OCR
Oxford Cambridge and RSA

Friday 8 October 2021 – Afternoon

A Level Economics

H460/02 Macroeconomics

Time allowed: 2 hours

You can use:
- a scientific or graphical calculator

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H46002

Please write clearly in black ink. **Do not write in the barcodes.**

Centre number | | | | | | Candidate number | | | | |

First name(s) ______________________

Last name ______________________

INSTRUCTIONS
- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Answer **all** the questions in Section A, **one** question in Section B and **one** question in Section C.
- Write your answer to each question in the space provided. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.

INFORMATION
- The total mark for this paper is **80**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **28** pages.

ADVICE
- Read each question carefully before you start your answer.

SECTION A

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

Are we moving towards a cashless society?

Recent years have seen a change in both the amount consumers spend and how they make their payments. How much consumers spend is influenced by a variety of factors. These include changes in income and changes in confidence. During an economic boom, consumer expenditure is likely to be high. Indeed, an economic boom is often consumer-led. In contrast, consumer expenditure can fall to a low level during a recession. Fig. 1 shows how consumer expenditure can vary as income changes.

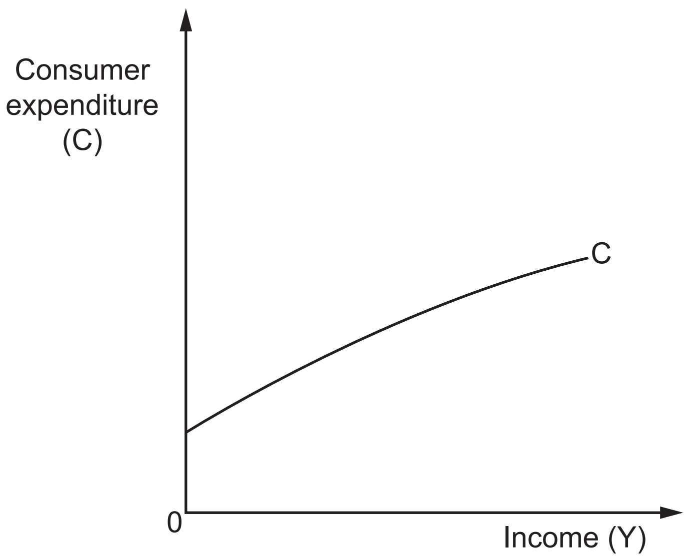

Fig. 1 The relationship between changes in income and changes in consumer expenditure

Changes in injections and leakages can alter a country's income. It has been estimated, for instance, that an injection of $200m of government spending in the Swiss economy would cause a rise in GDP of $300m.

The proportion of payments made in cash in Switzerland is declining. It is also falling in the UK. In 2005, 70% of payments in the UK were made in cash. By 2015, this had fallen to 50% and is forecast to decline to 30% by 2025. The extent to which cash is used influences the number of banknotes printed and in circulation. Fig. 2 shows the value of banknotes in circulation in the UK over a five year period.

Year	£5	£10	£20	£50	Total
2014	1540	7182	36483	11025	56230
2015	1601	7371	38912	11788	59672
2016	1645	7767	41037	13157	63606
2017	1912	8006	43357	15601	68876
2018	1910	7789	42692	16508	68899

Fig. 2 The value of banknotes in circulation (£million) 2014–2018

Some central banks favour ending the use of cash. One reason is because of the role that cash plays in a number of criminal activities including money laundering and drug dealing. A more significant motive is probably to enable central banks to charge negative interest rates when needed to stimulate economic activity. If people and banks can take money out of their deposits and hold them as cash, negative interest rates are likely to have less power to encourage an increase in spending.

Negative interest rates involve commercial banks having to pay to hold deposits at the central bank. As commercial banks often have excess funds held at the central bank, a negative interest rate may encourage them to lend the funds instead. If commercial banks pass on the negative rates to their customers, people will have to pay to save. Negative interest rates would have an impact on borrowing, the cost of servicing government debt and probably on the exchange rate.

A number of central banks, including the Bank of Japan, the Swiss National Bank, Denmark's National Bank and the European Central Bank (ECB) have used negative interest rates in a bid to avoid deflation. These banks received some criticism for the effect that the negative interest rates had on confidence, saving and bank profitability.

The Bank of England has yet to introduce a negative interest rate. Fig. 3 shows how the UK interest rate has changed in recent years.

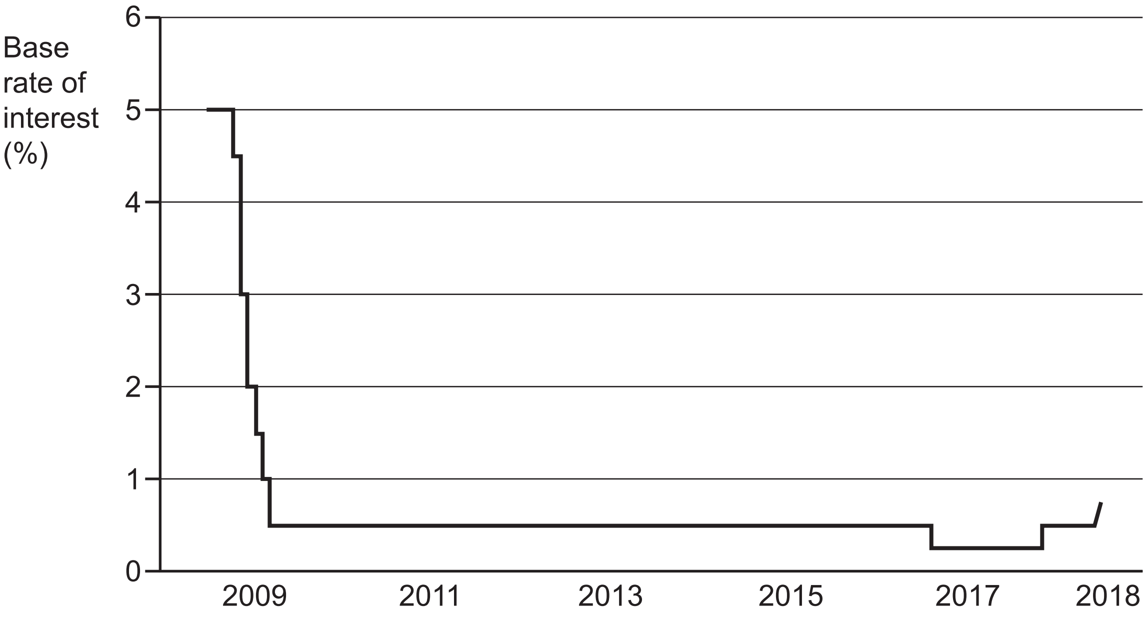

Fig. 3 UK interest rates 2009–2018

While the ECB has stopped producing its €500 note, the Bank of England has not yet scrapped any notes. Getting rid of cash is likely to affect the poor most. Nearly 1.5 million UK adults do not have a bank account and most of these are poor. Some of them are unemployed. The number of people unemployed may increase during a recession. The impact on unemployment will depend on a number of factors. These include firms' stock levels, the length of the recession, how easily firms can adjust working hours and the number of people they employ and whether the numbers in the labour force stay the same.

1 **(a)** Using information from the stimulus material, identify **two** stages of the economic cycle.

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[2]

(b) Using **Fig. 1**, explain the relationship between changes in consumer expenditure and changes in income.

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(c) Calculate Switzerland's marginal propensity to withdraw.

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(d) Using **Fig. 3**, explain what is likely to have happened to UK share prices at the start and the end of the period shown.

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(e) Using information from the stimulus material, evaluate whether a recession will increase the number of people unemployed. **[8]**

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(f)* Using information from the stimulus material, evaluate whether a negative interest rate would help the government achieve its macroeconomic objectives. [12]

SECTION B

Answer **EITHER** question **2 OR** question **3**.

EITHER

2* In 2017 Bosnia had a significant output gap while it was estimated that Slovenia did not have an output gap.

Evaluate, with the use of an appropriate diagram(s), whether a government should always seek to reduce an output gap. **[25]**

OR

3* In March 2018 the French government announced that children would have to start school at age 3 rather than age 6 from September 2019.

Evaluate, with the use of an appropriate diagram(s), whether a fall in the compulsory school starting age will benefit an economy. **[25]**

Question ....

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SECTION C

Answer **EITHER** question **4 OR** question **5**.

EITHER

4* The UK's deficit on the current account of its balance of payments in the first quarter of 2018 was £17.7bn (3.4% of GDP). This was a reduction on the deficit of £19.5bn (3.8% of GDP) in the last quarter of 2017.

Evaluate whether the UK would benefit from a reduction in the deficit on the current account of the balance of payments. **[25]**

OR

5* In 2018 both Australia and Ireland had a high Human Development Index (HDI), 0.939 and 0.938. They did, however, have different rates of poverty.

Evaluate whether a country with a high HDI is likely to have a low rate of poverty. **[25]**

Question ....

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END OF QUESTION PAPER

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).