



GCE AS

B520U20-1



O20-B520U20-1



FRIDAY, 9 OCTOBER 2020 – AFTERNOON

ECONOMICS – AS component 2
Exploring Economic Issues

2 hours

B520U201
01

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator and a WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Answer **all** questions.

Use black ink or black ball-point pen.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

Answer all questions.

1. **Zambian economy boosted by rising copper prices**

Zambia expected to produce more than one million tonnes of copper in 2018. Increased production combined with rising copper prices were expected to boost firms' profitability, contribute to rising wages in the sector and increase Zambia's rate of economic growth. This was in turn expected to help cut Zambia's budget/fiscal deficit. Copper is Zambia's largest export and the rising price is also expected to increase the value of the kwacha (Zambia's currency) against the dollar. The kwacha had depreciated by 50% against the dollar between 2014 and 2016, partly caused by falling copper prices.

The price of copper is rising, partly because of the increasing number of electric cars coming onto the market (copper is a major component in batteries). At the same time copper is running out elsewhere in the world, with global production falling by about 500 000 tonnes per year.

Figure 1: World price of copper (\$US per tonne)

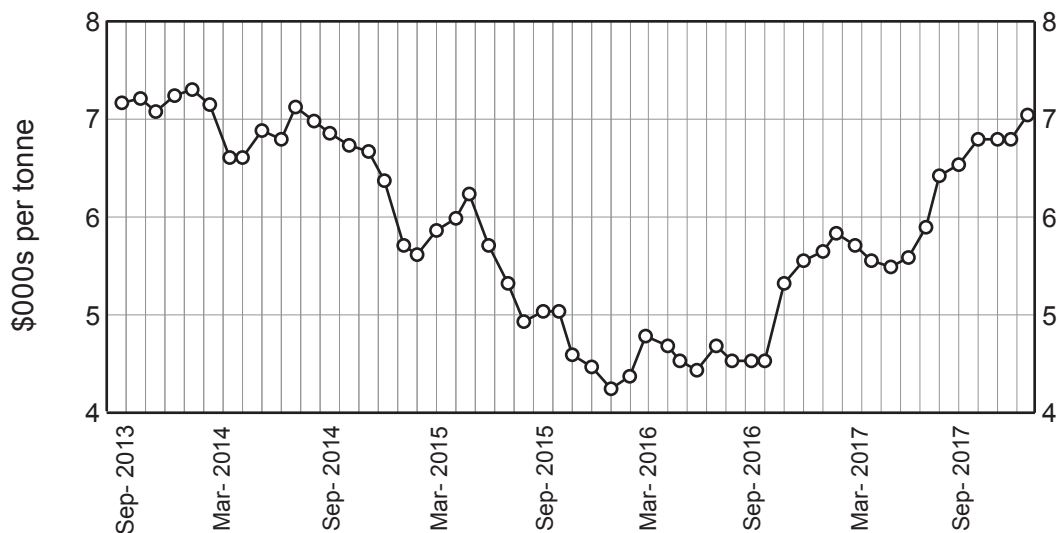


Figure 2: Zambia exchange rate – US dollars per Zambian Kwacha

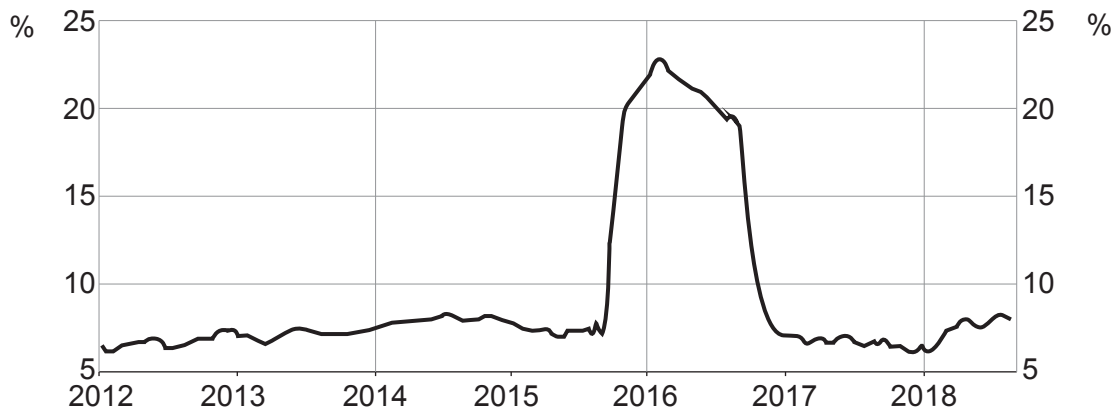


Part of the problem for Zambia's government is that the unstable price of copper makes the economy as a whole unstable too, making macroeconomic policy difficult to implement.

Although the copper industry employs a large number of workers, these workers are often very poorly paid. Low wages are an issue facing both the copper industry and the wider Zambian economy. The government doubled the minimum wage for unskilled workers in late 2018, the first increase since 2012. Whilst many claim that this increase is long overdue as a result of significant inflation, others worry that it will be bad for the economy at both a micro and macro-economic level.

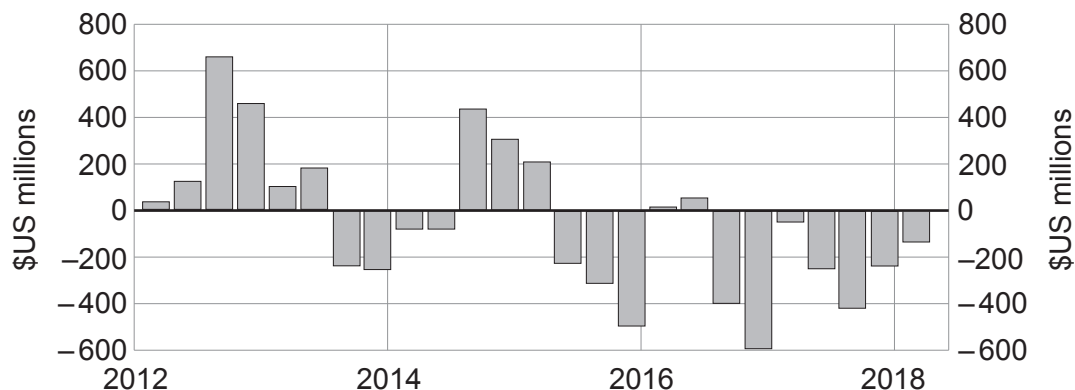
Copper production also has negative environmental effects. Water in the areas around mines can be contaminated as a result of chemical spills. Air pollution is also a problem, as is the impact on the landscape of waste rock and mine workings. Outside observers argue that as a result, more environmental regulation needs to be introduced, although those inside the country say that actually enforcing the current regulations would make more difference.

Figure 3: Zambia annual inflation rate

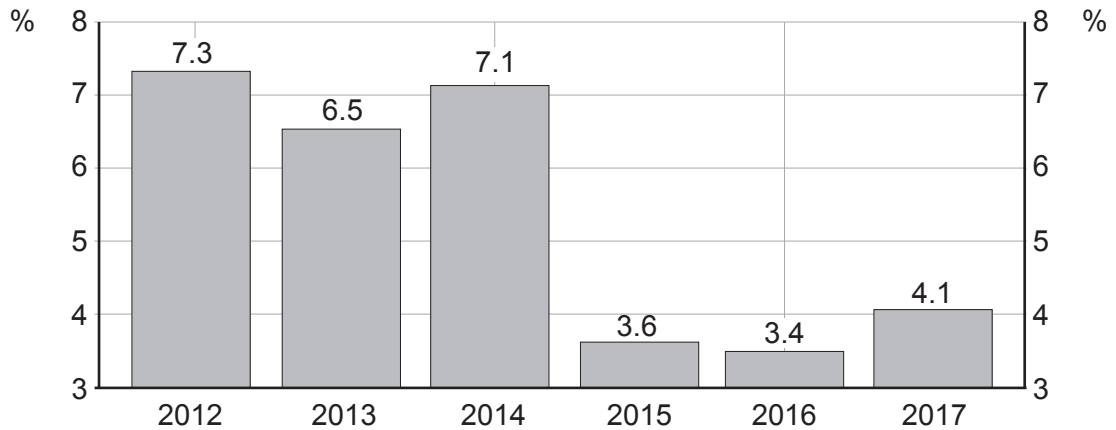


Source: *tradingeconomics.com* | Central Statistical Office of Zambia

Figure 4: Zambia balance of payments on current account



Source: *tradingeconomics.com* | Bank of Zambia

Figure 5: Zambia real annual economic growth rate

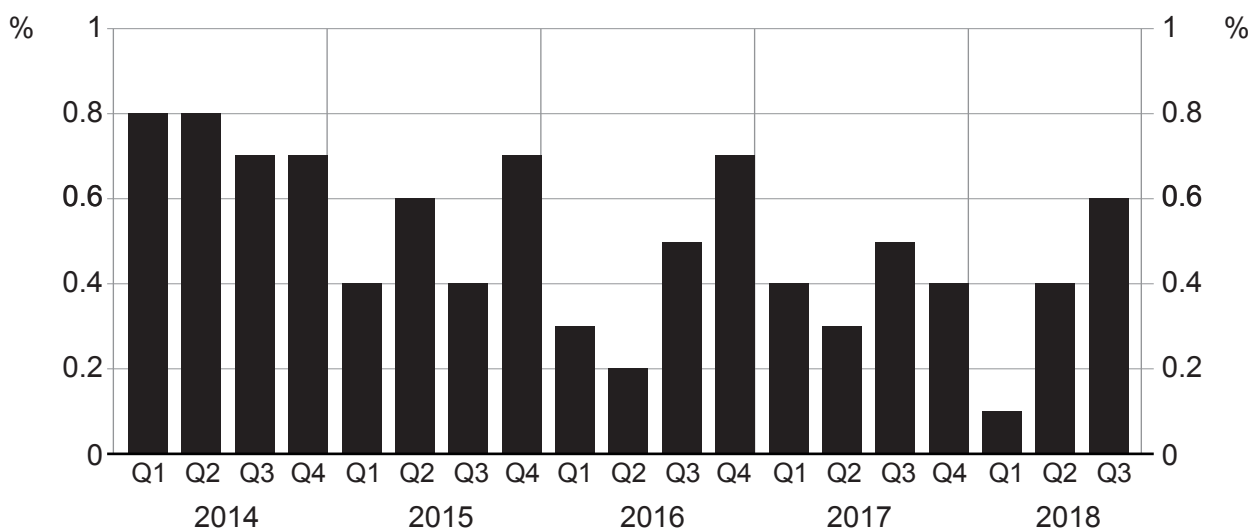
Source: *tradingeconomics.com* | Bank of Zambia

- (a) With reference to the data and using a supply and demand diagram, explain why the price of copper is rising. [6]
- (b) Using an exchange rate diagram and **Figures 1 and 2**, evaluate the link between the world price of copper and Zambia's exchange rate. [8]
- (c) Explain why Zambia's budget/fiscal deficit was expected to fall. [6]
- (d) Using appropriate economic analysis, discuss whether introducing more environmental regulations would be a good way of correcting the market failures described in the copper industry. [8]
- (e) Using a minimum wage diagram and an AD/AS diagram, consider whether the minimum wage increases described in the data would be "bad for the economy at both a micro and macroeconomic level". [12]

2. UK growth helped by World Cup and warm weather

The UK economy grew more strongly than expected in July 2018. The Office for National Statistics (ONS) said the economy grew by 0.6% over the three months to July – the fastest pace in almost a year.

Figure 1: Percentage change in real GDP on previous quarter



Source: *tradingeconomics.com* | Office for National Statistics

“Services grew particularly strongly, with retail sales performing well, boosted by warm weather and the World Cup,” said Rob Kent-Smith from the ONS. “The construction sector expanded but industrial output contracted.” The 0.6% growth rate for the three months to July was the fastest since August 2017 and marks an improvement from the 0.4% rate seen in the three months to June.

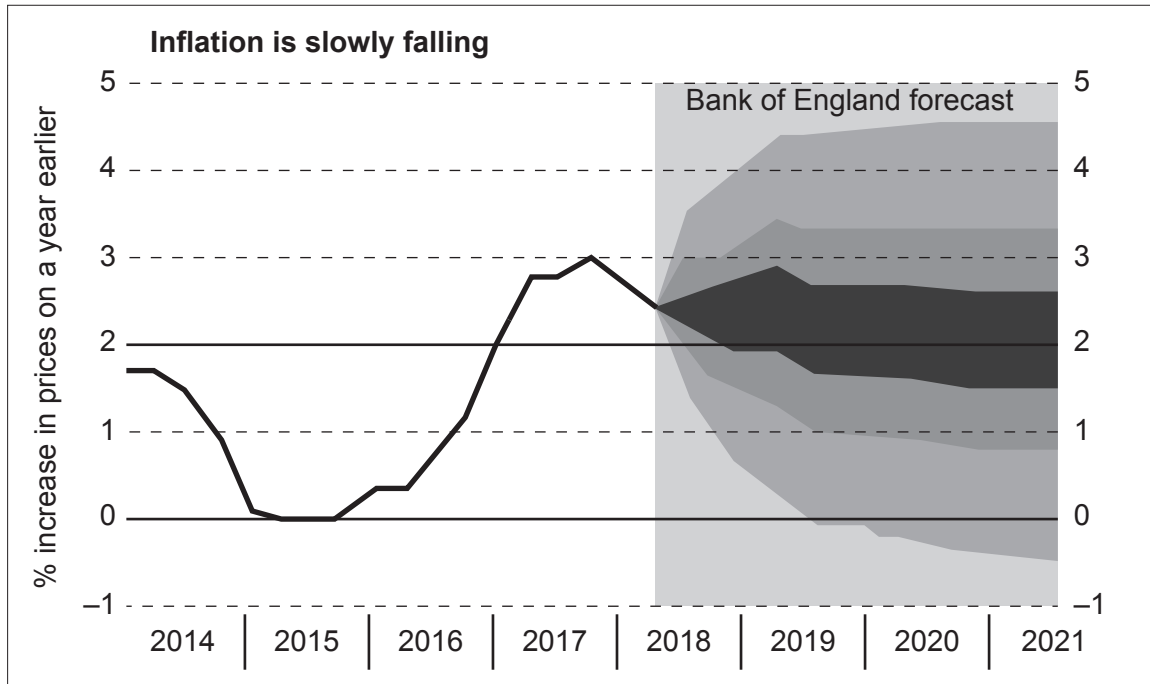
This growth data comes soon after the Bank of England’s Monetary Policy Committee raised interest rates, for only the second time in a decade, to 0.75% from 0.5%. The Governor of the Bank of England, Mark Carney, said the rise signalled the start of three years of rising borrowing costs. He said: “Today employment is at a record high and with very limited spare capacity real wages are rising. With domestically generated inflation building and the prospect of excess demand emerging, a tightening of monetary policy is now appropriate to return inflation to the 2% target and keep it there”. Employers are having to offer higher pay which increases demand in the economy but also increases business costs.

However, there is a view among some economists that the Bank of England should allow for a bit more inflation in the economy. Instead of targeting 2% as at present, they argue for a target inflation rate of 4%-5%. In July 2007, interest rates stood at 5.75%. However, since 2009 they have been between 0.25% and 0.75%. When interest rates are so low it does become difficult for the central bank to increase aggregate demand. With the government continuing to reduce the budget/fiscal deficit, controlling aggregate demand has largely been left to the Bank of England.

The low interest rates of the last 10 years have had their costs – the most obvious is the disincentive to save. Statistics show that in 2017 household spending exceeded income for the first time since the late 1980s. On average households spent £900 more than they earned which at least helped the economy to grow, but consumption financed by borrowing is not the basis for a sustainable recovery. Britain’s long term prospects depend on shifting the balance of economic growth away from consumption and towards investment and net exports. Net exports have been heavily negative for many years and this is a drag on economic growth.

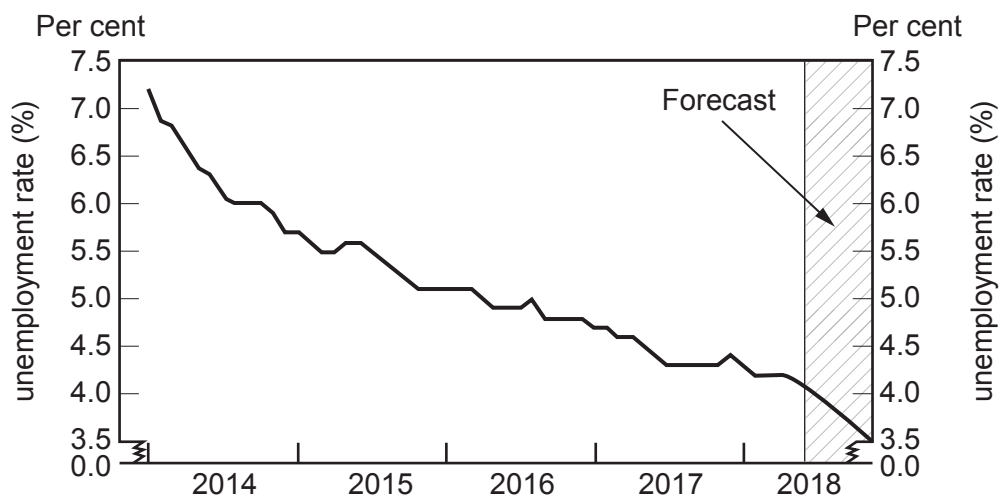
A further problem for the UK economy is low productivity, which has contributed to weak economic growth and has left real wages below their 2008 levels. A Labour Party spokesperson wants the Bank of England to work towards achieving a 3% productivity growth target. However, the Bank of England's Chief Economist Andy Haldane has dismissed this proposal saying that the Bank of England "does not have the tools to bring about lasting change" in productivity.

Figure 2: UK inflation rate (actual and forecast)



The period after early 2018 is a forecast. The darker areas represent the more likely outcomes. Lighter areas are less probable.

Figure 3: UK unemployment (actual and forecast)



- (a) With reference to **Figure 2**, outline what is most likely to happen to the price level between 2018 and 2021. [2]
- (b) To what extent do you agree with the view that the Bank of England “does not have the tools to bring about lasting change” in productivity levels in the UK economy? [10]
- (c) Explain why a heavily negative net export figure is a ‘drag on economic growth’. [4]
- (d) Evaluate the view that the Bank of England should have its inflation target increased to 4%-5%. [8]
- (e) With reference to the data, explain why the UK government might want to increase the rate of economic growth. [6]
- (f) To what extent will a steady rise in interest rates help to shift the balance of economic growth away from consumption and towards investment and net exports? [10]

END OF PAPER