

A-level ECONOMICS

Paper 2 National and International Economy

Monday 20 May 2024

Afternoon

Time allowed: 2 hours

Materials

For this paper you must have:

- an AQA 12-page 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 cover of your answer book.
The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Context 1

Total for this context: 40 marks

Productivity and living standards

Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A: Indicators of economic performance and living standards, selected nations, 2021

	Productivity (GDP per hour worked, US \$)	Productivity change 2010–2021 (%)	Life expectancy at birth (years)	Gini coefficient	Expected years of schooling (years)	CO ₂ emissions per capita (tonnes)
Estonia	42.9	+28.8	77.1	0.308	15.9	7.9
Hungary	39.9	+16.7	74.5	0.300	15.0	5.0
UK	59.1	+3.5	80.7	0.351	17.3	4.9

Source: OECD & WHO, 2022

Extract B: The UK's productivity puzzle

The economist Paul Krugman once wrote that “Productivity isn’t everything, but, in the long-run, it is almost everything”. Productivity is a key determinant of living standards because it affects the amount of goods and services that can be produced, and therefore consumed, from the resources that are available. Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards. Although productivity can be measured in several different ways, one common way is GDP per hour worked.

When economies move through their economic cycles, it is not unusual for productivity to fall during downturns, as happened in 2008–2009. However, the persistently low rate of growth of productivity that the UK has experienced since 2010 is unusual. Productivity growth in other nations, including Estonia and Hungary, has been much higher. The UK’s low rate of productivity growth is often referred to as ‘The UK’s productivity puzzle’. If the pre-2007 trend in productivity growth had continued, UK productivity would now be over 30% higher than it is today.

Many economists have tried to provide reasons for the productivity puzzle. Among the suggestions are low levels of investment and the impact of the financial crisis on banks’ willingness to lend to new businesses. More people working beyond normal retirement age has led to an older workforce and may have affected productivity. These factors may be relevant but they do not provide a complete explanation for the weakness in UK productivity growth.

So, what can be done to raise productivity? Investing in human capital to improve people’s skills and supporting improvements in technology should help. Creating a stable economy and effective use of the tax and benefits system are also key factors in driving productivity growth.

Source: News reports, 2022

Extract C: Falling living standards in the UK?

According to the Office for Budget Responsibility (OBR), in 2022, the UK faced its biggest fall in living standards on record as the surging cost of living reduced real wages. The OBR also forecast a significant increase in unemployment.

Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound and the war in Ukraine. Inflation was at a 41-year high and average real household income was expected to fall by 7%, back to the level it was in 2013. The rising cost of living led to industrial action by workers trying to achieve pay increases that compensated for the rise in prices. 5

In response to the rise in inflation, the Bank of England increased Bank Rate. The rise in Bank Rate meant that financial institutions raised the rate of interest on mortgages. As a result, it has been forecast that house prices are likely to fall by around 9% over the next two years. 10

In his Autumn Statement of 2022, the UK Chancellor of the Exchequer, Jeremy Hunt, announced tax rises and cuts in public spending even though the UK economy was expected to contract in 2023. The cuts in public spending are likely to damage public services and came at a time when poverty and inequality appeared to be rising with life expectancy falling. Some have argued that tackling these issues, to prevent a further fall in living standards, is more important than introducing measures to increase productivity. 15

Source: News reports, 2022

0 1 Using the data in **Extract A**, calculate the ratio of the UK's GDP per hour worked to \$1 of GDP per hour worked in Hungary.

Give your answer to **two** decimal places.

[2 marks]

0 2 Explain how the data in **Extract A** show that higher productivity may result in higher living standards.

[4 marks]

0 3 **Extract C** (lines 4–5) states 'Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound...'

With the help of a diagram, explain how a depreciation of the pound may cause inflation.

[9 marks]

0 4 **Extract B** (lines 4–5) states: 'Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards.'

Using the data in the extracts and your knowledge of economics, assess the view that the government should make raising productivity a priority in order to improve living standards in the UK.

[25 marks]

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

OR

Context 2

Total for this context: 40 marks

Globalisation and deglobalisation

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

Extract D: Macroeconomic performance indicators, selected Southeast Asian economies, 2010 to 2021

	GDP per capita (constant prices, PPP)		Average annual growth rate 2010–2021 (%)	Average unemployment rate 2010–2021 (%)	Exports (% of GDP)	
	2010	2021			2010	2021
Malaysia	9 041	11 371	4.3	3.4	86.9	68.8
Thailand	5 076	7 233	2.6	0.7	66.5	58.2
Vietnam	1 673	3 694	5.9	1.6	54.2	93.3

Note: PPP = Purchasing power parity

Source: World Bank, 2022

Extract E: Made in Vietnam

Trade and foreign investment have helped Vietnam emerge from extreme poverty. Integration with global manufacturing has kept Vietnam's economy growing even during the pandemic. In 2020, GDP rose by 2.9%, while many other countries experienced recession. The latest forecasts indicate an economic growth rate of over 8% in 2022.

Vietnam's openness to trade and investment has made the country an important link in the global economy and it has been one of the five fastest growing countries in the world over the past 30 years. Its record has been characterised by steady growth compared to boom-busts in similar nations. According to the World Bank, Vietnam is a lower-middle income economy but the government wants it to become a high-income economy by 2045. 5

Vietnam's development is often compared to that of China in the 1990s or early 2000s. Both are former command economies that now focus on export-led growth. However, Vietnam is very different in terms of the amount of foreign investment and its connection to global supply chains. Since 1990, Vietnam's inflows of foreign direct investment have averaged 6% of GDP each year, more than twice the global average and a much higher percentage of GDP than China has ever recorded over a sustained period. 10 15

As many countries in Southeast Asia developed and wages rose, multinational corporations (MNCs) were attracted by Vietnam's low labour costs and stable exchange rate. A low rate of corporation tax has also contributed to both short-run and long-run economic growth. Vietnam is also a member of the ASEAN free trade area and has bilateral trade deals with the European Union and the USA. In the past decade, exports have risen by over 140%. However, Vietnam has become increasingly dependent on foreign companies for growth and employment, while foreign competition has meant that many domestic firms have struggled. 20

Source: News reports, 2022

Extract F: A period of deglobalisation?

After decades of growing integration and interdependence between nations, trade and investment flows between countries have been growing more slowly and, in some cases, falling. This process has been labelled 'deglobalisation' and is characterised by rising protectionism, reduced dependence on foreign imports and increased self-reliance by nations. However, could the rise in protectionism have boosted the Vietnamese economy in the short term? 5

The trade war between the USA and China, which started in 2018, has probably helped Vietnam. It is estimated that, in 2019, US tariffs on imports from China resulted in the US buying \$31bn more imports from other low-cost Asian countries rather than China. Vietnam supplied almost half of these imports. 10

China's rising labour costs, and the growing tensions between the world's superpowers, make it easy to see why many big firms are relocating to Vietnam. Apple's biggest suppliers, Foxconn and Pegatron, are building big factories in Vietnam, creating many jobs. Other big firms moving production from China to Vietnam include Dell, Hewlett Packard, Google and Microsoft. 15

Some see deglobalisation as a threat. Many nations such as Vietnam rely on international trade and investment for employment and economic growth. If other countries start to protect their economies from Vietnamese imports, this could damage the economic development of Vietnam. The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost. 20

Source: News reports, 2022

0 5 Using the data in **Extract D**, calculate the percentage change in Vietnam's GDP per capita between the years 2010 and 2021.

Give your answer to **one** decimal place.

[2 marks]

0 6 Explain how the data in **Extract D** show that Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.

[4 marks]

0 7 **Extract E** (lines 17–18) states: 'A low rate of corporation tax has also contributed to both short-run and long-run economic growth.'

With the help of a diagram, explain how a low rate of corporation tax may cause short-run and long-run economic growth.

[9 marks]

0 8 **Extract F** (lines 19–20) states: 'The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost.'

Using the data in the extracts and your knowledge of economics, discuss the view that a slowing, or reversal, of globalisation would be harmful to developing economies such as Vietnam.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

In November 2022, the Bank of England warned there was a risk that the UK was heading for a recession. This announcement came shortly after the money supply fell, following its rapid growth in 2020 and 2021.

0 9 Explain possible reasons why a country may enter a recession. **[15 marks]**

1 0 Assess whether an increase in the money supply is always damaging for an economy. **[25 marks]**

OR

Essay 2

In August 2022, the Office for National Statistics (ONS) announced that the unemployment rate had reached 3.5%, the lowest rate in almost 50 years. Some argue this is below the natural rate of unemployment (NRU) and that very high levels of employment may cause problems for the economy.

1 1 Explain the factors which determine the natural rate of unemployment. **[15 marks]**

1 2 Discuss the view that high levels of employment are always beneficial for an economy. **[25 marks]**

OR

Essay 3

In November 2022, the UK government announced large public spending cuts and tax rises in order to reduce the budget deficit. Some economists worry that this may cause a negative multiplier effect and damage economic activity.

1 3 Explain how the multiplier **and** accelerator affect the overall level of economic activity.

[15 marks]

1 4 Evaluate the view that increasing taxation is the best way to reduce a budget deficit.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

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