

A-level ECONOMICS

Paper 2 National and International Economy

Tuesday 2 June 2020

Morning

Time allowed: 2 hours

Materials

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front cover of your answer book.
The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Context 1

Total for this context: 40 marks

Unemployment and the labour market

Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A

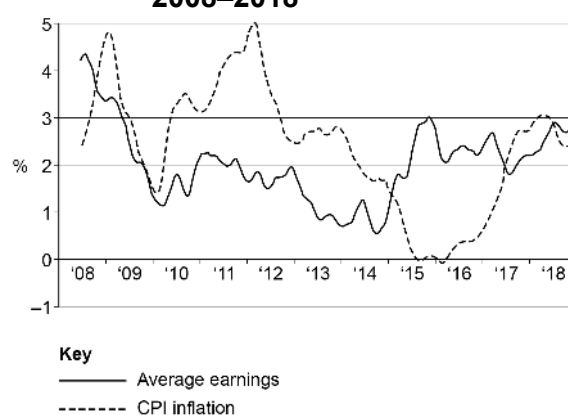
Figure 1: Unemployment and underemployment rates in the UK, 2007–2018

Years	Unemployment rate (%)	Underemployment rate (%)
2007–08	5.5	7.3
2009–10	7.8	9.6
2011–12	8.0	10.2
2013–14	6.9	10.1
2015–16	5.1	8.8
2017–18	4.2	7.8

Note: Underemployment is where people are working fewer hours than they wish, or in jobs that do not reflect their skills or training

Source: ONS, 2018

Figure 2: Growth in average earnings and CPI inflation rate in the UK, 2008–2018



Source: ONS, 2018

Extract B: Unemployment and real wages

According to a recent study on wage growth, the youngest worker today would need to wait nearly 80 years to see the average real wage in the UK double from its current level. At just 4.2%, unemployment in the UK is at its lowest level in decades. It should be the best of times, but data from the Office for National Statistics (ONS) show that the percentage of people who are 'underemployed', often working on zero-hours contracts, is greater than it was during the financial crisis of 2007–08. Some claim this is the true cause of poor real wage growth. 1 5

Supply-side reforms to labour markets are meant to boost productivity but can be damaging for some workers. Unregulated labour markets can lead to inequality and poor pay, which also reduces government tax revenue. Workers who are only temporarily employed can experience a lack of stability and firms may have little incentive to invest in human capital. Consequently, these workers may not get the opportunity to develop new skills. Firms may also face higher costs from replacing workers who leave because they feel undervalued. 10

It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation's workers. There are calls for some restoration of trade union powers, more rights for workers on zero-hours contracts and measures to raise pay to ensure that workers feel the benefits of employment. 15

Source: News reports, 2018

Extract C: Free market, supply-side labour market reforms

Free market supply-side reforms often focus on either encouraging individuals to take up work by making it more attractive, or by making it more difficult for people to remain on unemployment-related benefits. A feature of recent government supply-side policy has been to create and maintain flexible working practices. The Confederation of British Industry (CBI) argues that “the UK’s flexible labour market is an invaluable strength of our economy which should be protected”. The UK’s employment rate is the highest since recent records began in 1971, and 97% of firms say the UK’s flexible labour market is vital to improving firms’ competitiveness. 1 5

Having a flexible workforce, which can respond quickly to changes in demand, may benefit both businesses and workers. There is a growing need for workers to have more flexibility, whether to allow them to balance work with such things as childcare, study commitments or as an alternative income when work in their preferred occupation is unavailable. Some labour market analysts also point to flexible labour markets as one of the key reasons that, after the recession of 2008–09, unemployment did not reach the levels it did in the recessions of the 1980s and 1990s. 10 15

Some point to the fact the UK has the least-regulated labour market in Europe. Hiring and firing staff is easier than in countries such as France, where the difficulty of getting rid of unproductive workers makes firms more cautious about employing someone in the first place. Improving workers’ productivity is the key to increasing real GDP and real wage rises. Having a flexible workforce allows the UK to meet the challenges of a dynamic global economy. It not only helps keep unemployment low, but also helps achieve other macroeconomic objectives. 20

Source: News reports, 2018

0 1 Using the data in **Extract A** (Figure 1), calculate the mean unemployment rate for the UK from 2007–08 to 2017–18. Give your answer to **one** decimal place. [2 marks]

0 2 Explain how the data in **Extract A** (Figure 2) show that the UK has had poor real wage growth since 2008. [4 marks]

0 3 **Extract C** (line 19) states: ‘Improving workers’ productivity is the key to increasing real GDP’.

With the help of a diagram, explain how improving productivity should lead to rising real GDP. [9 marks]

0 4 **Extract B** (lines 13–14) states: ‘It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation’s workers’.

Using the data in the extracts and your knowledge of economics, evaluate the view that free market supply-side reforms to labour markets are beneficial to the UK economy. [25 marks]

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

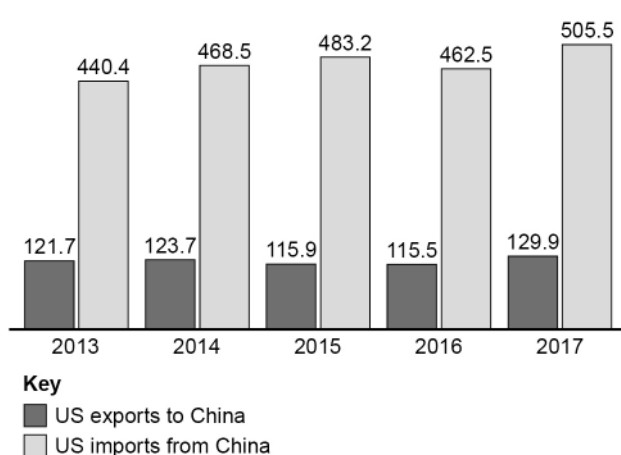
Total for this context: 40 marks

Trade wars and protectionism

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: US trade in goods with China (\$bn), 2013–2017



Source: US Census Bureau, 2018

Figure 4: US trade in goods with China (\$bn), 2018

Month	Exports	Imports
January	9.8	45.8
February	9.8	39.0
March	12.4	38.3
April	10.3	38.2
May	10.6	43.8
June	11.1	44.6
July	10.3	47.1
August	9.3	47.9
September	9.8	50.0
October	9.1	52.2
November	8.7	46.6
December	9.2	46.0
TOTAL	120.4	539.5

Source: US Census Bureau, 2019

Extract E: US and China trade wars

The International Monetary Fund (IMF) has warned that a trade war between the US and China risks making the world a 'poorer and more dangerous place' and it has lowered its forecast for global growth this year and next. The IMF's chief economist said that further trade barriers would hit households, businesses and the wider economy. Downgrades to global growth also reflected predictions of a slower expansion in the eurozone as well as problems in a number of emerging economies.

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China recently announced new trade tariffs on \$60bn of US goods, including products such as liquefied natural gas, produced in states loyal to the US President, Donald Trump. In a tweet, Mr Trump warned that 'there will be great and fast economic retaliation against China if our farmers, ranchers and/or industrial workers are targeted'. US tariffs on \$200bn of Chinese imports came into effect in September.

10

The US and China's escalation of trade tariffs is expected to hit growth in both countries in 2019, when the boost from President Trump's sweeping tax cuts announced in 2017 will also start to fade. The IMF warned that the world faced further damage to growth if the US followed through on a threat to impose a 25% tariff on all imported cars. Additional tariffs would raise prices, hit business confidence and discourage investment. Unless world leaders respond by working together to raise living standards, improve education and reduce inequality, world development will be seriously hampered.

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Source: News reports, 2018

Extract F: Protectionism in Brazil

Protectionism is on the rise this year, but those who support free trade say increased tariffs will lead to higher prices, less choice and lower living standards. Others maintain that protectionism can help economic development. Roberto Azevedo, Director General of the World Trade Organization (WTO), concedes that trade barriers which keep foreign rivals out will encourage domestic industries to grow. 1
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Many countries in Latin America are in favour of tariffs to protect their infant industries. Tariffs can support the growth of domestic firms that may otherwise be crushed by foreign competition. Much of modern Brazil was built with the help of protectionist policies. Since the 1950s, foreign companies have been motivated to set up production in Brazil to avoid high tariff barriers. Government subsidies have also been used, for example, to encourage major car manufacturers, including Volkswagen, Ford, Fiat and Mercedes, to set up factories in the country. This inward investment has created jobs, growth and improved living standards for the Brazilian population. 10

In Brazil, many uncompetitive industries, from textiles to computers, were able to grow due to protectionist trade policies that made foreign goods too expensive to import. Current tariffs on imported trucks or buses more than double the original price. The price of an Apple iPhone in Brazil is on average 50% more than in the US, again due to tariffs. Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies. They believe free trade is a way in which developed economies keep developing nations poor. 15
20

However, the Director of the Brazilian branch of the International Chamber of Commerce (ICC), an organisation that supports free trade, argued that 'because Brazil is such a closed economy, it ends up having very low productivity compared to more developed countries. If you are more competitive you become more productive – and for that you need to be more open and more integrated into global supply chains'. 25

Source: News reports, 2018

0 5 Using the data in **Extract D** (Figure 4), calculate how much was spent by the US on imports from China for every \$1 it received from exports to China in 2018. Give your answer to **two** decimal places. [2 marks]

0 6 Explain how the data in **Extract D** (Figure 3) and (Figure 4) show why the US may have decided to implement protectionist policies. [4 marks]

0 7 **Extract E** (lines 10–11) states: 'US tariffs on \$200bn of Chinese imports came into effect in September.'

With the help of a diagram, explain how the imposition of a tariff may affect the volume of imports.

[9 marks]

0 8 **Extract F** (lines 17–19) states: 'Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies.'

Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development.

[25 marks]

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

In 2017, the UK's annual budget deficit was 2.3% of GDP, the lowest level since 2001. In 2017, the UK's deficit on the current account of the balance of payments fell to 3.3% of GDP, the lowest level since 2011.

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Explain the possible causes of a falling budget deficit.

[15 marks]

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To what extent do you agree that reducing the budget deficit is more important to the UK's macroeconomic performance than reducing the current account deficit on its balance of payments? Justify your answer.

[25 marks]

OR**Essay 2**

During 2018, the UK experienced an annual growth rate of 1.4%, an unemployment rate of around 4.1%, inflation close to target at 2.5% and a reduced current account deficit on the balance of payments. However, in November 2018, the Bank of England warned that economic shocks could damage the UK's prosperity.

1	1
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Explain how demand-side **and** supply-side shocks might increase unemployment in an economy.

[15 marks]

1	2
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Evaluate the view that the main objectives of UK government macroeconomic policy can be achieved without conflicting with each other.

[25 marks]

OR

Essay 3

In 2015, Lithuania joined the eurozone, adopting the euro as its currency. Since then, the euro has appreciated by more than 15% against the pound sterling. Some have argued that this will reduce economic growth in Lithuania and other countries within the eurozone.

1	3
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Explain how an appreciation of its currency is likely to affect a country's rate of economic growth.

[15 marks]

1	4
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Evaluate the costs and benefits for a country of joining a currency union, such as the eurozone.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

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