

Monday 13 May 2013 – Morning

AS GCE ECONOMICS

F582/01 The National and International Economy



Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:

- Calculators may be used

Duration: 1 hour 30 minutes



Candidate forename		Candidate surname	
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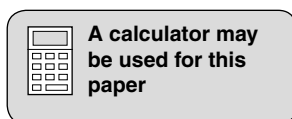
Centre number						Candidate number				
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INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.



A change in China's priorities

For a number of years, China's main macroeconomic objective was to increase its economic growth rate. The Chinese government introduced a number of policy measures in pursuit of this objective. Some of these involved increasing the role of the private sector. For instance, a number of state-owned enterprises were privatised. In 2011, the government achieved its objective, with China becoming the world's second largest economy in terms of real Gross Domestic Product (GDP). In that year, China's real GDP increased to US\$6480bn, whilst Japan's rose to US\$5670bn. China's population, however, was 1350m whereas Japan's was only 126m.

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In 2011, whilst China's economic growth rate remained impressive, concerns were raised about its inflation rate (see Fig. 1). In that year, bank lending rose and wages increased at a more rapid rate than output. These changes increased consumer expenditure although, relative to many other countries, China's consumer expenditure remained low. Its share of real GDP, at 35%, remained below that of investment which had a 40% share. Nevertheless, concern about the upward pressure on prices led the Chinese government to announce that reducing the inflation rate had become its top priority.

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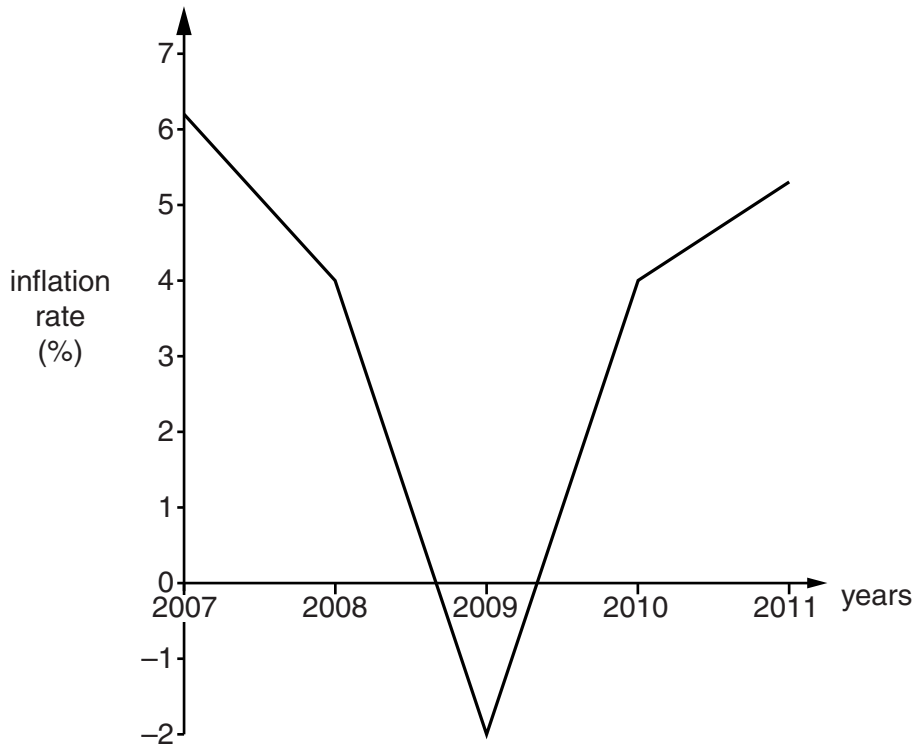


Fig. 1 – China's inflation rate, 2007–11

To combat inflation, China's central bank raised its rate of interest. Some Chinese economists suggested that this move would have an adverse effect on economic growth and unemployment. A higher interest rate, however, might put upward pressure on the value of the Chinese currency. A rise in the exchange rate might help reduce not only China's inflation rate but also the large current account surplus on its balance of payments.

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If inflation is brought under control, the attention of the Chinese government may, in future years, switch to reducing unemployment. A number of economists are already suggesting that the Chinese government should increase its spending on training in order to raise the quality of the labour force. Lower inflation would also allow the government to cut income tax which might generate a number of benefits.

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Answer **all** questions.

1 (a) Name the **three** leakages from the circular flow of income.

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- 2
- 3 [3]

(b) Explain whether the change in China's real GDP in 2011 means that injections into the circular flow of income were greater than leakages in that year.

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2 (a) Describe **three** reasons why consumer expenditure in an economy may be relatively low.

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(b) Using information in the case study, calculate whether average income was higher in China or in Japan in 2011.

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[2]

3 (a) Define the term 'inflation'.

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(b) Using information from Fig. 1, explain what happened to the price level in China between 2007–11.

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(c) Identify and explain the **two** causes of inflation mentioned in the case study.

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4 (a) Using information in the case study, calculate the level of investment in China in 2011.

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(b) Comment on whether an increase in the rate of interest would reduce investment.

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- 5 The case study mentions a number of supply-side policy measures.

Analyse the effect of **one** of these on economic growth.

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- 6 Comment on whether a low unemployment rate should be a government's main macroeconomic objective.

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A series of 25 horizontal dotted lines spanning the width of the page, providing a template for handwriting practice.

ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

This block contains a large area of lined paper for writing answers. It features a vertical margin line on the left side and horizontal dotted lines for writing. The lines are evenly spaced and extend across the width of the page.

A blank sheet of lined paper. On the left side, there is a solid vertical line that serves as a margin. The rest of the page is filled with horizontal ruling lines, which are spaced evenly down the page. The lines are thin and light gray or black, typical of standard notebook paper.

A large grid of dotted lines for handwriting practice. The grid consists of 26 horizontal rows of dotted lines. A solid vertical line runs down the left side of the grid, creating a narrow margin. The rest of the page is filled with the dotted lines, providing a guide for letter height and placement.

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