced, with foreign money flowing into the UK to fund unsustainable public and private sector consumption rather than investment. After the crash, it was widely assumed that the UK economy would recover through higher exports and higher business investment. Indeed, the government's 2010 budget forecasted a current account surplus of 0.9% in 2013, driven by a surge in exports. This forecast proved highly inaccurate as the current account deficit increased.

Although surveys show that business confidence is high, investment fell in the year to the end of September 2013, and the UK's export performance has been poor, despite the depreciation of sterling by approximately 25% in the immediate aftermath of the financial crisis. In contrast, other European economies have seen strong export growth.

The UK's large current account deficit cannot be ignored easily, and research shows that such deficits are reduced eventually through some combination of slower growth and currency depreciation.

Source: news reports, February 2014

0 5

Assume that in 2012 the net primary income balance was a deficit of £2,154 million and the net secondary income balance was a deficit of £23,055 million. Using the data in **Extract D**, calculate the current account balance for the UK for 2012.

[2 marks]

0 6

Explain how the data in **Extract D** show that increasing growth in real GDP frequently leads to an increased deficit in the balance of trade in goods and services.

[4 marks]

0 7

**Extract E** (lines 8–10) states that: 'The hope was that with sterling having lost about a quarter of its value since the financial crash five years previously, this depreciation would have boosted exports ...'

With the help of a diagram, explain how a boost to exports would help the recovery of the UK economy.

[9 marks]

0 8

**Extract F** (lines 21–22) states: 'The UK's large current account deficit cannot be ignored easily, and research shows that such deficits are reduced eventually through some combination of slower growth and currency depreciation'.

Using the data in the extracts and your knowledge of economics, evaluate the significance of a large and persistent deficit on the current account of the balance of payments for the UK economy.

[25 marks]

