Oxford Cambridge and RSA

Friday 09 October 2020 – Afternoon

A Level Economics

H460/02 Macroeconomics

Time allowed: 2 hours

You can use:
- a scientific or graphical calculator

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.
- 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.
- Answer **all** the questions in Section A, **one** question in Section B and **one** question in Section C.

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.

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SECTION A

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

Are low-income countries playing catch up?

The global economy is changing. It is becoming more integrated and China is moving towards becoming the world's largest economy. Lower costs of transport continue to increase the volume of international trade. Producing in different countries and buying products from anywhere in the world are being made easier by advances in communications.

World trade grew by 4.4% in 2017 and is predicted to grow by 4.7% in 2018. China is accounting for a higher proportion of this global trade and a higher proportion of global output. The country has experienced a significant rise in its GDP per head in recent years. This has had an impact on its citizens' life expectancy. Fig. 1 shows the average income and life expectancy in a number of countries.

Fig. 1 GDP per head and life expectancy in selected countries 2017

Country	GDP per head ($)	Life expectancy (years)
Bangladesh	4200	73.7
China	16 700	75.8
Egypt	12 700	73.2
Germany	50 800	80.9
Guinea	2200	62.1
Japan	42 900	85.5
UK	44 300	80.9
USA	59 800	80.1

Developments in the Chinese economy can be illustrated by both movements in the country's production possibility points and in the position of the production possibility curve as shown in Fig. 2.

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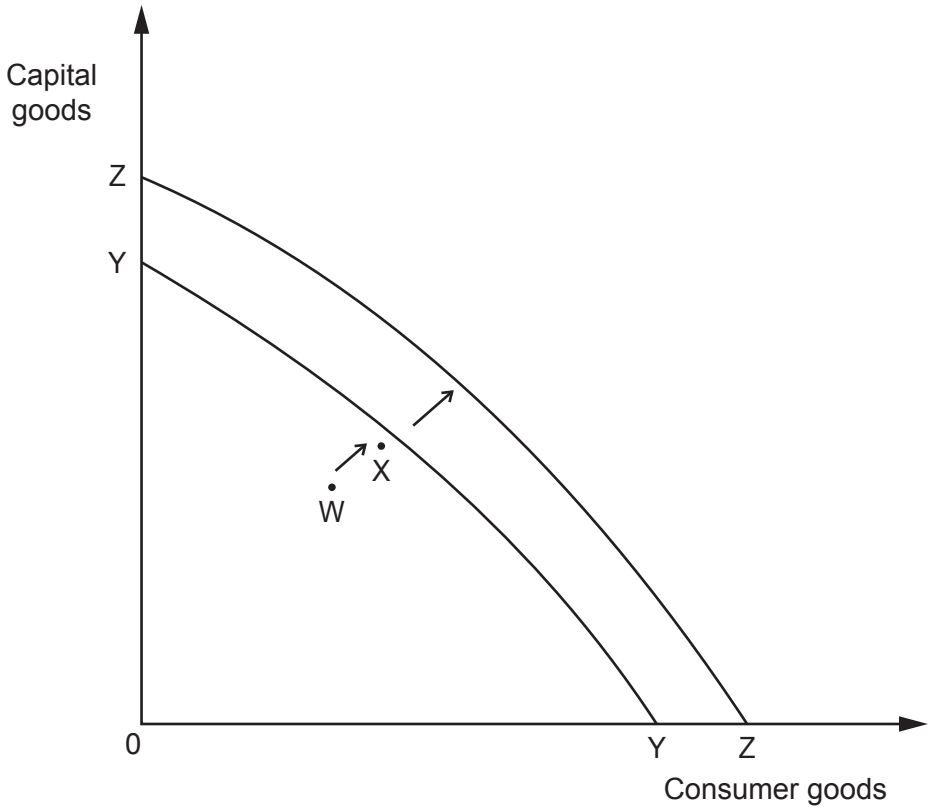
Fig. 2 A country's production possibility curve and points



The Bangladeshi economy has also grown in recent years, but its growth has been more erratic. In 2017, the country's main export destinations were the USA, Germany, UK and France. Its main sources of imports were China, India, Singapore and Japan. In 2017, the value of its exports to the UK was £2251 m while the value of its imports from the UK were £190 m. Bangladesh is also a recipient of UK overseas aid. In 2016, the UK government spent £13.4 bn on overseas aid, in line with its target of 0.7% of GDP. Bangladesh was the 11th largest recipient, receiving £170 m. Fig. 3 provides some more information on the Bangladeshi economy.

Fig. 3 Details on the Bangladeshi economy 2017

	$ billion
Consumer expenditure	191
Exports	50
Government spending	13
Investment	76
Imports	68
Tax revenue	25

Bangladesh's finance minister suggested in 2017 that he would cut the country's corporate tax rates as they are much higher than most other countries. He argued that such a move would increase the country's rate of economic growth.

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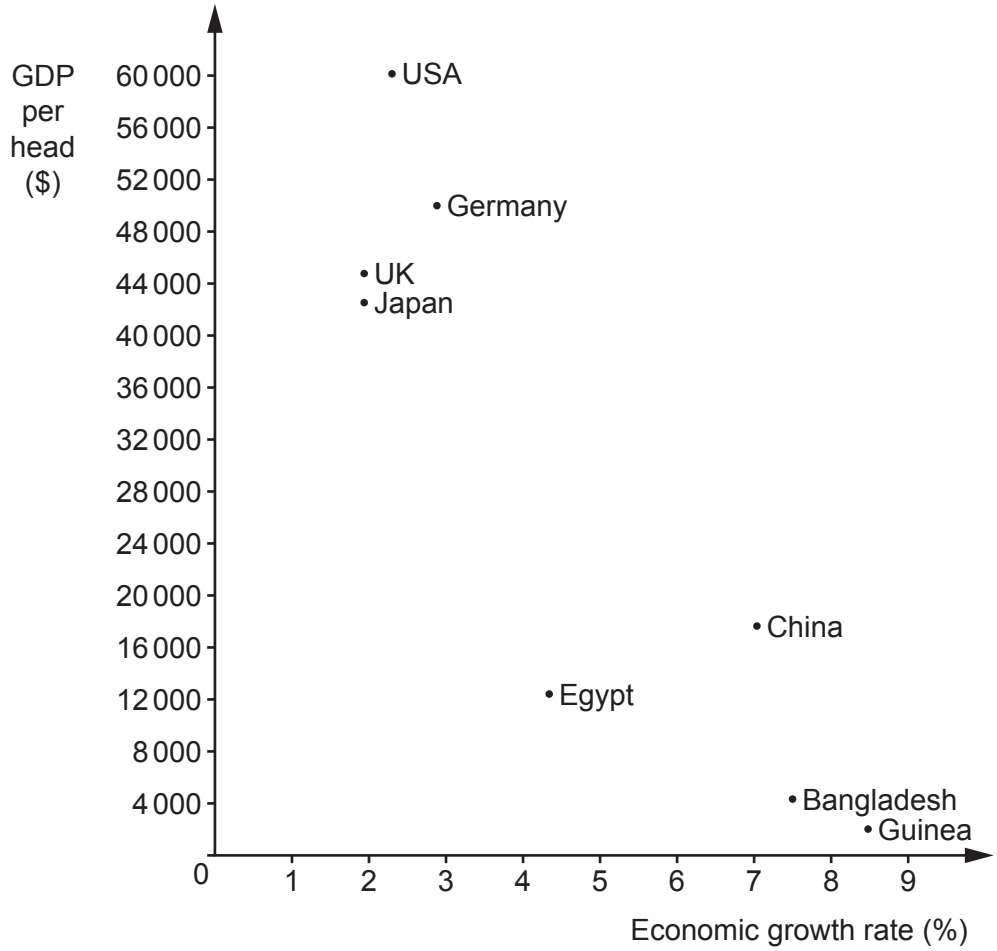
Some economists suggest that low-income countries are likely to grow more rapidly than high-income countries. Fig. 4 shows GDP per head and economic growth rates of a number of countries.

Fig. 4 GDP per head and economic growth rate of selected countries 2017



25 People in low-income countries may have a greater incentive to work hard to improve their living standards. Perhaps more significantly, the countries may be able to take advantage of technology transfer from high-income countries and their relatively low wages may attract foreign direct investment. The countries may also have greater potential to reallocate resources from low to high value activities.

30 To date, Asian countries have been more successful in narrowing the income gap than African countries. A number of African countries have poor infrastructure, low labour productivity, rapidly growing populations and a lack of economic and political stability.

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1 **(a)** Using information from the stimulus material, identify **two** causes of globalisation.

Cause 1

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Cause 2

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[2]

(b) Using Fig. 1, explain the relationship between GDP per head and life expectancy.

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(c) Using Fig. 2, explain the difference between short run and long run economic growth.

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(d) Using information from Fig. 3, explain whether Bangladesh had a budget deficit or a budget surplus in 2017.

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(e) Using information from the stimulus material, evaluate whether a cut in corporate tax rates in Bangladesh would benefit the UK economy. **[8]**

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(f) Using information from the stimulus material, evaluate whether the gap in GDP per head between low-income and high-income countries will narrow in the future. **[12]**

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SECTION B

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

EITHER

2* Between 2017 and 2018, households in Denmark saved more. Household saving as a percentage of disposable income rose from 5.6 to 5.9.

Evaluate, with the use of an appropriate diagram(s), whether an increase in the amount households save will harm an economy. **[25]**

OR

3* In 2018, the US President accused China and Russia of lowering the value of their currencies to artificially low levels.

Evaluate, with the use of an appropriate diagram(s), whether a central bank's decision to reduce the exchange rate to an artificially low level will benefit its economy. **[25]**

Question No .....

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SECTION C

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

EITHER

4* In recent years, the UK government has cut both corporation and income tax rates. The 2013 cut in the top rate of income tax from 50% to 45% has been estimated to have reduced government tax revenue by £8.6 bn between 2013/14 and 2017/18.

Evaluate whether a cut in direct tax rates will always reduce tax revenue. **[25]**

OR

5* Microfinance has grown significantly in recent years. There has been a growth in microfinance institutions and microfinance is now available in most developing countries.

Evaluate whether microfinance promotes economic development. **[25]**

Question No .....

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END OF QUESTION PAPER

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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).

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