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Oxford Cambridge and RSA

Monday 23 May 2016 – Morning

AS GCE ECONOMICS

F582/01 The National and International Economy

Candidates answer on the Question Paper.

OCR supplied materials:

None

Other materials required:

- Calculators may be used

Duration: 1 hour 30 minutes



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| Candidate forename | | Candidate surname | |
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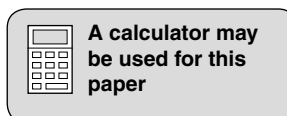
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INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.



Would the UK have benefited from adopting Abeconomics?

At the start of 2013 the UK and the Japanese governments were seeking to increase both aggregate demand and aggregate supply. There were, however, differences in their countries' macro-economic performance and in one key aspect of their respective governments' economic policy approaches.

Real Gross Domestic Product (GDP) per head at the end of 2012 was US\$45 000 in Japan, while it was US\$38 000 in the UK. Income was more unevenly distributed in Japan than in the UK. This was despite the top rate of national income tax being lower in Japan than in the UK and the Japanese government providing fewer benefits to the poor than the UK government provides.

At the start of 2013 the unemployment rate in the UK, as measured by the Labour Force Survey (ILO) method, was higher at 7.5% compared to 4.0% in Japan. The number of people unemployed, however, was lower in the UK than in Japan because Japan's labour force was greater than the labour force of the UK. Japan's population size was 127 million which was just under double that of the UK's population at 64 million. Japan's labour force of 65 million was slightly more than double the UK labour force of 32 million.

Costs of production were rising at a higher rate in the UK than in Japan and there were concerns about the slowdown in the growth of UK productivity. The Japanese economy was facing a number of problems, including a fall in the price level and an unwelcome trend in the exchange rate. Fig. 1 shows how the value of the Japanese yen changed between 2008 and 2012.

The Japanese yen – US dollar exchange rate, 2008 to 2012

| Year | Japanese yen per US\$ |
|------|-----------------------|
| 2008 | 118 |
| 2009 | 104 |
| 2010 | 97 |
| 2011 | 90 |
| 2012 | 82 |

Fig. 1

Changes in the exchange rate influence economic activity and are, in turn, influenced by a range of factors including changes in interest rates.

In early 2013, Mr Shinzo Abe, the Prime Minister of Japan, announced a strategy to stimulate Japan's economic activity. This strategy, which has become known as Abeconomics, combines expansionary monetary policy, expansionary fiscal policy and supply-side policy. In April 2013, the Bank of Japan introduced a large increase in the money supply, stated that it would keep interest rates at about zero and encouraged a significant fall in the exchange rate. The Japanese government was expected to cut corporation tax and raise government spending on a range of areas including health care. In addition, it was expected that the government would introduce a range of structural reforms, including deregulation and privatisation.

In the same period, the Bank of England was also implementing an expansionary monetary policy by increasing the UK money supply as there was not much room to make a significant cut in the rate of interest. The UK government was also seeking to improve the supply-side performance of the UK economy. It was, however, pursuing a harsher fiscal policy approach by restricting the growth of government spending and cutting some state benefits. The amount any government spends is, of course, influenced by a number of factors including changes in output. Some economists suggested that the UK government should cut unemployment benefit, although there was a debate about how such a measure was likely to affect unemployment.

Both the UK and Japanese governments were aiming for economic growth in 2013 in a bid to improve living standards and to achieve their other policy objectives for the macro-economy. Economists were predicting that by the end of 2013 the UK's real GDP would rise to US\$2494.7 billion and Japan's real GDP would increase to US\$5712.15 billion. It is interesting to speculate whether the adoption of Abeconomics would have enabled the UK economy to grow at a faster rate in 2013.

Answer **all** questions.

- 1 Using information from the case study, identify **two** policy measures the Japanese government could have taken to redistribute income from the rich to the poor.

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[2]

- 2 (a) Describe **two** disadvantages to a government of measuring unemployment through the use of the Labour Force Survey (ILO).

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[4]

- (b) Using information from the case study, calculate how many more people were unemployed in Japan than in the UK at the start of 2013.

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[2]

(c) (i) Explain why a cut in the amount paid in benefits to the unemployed may **decrease** unemployment.

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(ii) Analyse why a cut in the amount paid in benefits to the unemployed may **increase** unemployment.

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3 (a) What effect would an increase in costs of production have on the position of the aggregate supply curve?

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(b) Explain how **three** of the proposed policy measures mentioned in the case study (lines 25 to 28) could shift Japan's aggregate supply curve.

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[6]

- 4 (a) Explain what effect the change in the value of the Japanese yen, shown in Fig. 1, would be expected to have had on Japan's aggregate demand.

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- (b) Comment on whether a large and sustained reduction in the rate of interest is likely to reduce a current account surplus on the balance of payments. [6]

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5 Comment on whether a large decline in a country's output is likely to result in lower government spending.

Dotted lines for writing.

[6]

6 (a) State **one** similarity and **one** difference between GDP and real GDP.

Similarity

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Difference

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(b) Using information from the case study, calculate the expected increase in the UK's real GDP between 2012 and 2013.

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(c)* Discuss whether economic growth will always help a government achieve its other macro-economic policy objectives. [18]

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A series of 25 horizontal dotted lines spanning the width of the page, intended for writing.

ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

A large area of lined paper for writing, consisting of 25 horizontal dotted lines. A solid vertical line runs down the left side of the page, creating a margin. The rest of the page is open for writing.

The image shows a writing template on page 15. It features a large rectangular area defined by horizontal dotted lines, with a vertical dotted line on the left side creating a margin. The grid is empty, providing space for writing or drawing.

PLEASE DO NOT WRITE ON THIS PAGE



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