

A Level Economics

H460/02 Macroeconomics

Tuesday 12 June 2018 – Afternoon

Time allowed: 2 hours



You may use: • a scientific or graphical calculator	



First name	
Last name	
Centre number	Candidate number

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- · Read each question carefully before you start to write your answer.
- · Section A: Answer all questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided. If additional space is required, use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do not write in the barcodes.

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- · This document consists of 20 pages.

SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

The recovery of the Icelandic economy

In the last two decades the Icelandic economy has experienced some significant changes in economic activity. One influencing factor has been changes in the standard rate of income tax. The rate was cut in a number of stages from 46% to 36% in 2006. Despite the lower income tax rate, government income tax revenue rose, allowing the government to spend more on the country's infrastructure. In 2009 and 2010 the income tax rate was increased.

In the period 2008 to 2011, the economy experienced a serious recession. The country's three largest banks were allowed to fail. It was the third largest bankruptcy in history and, according to the size of the economy, the biggest banking failure in history. The value of the country's stock market fell by 95%, the currency declined in value by 60%, unemployment increased by 8% and inflation rose to 12%.

From 2011 the economy has made a remarkable recovery. In 2014 its real GDP was US\$14.85bn and it grew by 4% in 2015, one of the fastest rates in Europe. Economists have developed an 'alphabet' of recoveries with the three most common types shown in Fig. 1.

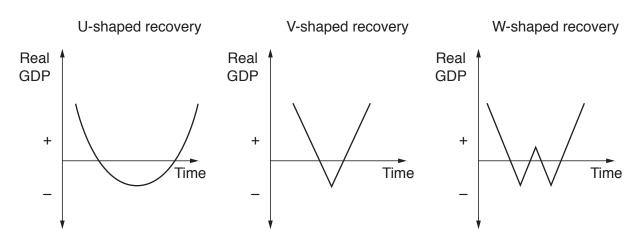


Fig. 1 Different types of economic recovery

In 2015 the Icelandic government was paying back its loans to the International Monetary Fund early. It had removed capital controls and had reformed the country's financial sector. A number of the country's industries were expanding, most noticeably its tourist industry. Income from tourism can fluctuate significantly. In 2015 the total contribution of Iceland's tourist industry to the country's GDP was 23%. The impressive growth of Iceland's tourist industry was contributing to a fall in unemployment due to a rise in hotel construction, and an increase in infrastructure, although this was also putting pressure on house prices as people were buying them to rent out to tourists. In 2015 the unemployment rate was 5.3%, which was lower than in many European countries, but it was predicted to rise in 2016.

15

5

For a small country with a population of only 0.33 million in 2014, Iceland has a relatively high HDI value. Fig. 2 shows some details of the HDI values of six countries.

Fig. 2 The Human Development Index of six selected countries

Country	HDI ranking 2014	HDI value 2014	GNI per capita (US\$) 2014
Norway	1	0.944	64,992
Australia	2	0.935	42,261
Germany	6	0.916	43,918
USA	8	0.915	52,947
UK	14	0.907	39,267
Iceland	16	0.898	35,182

As Iceland's economy has grown, so has the country's aid for developing countries. In 2013, for instance, its foreign aid budget increased by 27.8%.

1

(a)	Using Fig. 1, explain which type of economic recovery is likely to be most beneficial for an economy.
	[3]
(b)	Using information from the stimulus material, including Fig. 2, calculate the difference between Iceland's real GDP per head and its GNI per capita in 2014.
	[2]

© OCR 2018 Turn over

(c)	Using Fig. 2, explain why Australia had a higher HDI value than the USA in 2014.
	[2
(d)	Laffer curve and explain why it is an example of such a relationship.
	[3

e,	xpene	nce a	10000	,51011	antoi	2010	•					
•••								 	 	 	 	
• • •								 	 	 	 	
•••								 	 	 	 	
• • •								 	 	 	 	
• • •								 	 	 	 	
• • •								 	 	 	 	
•••										 	 	
• • •								 	 •••••	 	 	
				•••••				 	 	 	 	

f)*	Evaluate whether an increase in the aid Iceland provides to developing countries venefit the Icelandic economy.	would [12]

••••
••••

SECTION B

Answer EITHER question 2 OR question 3.

EITHER

The fall in the value of the South African rand between 2012 and 2016 had an impact on the current account of the country's balance of payments.

Evaluate, with the use of an appropriate diagram(s), whether a fall in the value of a country's currency will always reduce a deficit on the current account of its balance of payments. [25]

Japan's macroeconomic performance in recent years has been influenced by its experience of

[25]

OR

3*

deflation.	
Evaluate, with the use of an appropriate diagram(s), whether deflation always harms a cou	untry's
macroeconomic performance.	[25]

•	
Question No	
	· • • • • •
	· • • • • •

SECTION C

Answer EITHER question 4 OR question 5.

EITHER

4* Some economists argue that attempts by the Greek Government to reduce its budget deficit have contributed to the rise in the country's unemployment rate.

Evaluate the extent to which government policy measures to reduce a budget deficit will increase unemployment. [25]

OR

5* Investment has fluctuated significantly in Poland in recent years. For example, it increased by 8.3% in 2008, fell by 1.5% in 2012 and grew by 5.9% in 2015.

Evaluate the extent to which the accelerator theory explains the level of investment in an economy.

[25] Question No

 	•••••	 •••••	• • • • • • • • • • • • • • • • • • • •
	•••••	 •••••	

16

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).				
•••••				

	•••••



Copyright Information

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

 $For queries \ or \ further \ information \ please \ contact \ the \ Copyright \ Team, \ First \ Floor, 9 \ Hills \ Road, \ Cambridge \ CB2 \ 1GE.$

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.