



# OCR – A Level Economics

## Component 2 – Macroeconomics

### 7. Economic policy objectives

#### Worked Examples

# Contents

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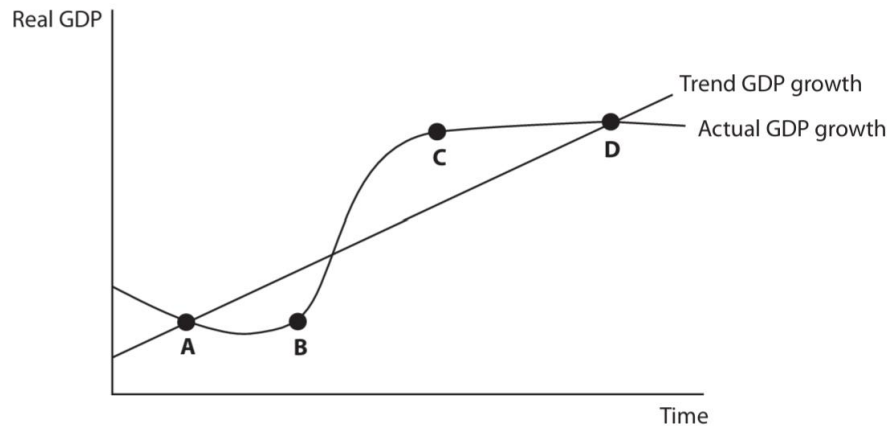
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- Economic growth
- Development
- Employment
- Inflation
- Balance of payments
- Income distribution and welfare

## Economic growth

### Exam Style Question 1

- (a) Define the term 'recession'? [1]
- (b) Explain one characteristic of a recession. [2]
- (c) Which point on trade cycle diagram illustrates a negative output gap? [1]



- ☐ A
- ☐ B
- ☐ C
- ☐ D



## Economic growth

### Exam Style Question 1

**Answer:**

**(a) Define the term 'recession':**

A **recession** is a period of economic decline, typically marked by a decrease in the real GDP of a country for at least two consecutive quarters (6 months). [1]

**(b) Explain one characteristic of a recession:**

One characteristic of a **recession** is a **decrease in consumer spending**. [1] During a recession, people often feel less confident about their financial future and may reduce their spending on goods and services. This decline in demand can lead to lower business profits, higher unemployment, and further economic contraction. [1]

**(c) Which point on the trade cycle diagram illustrates a negative output gap?**

**Answer: B [1]**

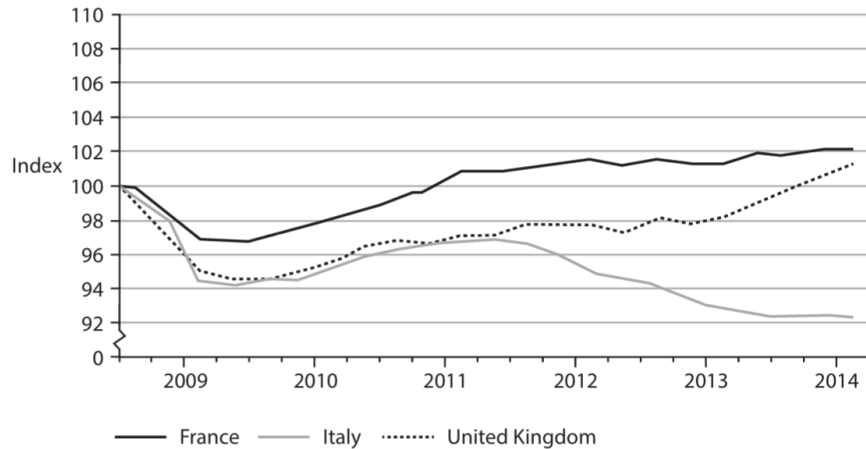
**Option A and D: Incorrect.** It shows actual GDP growth on Trend GDP growth, therefore no output gap.

**Option C: Incorrect.** It shows actual GDP growth above trend GDP growth, therefore positive output gap.

## Economic growth

### Exam Style Question 2

Real GDP in selected economics (the base year 2008=100)



(Source: <http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014-may-gdp-update/sty-gdp-g7-economies.html?format=print>)

(a) Which **one** of the following can be inferred from the chart? [1]

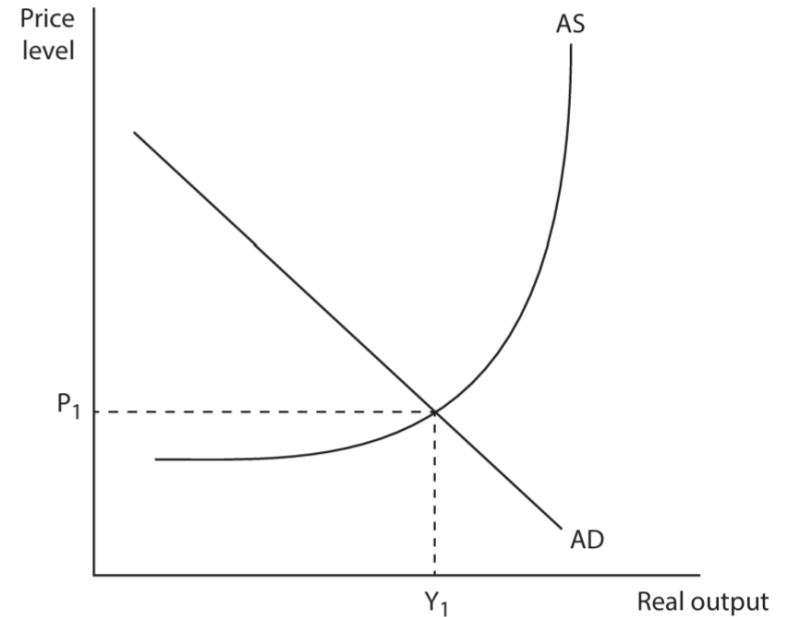
- ☐ A The UK's real GDP is smaller in 2014 than it was in 2008
- ☐ B Between 2008 and 2014 France's real GDP growth rate was higher
- ☐ C Between 2008 and 2014 inflation was lower in France than in the UK
- ☐ D France experienced a greater fall in real GDP than the UK in 2014

## Economic growth

### Exam Style Question 2

(b) Define the term 'real GDP'? [1]

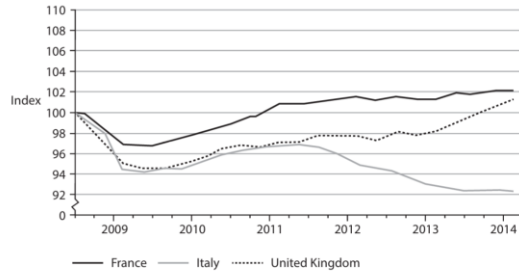
(c) Illustrate a negative output gap on the diagram below. [1]



## Economic growth

### Exam Style Question 2

Real GDP in selected economies (the base year 2008=100)



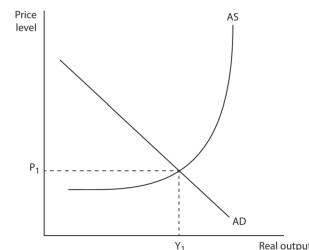
(Source: <http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014-may-gdp-update/sty-gdp-g7-economies.html?format=print>)

(a) Which **one** of the following can be inferred from the chart? [1]

- ☐ A The UK's real GDP is smaller in 2014 than it was in 2008
- ☐ B Between 2008 and 2014 France's real GDP growth rate was higher
- ☐ C Between 2008 and 2014 inflation was lower in France than in the UK
- ☐ D France experienced a greater fall in real GDP than the UK in 2014

(b) Define the term 'real GDP'? [1]

(c) Illustrate a negative output gap on the diagram below. [1]



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## Economic growth

### Exam Style Question 2

Answer:

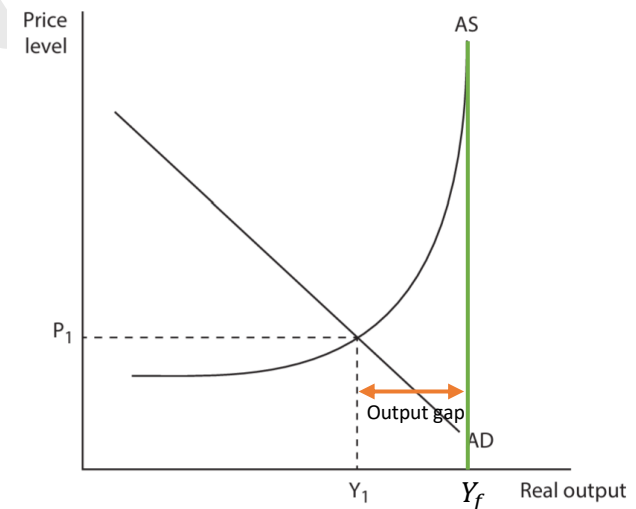
(a) Which one of the following can be inferred from the chart?

✓ **Answer: B** – Between 2008 and 2014, France's real GDP growth rate was higher than Italy's. [1]

(b) Explain the term "real GDP".

Real gross domestic product (real GDP) refers to the total value of all goods and services produced in a country (total output of the economy), adjusted for inflation. [2]

(c) Which point on the trade cycle diagram illustrates a negative output gap? [1]



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## Economic growth

### Exam Style Question 3

Which **one** of the following is an example of a market-based supply-side policy? [1]

- ☐ A A reduction in unemployment benefits
- ☐ B Construction of new transportation links
- ☐ C Government-funded apprenticeship schemes
- ☐ D Increased government spending on healthcare

## Economic growth

### Exam Style Question 3

**Answer:**



**Answer: A** – A reduction in unemployment benefits

**Option B, C and D:** Incorrect as they are all interventionist supply-side policy.

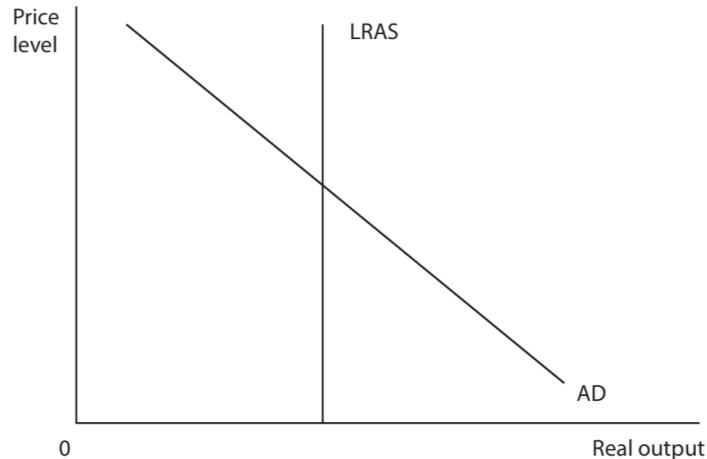
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## Economic growth

### Exam Style Question 4

The diagram below shows the AD and a possible long-run LRAS for the UK.



- (a) Annotate the diagram above to show the likely impact of government policy to promote business competition on the equilibrium level of real output and price level. [2]
- (b) Which **one** of the following is an interventionist supply-side policy? [1]

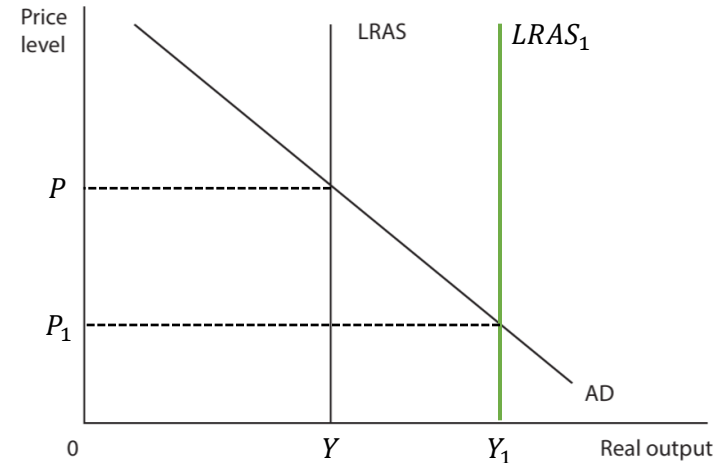
- ☐ A An improvement in infrastructure
- ☐ B An increase in indirect taxation
- ☐ C An increase in interest rates
- ☐ D An increase in the regulation of markets

## Economic growth

### Exam Style Question 4

**Answer:**

**(a) Annotate the diagram... [2]**



**(b) Which one of the following is an interventionist supply-side policy?**

☒ **Answer: A** – An improvement in infrastructure. [1]

**Option B:** Incorrect as an increase in indirect taxation is an example of contractionary fiscal policy.

**Option C:** Incorrect as an increase in interest rate is an example of contractionary monetary policy.

**Option D:** Incorrect as an increase in the regulation of markets is example of market-based supply side policy.

## Development

### Exam Style Question 5

The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	Human Development Index (HDI) value
Vietnam	5 092	0.666
India	5 497	0.609

(Source: [www.hdr.undp.org/en/composite/HDI](http://www.hdr.undp.org/en/composite/HDI))

(a) Which **one** of the following statements can be deduced from the data in table? [1]

- ☐ A Average incomes are higher in India than in Vietnam.
- ☐ B Levels of absolute poverty are higher in Vietnam.
- ☐ C Life expectancy is higher in India than in Vietnam.
- ☐ D Provision of healthcare and education is less effective in Vietnam than in India.

(b) With reference to the data provided, explain **two** limitations of using the HDI to compare levels of development between countries and over time. [4]



## Development

### Exam Style Question 5

Answer:

(a) Which one of the following statements can be deduced from the data in the table? [1 mark]

☒ Answer: A – Average incomes are higher in India than in Vietnam.

Why?

Because India's **Gross National Income (GNI) per capita** is **\$5497**, which is higher than Vietnam's **\$5092**. That's a direct fact from the table.

(b) Explain two limitations of using the HDI to compare levels of development between countries and over time. [4 marks]

One limitation of the **HDI** is that it **ignores income distribution**. [1] For example, India has a higher GNI per capita (\$5,497) than Vietnam (\$5,092), but a lower HDI value (0.609 compared to 0.666). This suggests that income in India might be **unevenly distributed**, meaning the average doesn't reflect how most people actually live. [1]

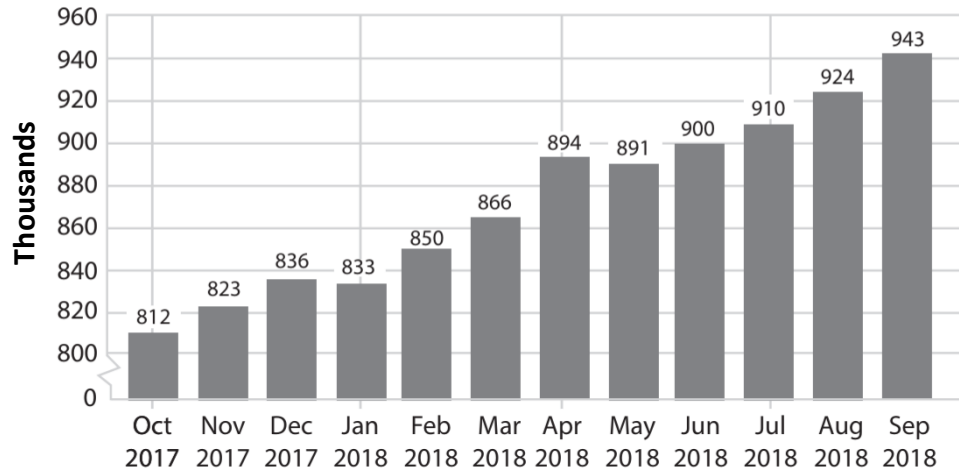
Another limitation is that HDI **doesn't include other important quality-of-life factors** such as **democracy, human rights, or gender equality**. [1] Two countries could have similar HDI scores but very different living conditions in reality. For instance, Vietnam might have better **healthcare or education quality**, which isn't directly shown in the HDI figure. [1]



## Employment

### Exam Style Question 6

Number of unemployed person, UK, as measured by the claimant count, thousands



(Source: <https://tradingeconomics.com/united-kingdom/unemployed-persons>)

- (a) Calculate the percentage change in the number of UK unemployment persons between April and July 2018. You are advised to show your working. [2]

## Employment

### Exam Style Question 6

(b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown. [2]

(c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry? [1]

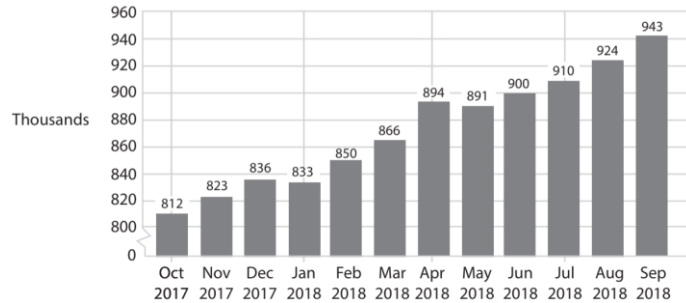
- ☐ A Cyclical
- ☐ B Real wage
- ☐ C Seasonal
- ☐ D Structural



## Employment

### Exam Style Question 6

Number of unemployed person, UK, as measured by the claimant count, thousands



(Source: <https://tradingeconomics.com/united-kingdom/unemployed-persons>)

- (a) Calculate the percentage change in the number of UK unemployment persons between April and July 2018. You are advised to show your working. [2]
- (b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown. [2]
- (c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry? [1]
- ☐ A Cyclical
  - ☐ B Real wage
  - ☐ C Seasonal
  - ☐ D Structural

## Employment

### Exam Style Question 6

**Answer:**

- (a) Calculate the percentage change in the number of UK unemployed persons between April and July 2018.

To calculate the percentage change:

1. Initial value (April 2018): 894,000
2. Final value (July 2018): 910,000
3. Formula for percentage change:

$$\% \text{ change} = \left( \frac{\text{Final value} - \text{Initial value}}{\text{Initial value}} \right) \times 100$$

Substituting the values:

$$\% \text{ change} = \left( \frac{910,000 - 894,000}{894,000} \right) \times 100 \approx 1.79\%$$

Answer: The percentage change is approximately **1.79%**. [2]

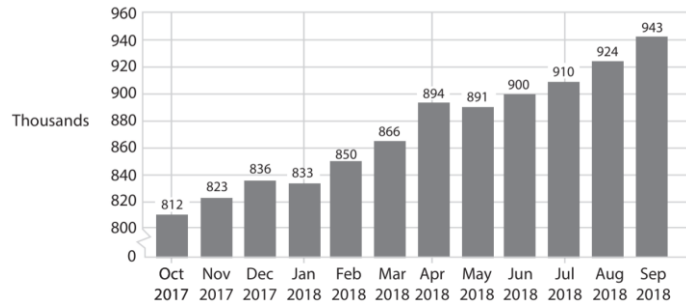
- (b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown.

Unemployment could rise due to **cyclical unemployment**, which happens when there is a slowdown in the economy (slower economic growth). [1] For example, if businesses experience lower demand for goods and services, they may cut costs by reducing their workforce. [1]

## Employment

### Exam Style Question 6

Number of unemployed person, UK, as measured by the claimant count, thousands



(Source: <https://tradingeconomics.com/united-kingdom/unemployed-persons>)

- (a) Calculate the percentage change in the number of UK unemployment persons between April and July 2018. You are advised to show your working. [2]
- (b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown. [2]
- (c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry? [1]
- ☐ A Cyclical
  - ☐ B Real wage
  - ☐ C Seasonal
  - ☐ D Structural



## Employment

### Exam Style Question 6

**Answer:**

**(c) Which one of the following types of unemployment is most likely to be caused by a technological change in an industry?**

**Answer: D - Structural unemployment [1]**

Structural unemployment occurs when technological advancements make certain jobs or skills obsolete. For instance, the introduction of automation in manufacturing might replace workers with machines, leaving those workers unemployed unless they retrain for new roles.

## Employment

### Exam Style Question 7

UK employment rate as a % of all those economically active, seasonally adjusted, from 2008 to 2018



(Source: adapted from <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/timeseries/mgsx> Crown Copyright)

- (a) With reference to the chart above, explain **one** likely economic effect of the change in the UK unemployment rate between 2012 and 2018. [3]
- (b) Which **one** of the following policies is most likely to reduce the unemployment rate in the UK? [1]
- ☐ A A decrease in direct taxes on company profits
  - ☐ B A decrease in quantitative easing
  - ☐ C An increase in government payments to the unemployed
  - ☐ D An increase in the UK base interest rate



## Employment

### Exam Style Question 7

**Answer:**

**(a) Explain one likely economic effect of the change in the UK unemployment rate between 2012 and 2018**

Between 2012 and 2018, the UK unemployment rate fell significantly. [1] One key economic effect of this decline could be **increased consumer spending due to increase in disposable income**. [1] As more people gain employment, they have more income to spend on goods and services. This boosts demand in the economy, encouraging businesses to produce more and potentially hire even more workers. [1] It's like a positive cycle where employment bring about more economic activity.

**(b) Which one of the following policies is most likely to reduce the unemployment rate in the UK.**

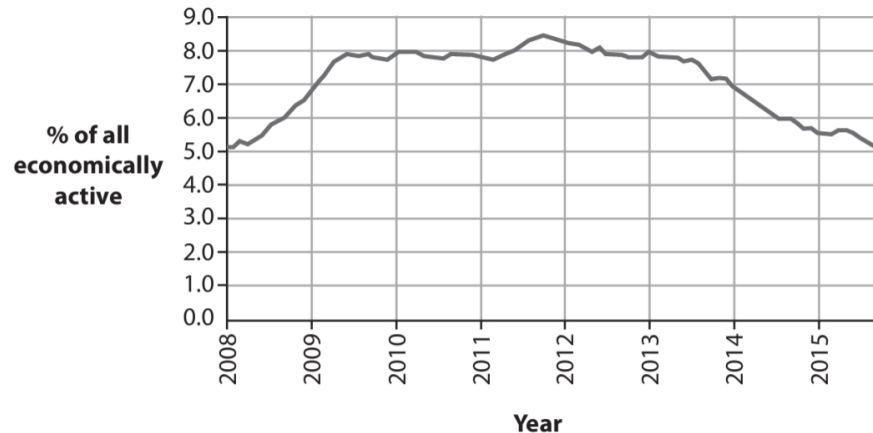
**Answer: A** – A decrease in direct taxes on company profits [1]

**Explanation:** When businesses pay less tax on their profits, they have more money to invest in growth. This could mean expanding operations or hiring new staff. Lower taxes incentivise businesses to increase production and, in turn, create jobs.

## Employment

### Exam Style Question 8

The chart below shows the UK unemployment rate, seasonally adjusted, from 2008 to 2015



(Source: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2015/statistical-bulletin.html#tab-8--Unemployment>)

Which **one** of the following types of unemployment best explains the change in the data between 2008 and 2010? [1]

- ☐ A Cyclical
- ☐ B Frictional
- ☐ C Seasonal
- ☐ D Voluntary



## Employment

### Exam Style Question 8

#### Answer:

The correct answer is **A: Cyclical unemployment**. [1]

**Explanation:** Between 2008 and 2010, the global economy experienced a massive financial crisis (the Great Recession). During this time, demand for goods and services dropped sharply because people and businesses were spending less. This led to what's called **cyclical unemployment**, which happens when there's not enough demand in the economy to keep everyone employed.

## Employment

### Exam Style Question 9

The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

- (a) Define the term 'claimant count'. [1]
- (b) Calculate the percentage change in the claimant count from August 2014 to February 2015. [2]
- (c) Which **one** of the following is likely to cause a reduction in the claimant count? [1]
- ☐ A An increase in the weekly payment for claimants
- ☐ B A compulsory weekly interview for every claimant
- ☐ C An increase in the size of the workforce
- ☐ D A fall in employment

## Employment

### Exam Style Question 9

**Answer:**

(a) Define the term 'claimant count'.

The **claimant count** measures the number of people claiming unemployment-related benefits, such as Jobseeker's Allowance (JSA). [1]

(b) Calculate the percentage change in the claimant count from August 2014 to February 2015.

To calculate the percentage change:

$$\% \text{ change} = \frac{\text{New value} - \text{Old value}}{\text{Old value}} \times 100$$

- Old value (Aug 2014): 961,149
- New value (Feb 2015): 858,344

$$\% \text{ change} = \frac{858,344 - 961,149}{961,149} \times 100 \approx -10.7\% \text{ [1]}$$

So, the claimant count fell by 10.7% between Aug 2014 and Feb 2015. [1]

(c) Which **one** of the following is likely to cause a reduction in the claimant count?

The correct answer is **B**. [1]

**Why?** A weekly interview requirement might discourage some people from continuing their claims if they're not seriously looking for work. It can reduce the claimant count by filtering out those who aren't actively job hunting.

## Inflation

### Exam Style Question 10

The table below shows average UK house prices between July 2014 and July 2017.

Year	Average house prices (£)	Index numbers of average UK house prices (2014 is the base year)
2014	189 709	100
2015	200 141	
2016	215 127	
2017	226 185	119.2

(Source: adapted from <http://landregistry.data.gov.uk/app/ukhpi/explore> - Crown Copyright)

## Inflation

### Exam Style Question 10

(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners? [1]

- ☐ A Greater confidence
- ☐ B Higher income
- ☐ C Lower consumption
- ☐ D Negative wealth effect

(b) Using 2014 as the base year, calculate the index number for:

[2]

- (i) 2015
- (ii) 2016.
- (c) Define the term 'index number'.



## Inflation

### Exam Style Question 10

The table below shows average UK house prices between July 2014 and July 2017.

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2014	189 709	100
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(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners? [1]

- ☐ A Greater confidence
- ☐ B Higher income
- ☐ C Lower consumption
- ☐ D Negative wealth effect

(b) Using 2014 as the base year, calculate the index number for:

[2]

(i) 2015

(ii) 2016.

(c) Define the term 'index number'.

## Inflation

### Exam Style Question 10

**Answer:**

(a) Which one of the following is the most likely impact of an increase in average UK house prices on existing homeowners?

**Answer: A** – Greater confidence [1]

**Option B:** Incorrect. An increase in house prices will lead to wealth effects and not an increase in income.

**Option C:** Incorrect. An increase in house prices will raise consumer confidence and increase consumption.

**Option D:** Incorrect. An increase in house prices will lead to positive wealth effects, which will lead to greater spending by existing homeowners.

(b) Using 2014 as the base year, calculate the index number for:

(i) 2015

To calculate the index number for 2015, we use the formula:

$$\text{Index number} = \left( \frac{\text{Price in 2015}}{\text{Price in 2014}} \right) \times 100$$

$$\therefore \text{Index number} = \left( \frac{200,141}{189,709} \right) \times 100 = 105.5$$

So, the index number for 2015 is **105.5**. [1]

(ii) 2016

Use:

$$\text{Index number} = \left( \frac{\text{Price in 2016}}{\text{Price in 2014}} \right) \times 100$$

$$\therefore \text{Index number} = \left( \frac{215,127}{189,709} \right) \times 100 = 113.4$$

So, the index number for 2016 is **113.4**. [1]





## Inflation

### Exam Style Question 10

The table below shows average UK house prices between July 2014 and July 2017.

Year	Average house prices (£)	Index numbers of average UK house prices (2014 is the base year)
2014	189 709	100
2015	200 141	
2016	215 127	
2017	226 185	119.2

(Source: adapted from <http://landregistry.data.gov.uk/app/ukhpi/explore> - Crown Copyright)

(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners? [1]

- ☐ A Greater confidence
- ☐ B Higher income
- ☐ C Lower consumption
- ☐ D Negative wealth effect

(b) Using 2014 as the base year, calculate the index number for:

[2]

- (i) 2015
- (ii) 2016.

(c) Define the term 'index number'.



## Inflation

### Exam Style Question 10

**Answer:**

(c) Define the term 'index number'.

An **index number** is an economic data figure that reflects price or quantity changes compared to a base year. [1] It shows the percentage change (either increase or decrease) in price or quantity from that base year. [1]

## Inflation

### Exam Style Question 11

In October 2019 the annual rate of inflation in the UK was 1.5%, as measured by the Consumer Prices Index (CPI), and 2.1%, as measured by the Retail Prices Index (RPI).

(a) Define the term 'inflation'? [1]

(b) Explain **one** likely cause of inflation. [2]

(c) From the above data, it can be deduced that the percentage point difference between CPI and RPI was:

[1]

- ☐ A 0.0
- ☐ B 0.2
- ☐ C 0.4
- ☐ D 0.6



## Inflation

### Exam Style Question 11

**Answer:**

**(a) Define the term 'inflation'.**

Inflation is the sustained increase in the average price level of goods and services in an economy over time.

**(b) Explain one likely cause of inflation.**

One likely cause of inflation is **demand-pull inflation**. [1] This happens when there's too much demand for goods and services, but not enough supply to meet it. Sellers might increase prices because they know people are desperate to buy. Similarly, when demand across the economy outpaces supply, prices rise. [1]

**(c) From the above data, it can be deduced that the percentage point difference between CPI and RPI was:**

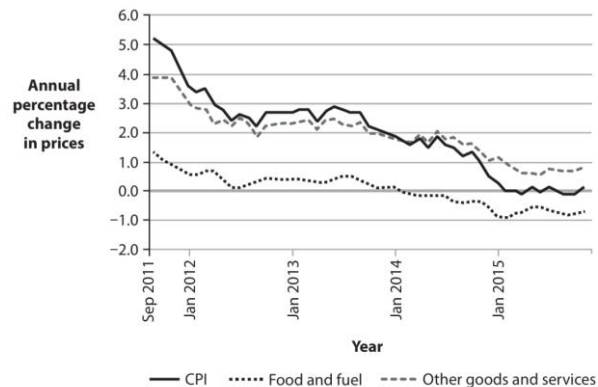
The RPI rate is 2.1%, and the CPI rate is 1.5%. To calculate the difference:

$$\text{Difference} = 2.1\% - 1.5\% = 0.6\%$$

The answer is **D: 0.6**.

## Inflation

### Exam Style Question 12



(Source: [http://www.ons.gov.uk/ons/dcp171780\\_427182.pdf](http://www.ons.gov.uk/ons/dcp171780_427182.pdf))

The chart below shows UK inflation as measured by the Consumer Prices Index (CPI), 2011 to 2015.

(a) Which **one** of the following statements is correct about the UK's inflation record between September 2011 and January 2013?

Based on the data shown, the UK experienced:

- ☐ A Deflation
- ☐ B Disinflation
- ☐ C Falling average prices
- ☐ D Falling money supply

[1]

(b) With reference to the data provided, explain the process of calculating the rate of inflation in the UK using the Consumer Price Index. Refer to the concept of weights in your answer. [4]

## Inflation

### Exam Style Question 12

Answer:

(a) Answer: B – Disinflation [1]

Disinflation happens when prices are still rising, but they're rising at a slower rate.

- **Option A:** Incorrect. **Deflation:** This occurs when prices are actually falling (negative inflation rate).
- **Option C:** Incorrect. **Falling average prices:** This is another way of describing deflation, which is not the case here.
- **Option D:** Incorrect. **Falling money supply:** This would relate to changes in monetary policy, which isn't shown in the chart.

(b) Explaining the process of calculating inflation using CPI:

1. Definition:

The inflation rate tracks changes in the average prices of goods and services in the economy over a year. [1]

2. Process:

- A **basket of goods and services** is created to represent typical household spending. [1]
- Prices for items in the basket are collected through surveys.
- Items are **weighted** based on their importance in household budgets (e.g., food gets a higher weight than cinema tickets). [1]
- The costs of the basket in the current year are compared to a **base year**.

3. Reference to chart:

From the chart, **Food and Fuel** prices dragged inflation down in January 2015, contributing to the CPI being **0%** at the time. [1]

In essence, weights ensure the CPI reflects real spending patterns, and the basket is regularly updated to stay relevant.

## Inflation

### Exam Style Question 13

UK Consumer Price Index (the base year 2005=100)

September 2013	126.8
September 2014	128.4
September 2015	128.2

(Source: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-323657>)

- (a) Calculate the percentage change in the UK Consumer Price Index from September 2014 to September 2015. You are advised to show your working. [2]
- (b) Define the term 'deflation'. [1]
- (c) Which **one** of the following is most likely to be a cause of deflation? A fall in:

[1]

- ☐ A Oil prices
- ☐ B Unemployment
- ☐ C Income tax rates
- ☐ D Interest rates

## Inflation

### Exam Style Question 13

**Answer:**

**(a) Calculate UK Consumer Price Index**

To calculate the percentage change:

$$\% \text{ change} = \frac{\text{New value} - \text{Old value}}{\text{Old value}} \times 100$$

UK consumer Price Index:

- September 2014: 128.4
- September 2015 128.2

$$\% \text{ change} = \frac{128.2 - 128.4}{128.4} \times 100 = \frac{-0.2}{128.4} \times 100 \approx -0.16\% \text{ [1]}$$

So, the Consumer Prices Index fell by **0.16%** between September 2014 and September 2015. [1]

**(b) Define the term 'deflation'.**

Deflation happens when the average prices of goods and services across the economy are falling over time. This means the inflation rate is negative, and the value of money increases.

**(c) Which one of the following is most likely to be a cause of deflation?**

**Answer: A: Oil Prices [1]**

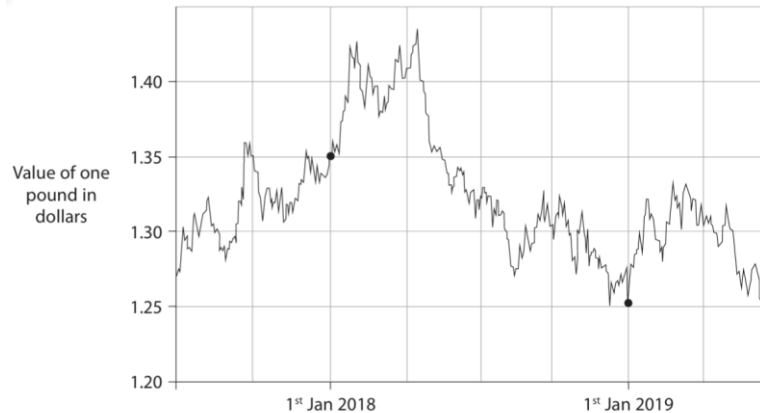
**Explanation:**

A fall in oil prices reduces the cost of production and transportation for many goods and services. As a result, businesses can pass these savings on to consumers by lowering prices, contributing to deflation.

## Balance of payments

### Exam Style Question 14

British pound to US dollar exchange rate (value of one pound in dollars), June 2017 to June 2019.



(Source adapted from: <https://www.xe.com/currencycharts/?from=GBP&to=USD&view=2Y>)

(a) Which **one** of the following has been the overall change in the British pound to US dollar exchange rate from 1<sup>st</sup> Jan 2018 to 1<sup>st</sup> Jan 2019. **[1]**

- ☐ A Appreciation
- ☐ B Depreciation
- ☐ C Devaluation
- ☐ D Revaluation

(b) Explain the likely impact of the change in the exchange rate of the pound shown in the graph from 1<sup>st</sup> Jan 2018 to 1<sup>st</sup> Jan 2019 on the UK current account of the balance of payments. **[4]**

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## Balance of payments

### Exam Style Question 14

**Answer:**

(a) **Answer:** B - Depreciation.

**Explanation:** A depreciation means the value of a currency decreases compared to another currency. From the graph, the pound's value against the dollar starts above \$1.35 and ends below \$1.30, indicating that the pound lost value relative to the dollar over the time period.

(b) **Explain the likely impact of the change in the exchange rate of the pound shown in the graph from 1<sup>st</sup> January 2018 to 1<sup>st</sup> January 2019 on the UK current account of the balance of payments.**

**Answer:**

Between 1<sup>st</sup> January 2018 and 1<sup>st</sup> January 2019, the pound depreciated, making UK exports appear more attractive and competitive to US buyers. **[1]**

When the pound depreciates, it makes UK exports cheaper and more attractive to foreign buyers because they can get more pounds for their dollars. **[1]**

At the same time, imports into the UK become more expensive because more pounds are needed to buy the same amount of foreign goods. This leads to a decrease in the imports. **[1]**

This depreciation makes UK exports more competitive globally and may lead to higher export volumes. Simultaneously, expensive imports may reduce demand for foreign goods, improving the trade balance and the overall current account. **[1]**

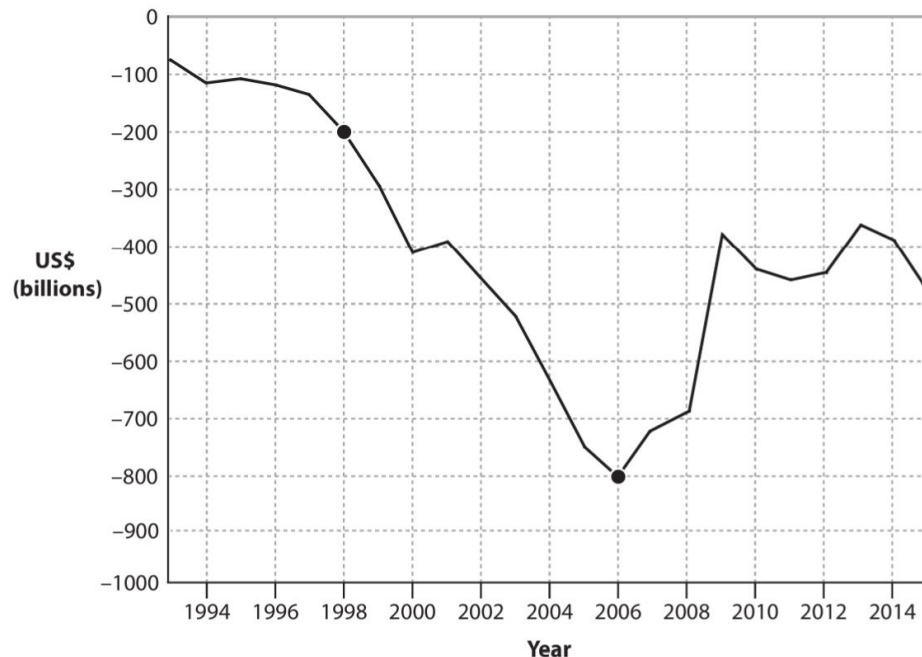
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## Balance of payments

### Exam Style Question 15

US current account of the balance of payments, 1993-2015



(Source: <http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993>)

- (a) Calculate the percentage change in the US current account deficit on the balance of payments between 1998 and 2006. [2]
- (b) Explain the term 'current account of the balance of payments'.



## Balance of payments

### Exam Style Question 15

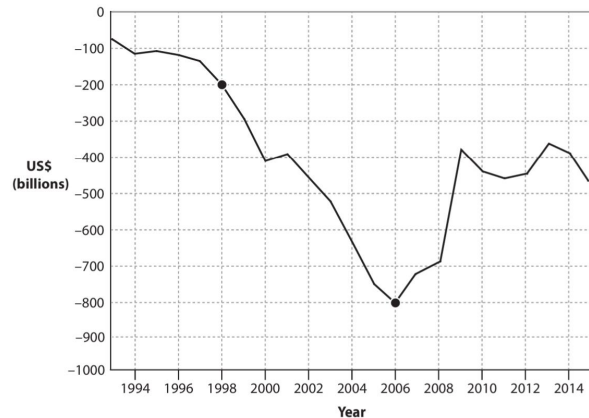
(c) Using the chart, which **one** of the following may be inferred about the US balance of payments? [1]

- ☐ A The current account deficit decreased between 2001 and 2006
- ☐ B The current account surplus increased between 2001 and 2006
- ☐ C There was a current account deficit for the entire period shown
- ☐ D There was a current account surplus for the entire period shown

## Balance of payments

### Exam Style Question 15

US current account of the balance of payments, 1993-2015



(Source: <http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993>)

- (a) Calculate the percentage change in the US current account deficit on the balance of payments between 1998 and 2006. [2]
- (b) Explain the term 'current account of the balance of payments'. [2]
- (c) Using the chart, which **one** of the following may be inferred about the US balance of payments? [1]
- ☐ A The current account deficit decreased between 2001 and 2006
  - ☐ B The current account surplus increased between 2001 and 2006
  - ☐ C There was a current account deficit for the entire period shown
  - ☐ D There was a current account surplus for the entire period shown

## Balance of payments

### Exam Style Question 15

Answer:

- (a) Calculate the percentage change in the United States current account deficit on the balance of payments between 1998 and 2006.

To calculate the percentage change:

1. **1998 deficit:** -200 billion USD
2. **2006 deficit:** -800 billion USD
3. **Formula for percentage change:**

$$\% \text{ change} = \left( \frac{\text{New value} - \text{Old value}}{\text{Old value}} \right) \times 100$$

Substituting the values:

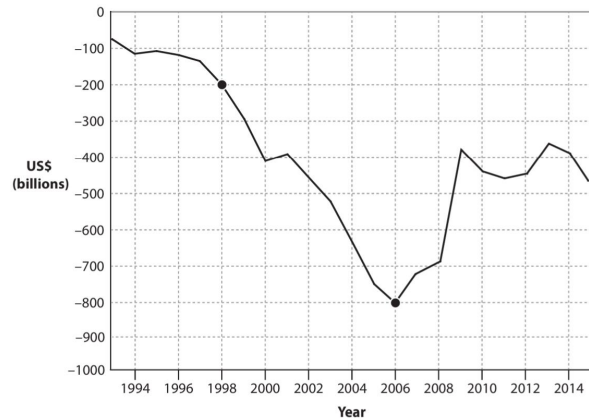
$$\% \text{ change} = \left( \frac{-800 - (-200)}{-200} \right) \times 100 \approx 300\% \text{ [1]}$$

**Answer:** The current account deficit increased by **300%** between 1998 and 2006. [1]

## Balance of payments

### Exam Style Question 15

US current account of the balance of payments, 1993-2015



(Source: <http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993>)

- (a) Calculate the percentage change in the US current account deficit on the balance of payments between 1998 and 2006. [2]
- (b) Explain the term 'current account of the balance of payments'. [2]
- (c) Using the chart, which **one** of the following may be inferred about the US balance of payments? [1]
- ☐ A The current account deficit decreased between 2001 and 2006
  - ☐ B The current account surplus increased between 2001 and 2006
  - ☐ C There was a current account deficit for the entire period shown
  - ☐ D There was a current account surplus for the entire period shown

## Balance of payments

### Exam Style Question 15

Answer:

(b) Explain the term 'current account of the balance of payments'.

The **current account** of the balance of payments measures the flow of money into and out of a country due to international trade and transfers. It includes:

1. **Trade in goods:** Exports and imports of physical items like cars or food.
2. **Trade in services:** Exports and imports of services such as banking or tourism.
3. **Primary income:** Earnings from investments abroad, such as dividends and interest.
4. **Secondary income:** Transfers like foreign aid or remittances. [1]

It calculates the **value of exports minus the value of imports** and any inflows or outflows of money, indicating whether a country is in surplus (earning more than it spends) or deficit. [1]

(c) Using the chart, which **one** of the following may be inferred about the United States balance of payments?

- **Option C: There was a current account deficit for the entire period shown. [1]**

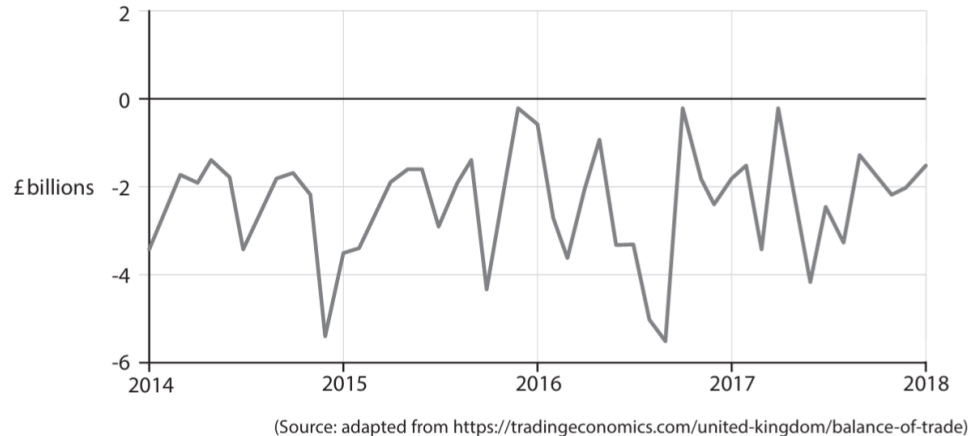
From 1993 to 2015, the current account balance remains below zero throughout, indicating a consistent deficit.



## Balance of payments

### Exam Style Question 16

The UK's net monthly balance of trade in goods and services, by value, Jan 2014 to Jan 2018, is shown in the chart below.



(a) Which **one** of the following can be inferred from the above chart over the period shown? [1]

- ☐ A The government was spending more than it received in taxation
- ☐ B The UK's balance of trade, by value, was always in equilibrium
- ☐ C The value of imports was greater than the value of exports
- ☐ D The value of inflows was greater than the value of outflows

(b) Explain **one** likely reason for the UK's balance of trade in goods and services over the period shown. Refer to the chart in your answer. [3]

## Balance of payments

### Exam Style Question 16

**Answer:**

(a) The correct answer is **C: The value of imports was greater than the value of exports.**

**Explanation:**

The chart shows a negative net balance of trade throughout the period, indicating that the UK consistently imported more goods and services than it exported. This results in a trade deficit (negative balance), as exports are not sufficient to cover imports.

(b) Explain one likely reason for the UK's balance of trade in goods and services over the period shown.

One likely reason for the UK's persistent trade deficit could be **increasing real incomes**. As incomes rise, UK consumers tend to spend more on imported goods because they have a high **marginal propensity to import** (they spend more on foreign products when they have extra money). [1] For instance, the chart shows consistent trade deficits, with outflows exceeding inflows, particularly towards the end of 2017, where the deficit remained under £2 billion. [1]

Additionally, **low productivity** in UK industries could make exports more expensive relative to imports. This reduces demand for UK exports, while rising **commodity prices**, such as oil (which the UK imports in significant amounts), further increase the import bill. All these factors combine to worsen the trade balance. [1]

## Income distribution and welfare

### Exam Style Question 17

According to the charity Oxfam, the combined wealth of the 62 richest people in the world is the same as the wealth of the poorest half of the world's population. The value of the combined wealth of the poorest half of the world's population has fallen by 38% between 2010 and 2016.

(Source: adapted from <https://www.oxfam.org/en/pressroom/pressreleases/2016-01-18/62-people-own-same-half-world-reveals-oxfam-davos-report>)

(a) Explain the distinction between income and wealth. [2]

(b) Explain **one** likely reason why global wealth inequality has increased. [2]

## Income distribution and welfare

### Exam Style Question 17

**Answer:**

**1(a) Explain the distinction between income and wealth. (2 marks)**

- **Income** is a flow of money received regularly, such as wages, salaries, or interest from savings. [1]
- **Wealth** is a stock of assets that someone owns, like property, shares, or savings. Income can help build wealth over time, and wealth can also generate income. [1]

**1(b) Explain one likely reason why global wealth inequality has increased. (2 marks)**

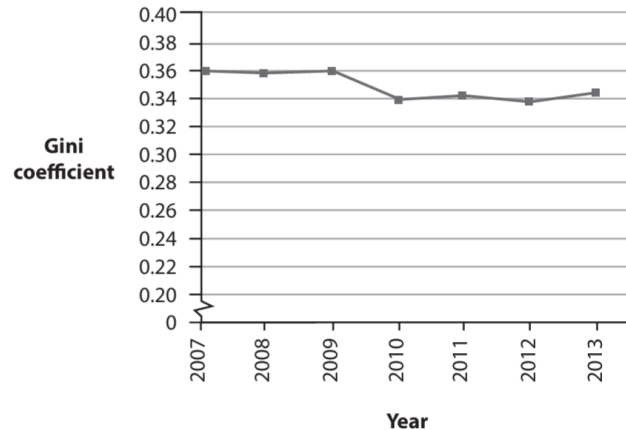
One reason is the **rise in asset prices**. People who already own assets like property or stocks have seen their value increase, which grows their wealth. Those without assets miss out, which widens the gap between rich and poor. [2]



## Income distribution and welfare

### Exam Style Question 18

The chart below shows the UK Gini coefficient of incomes, 2007 to 2013.



(Source: adapted from <https://www.equalitytrust.org.uk/how-has-inequality-changed>)

(a) Explain **one** likely reason for the change in UK income inequality since 2007. [4]

(b) Which **one** of the following values for the Gini coefficient is correct if there is perfect income equality? [1]

- ☐ A 0
- ☐ B 0.5
- ☐ C 1
- ☐ D 50:50

## Income distribution and welfare

### Exam Style Question 18

**Answer:**

**2(a) Explain one likely reason for the change in UK income inequality since 2007. (4 marks)**

One likely reason is the **impact of the 2008 Global Financial Crisis**. [1]

The **Gini coefficient**, which measures income inequality, fell from **0.36 in 2007 to 0.34 in 2010**, showing that income became slightly more equal. [1]

During the crisis, **high-income earners**, especially in finance and business, saw big drops in their income (e.g. smaller bonuses or job losses), which reduced income at the top of the distribution. At the same time, the UK government increased **welfare benefits** for low-income households, helping those at the bottom. [1]

This combination of falling top incomes and rising support at the bottom helped to **reduce income inequality** during that period. [1]

**2(b) Which one of the following values for the Gini coefficient is correct if there is perfect income equality? (1 mark)**

☒ A: 0

A Gini coefficient of **0** means everyone earns exactly the same = total equality.

(Just for fun: a Gini of **1** would mean one person has all the income, and everyone else gets nothing.)

Please see the '7. Economic policy objectives  
Revision Notes' pack for detailed notes.

For more revision notes, tutorials, worked  
examples and more help visit  
[www.tutorpacks.com](http://www.tutorpacks.com)

