

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS
AS GCE**

F582/01

ECONOMICS

**The National and International
Economy**

WEDNESDAY 21 MAY 2014: Afternoon

**DURATION: 1 hour 30 minutes
plus your additional time allowance**

MODIFIED ENLARGED

Candidate forename		Candidate surname	
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Centre number						Candidate number				
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Candidates answer on the Question Paper.

OCR SUPPLIED MATERIALS:

None

OTHER MATERIALS REQUIRED:

Calculators may be used

<p>A calculator may be used for this paper</p>

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the boxes on the front page. 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.

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 (*).

Any blank pages are indicated.

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Turkey – emerging out of the mist?

In 2001, Jim O'Neill, now chairman of Goldman Sachs Asset Management, first used the term 'BRICs' to cover Brazil, Russia, India and China. He correctly predicted that these economies would grow rapidly. A decade later in 2011 he identified another group of four economies which he predicted would be the stars of the future, experiencing a rapid increase in investment and living standards. He has called this group of countries 'MIST' as it includes Mexico, Indonesia, South Korea and Turkey. Some economists argue that the MIST countries are already performing better on some economic indicators than the BRIC countries. Fig. 1 shows selected data on the macro-economic performance of both the BRIC and the MIST countries in 2011.

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Fig. 1 – Inflation rate and unemployment rate, 2011

	Inflation rate (%)	Unemployment rate (%)
BRIC countries		
Brazil	5.4	5.7
Russia	5.6	6.5
India	8.1	9.8
China	3.7	4.1
MIST countries		
Mexico	4.0	5.2
Indonesia	5.2	6.6
South Korea	2.9	4.2
Turkey	9.3	9.8

Of the MIST countries, South Korea currently has the highest Gross Domestic Product (GDP) per head and it has a surplus on the current account of its balance of payments. Households in that country spend a smaller proportion of their disposable income than is the case in the other MIST countries. Turkey has had the highest economic growth rate. In 2010 its real GDP increased by 9.5% to US\$700bn and in 2011 it increased by a further 8.0%. The economy has the potential to grow at an even more rapid rate. Two of the reasons for this are that only a small proportion of women are in the labour force and that the country is experiencing a relatively rapid increase in its population.

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Turkey, however, is facing two major economic challenges. One is an inflation rate which is significantly above its central bank's target of 5%. Some economists think that government spending should be cut to reduce inflationary pressure. Changes in government spending and in the other injections in Turkey have a more significant effect on the economy than in the other MIST countries. The other challenge facing Turkey is a large deficit on the current account of its balance of payments. In 2011 this deficit amounted to 9% of the country's real GDP. In US dollars, this current account deficit was second only to that of the United States of America (USA).

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An increase in the amount which the Turkish people save might reduce both the country's inflation rate and its current account deficit. Some economists suggest that the Turkish government should use monetary and supply-side policy measures to tackle both of these concerns and move the

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macro-economy to a new equilibrium. Improved education and training, for example, might turn a current account deficit into a current account surplus.

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Answer ALL questions.

1 (a) State THREE components of aggregate demand.

1 _____

2 _____

3 _____

[3]

(b) Describe how equilibrium in the macro-economy is determined.

[2]

(c) Explain how TWO monetary policy measures could cause equilibrium in the macro-economy to change.

1 _____

2 _____

[4]

2 Using information in Fig. 1, identify THREE differences between the performance of the BRIC and MIST countries in terms of inflation in 2011.

1 _____

2 _____

3 _____

[3]

[6]

[illegible]

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5 (a) Explain TWO reasons why governments seek to achieve economic growth.

1 _____

2 _____

[4]

[illegible]

6 Name THREE influences on consumer expenditure.

1 _____

2 _____

3 _____

[3]

7 Using information in the case study, identify evidence which suggests that the multiplier effect is likely to be different in Turkey than in South Korea.

[2]

- 8 (a) Using information in the case study, calculate in US\$ Turkey's 2011 current account deficit.**

[3]

- (b)* Discuss whether an economy will always benefit when the current account of the balance of payments moves from deficit to surplus. [18]**

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

END OF QUESTION PAPER

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.

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