

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
AS GCE
F582/01
ECONOMICS
The National and International
Economy

MONDAY 23 MAY 2016: Morning
DURATION: 1 hour 30 minutes
plus your additional time allowance
MODIFIED ENLARGED 24pt

Candidate forename						Candidate surname				
Centre number						Candidate number				

Candidates answer on the Question Paper.

OCR SUPPLIED MATERIALS:
None

OTHER MATERIALS REQUIRED:
Calculators may be used

**A CALCULATOR MAY BE USED
FOR THIS PAPER**

READ INSTRUCTIONS OVERLEAF



INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the boxes on the first 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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Would the UK have benefited from adopting Abeconomics?

At the start of 2013 the UK and the Japanese governments were seeking to increase both aggregate demand and aggregate supply. There were, however, differences in their countries' macro-economic performance and in one key aspect of their respective governments' economic policy approaches.

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Real Gross Domestic Product (GDP) per head at the end of 2012 was US\$45 000 in Japan, while it was US\$38 000 in the UK. Income was more unevenly distributed in Japan than in the UK. This was despite the top rate of national income tax being lower in Japan than in the UK and the Japanese government providing fewer benefits to the poor than the UK government provides.

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At the start of 2013 the unemployment rate in the UK, as measured by the Labour Force Survey (ILO) method, was higher at 7.5% compared to 4.0% in Japan. The number of people unemployed, however, was lower in the UK than in Japan because Japan's labour force was greater than the labour force of the UK. Japan's population size was 127 million which was just under double that of the UK's population at 64 million. Japan's labour force of 65 million was slightly more than double the UK labour force of 32 million.

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Costs of production were rising at a higher rate in the UK than in Japan and there were concerns about the slowdown in the growth of UK productivity. The Japanese economy was facing a number of problems, including a fall in the price level and an unwelcome trend in the exchange rate. Fig. 1 shows how the value of the Japanese yen changed between 2008 and 2012.

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The Japanese yen – US dollar exchange rate, 2008 to 2012

Fig. 1

Year	Japanese yen per US\$
2008	118
2009	104
2010	97
2011	90
2012	82

Changes in the exchange rate influence economic activity and are, in turn, influenced by a range of factors including changes in interest rates.

In early 2013, Mr Shinzo Abe, the Prime Minister of Japan, announced a strategy to stimulate Japan’s economic activity. This strategy, which has become known as Abeconomics, combines expansionary monetary policy, expansionary fiscal policy and supply-side policy. In April 2013, the Bank of Japan introduced a large increase in the money supply, stated that it would keep interest rates at about zero and encouraged a significant fall in the exchange rate. The Japanese government was expected to cut corporation tax and raise government spending on a range of areas including health care. In addition, it was expected that the government would introduce a range of structural reforms, including deregulation and privatisation.

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In the same period, the Bank of England was also implementing an expansionary monetary policy by increasing the UK money supply as there was not much room to make a significant cut in the rate of interest. The UK government was also seeking to improve the supply-side performance of the UK economy. It was, however, pursuing a harsher fiscal policy approach by restricting the growth of government spending and cutting

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some state benefits. The amount any government spends is, of course, influenced by a number of factors including changes in output. Some economists suggested that the UK government should cut unemployment benefit, although there was a debate about how such a measure was likely to affect unemployment.

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Both the UK and Japanese governments were aiming for economic growth in 2013 in a bid to improve living standards and to achieve their other policy objectives for the macro-economy. Economists were predicting that by the end of 2013 the UK's real GDP would rise to US\$2494.7 billion and Japan's real GDP would increase to US\$5712.15 billion. It is interesting to speculate whether the adoption of Abeconomics would have enabled the UK economy to grow at a faster rate in 2013.

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Answer ALL questions.

- 1

Using information from the case study, identify TWO policy measures the Japanese government could have taken to redistribute income from the rich to the poor.

1

2

[2]

- 2

(a) Describe TWO disadvantages to a government of measuring unemployment through the use of the Labour Force Survey (ILO).

1

2

[4]

(b) Using information from the case study, calculate how many more people were unemployed in Japan than in the UK at the start of 2013.

[2]

(c) (i) Explain why a cut in the amount paid in benefits to the unemployed may DECREASE unemployment.

[2]

[illegible]

3 (a) What effect would an increase in costs of production have on the position of the aggregate supply curve?

[1]

(b) Explain how THREE of the proposed policy measures mentioned in the case study (lines 42 to 46) could shift Japan’s aggregate supply curve.

1

2

3

[6]

- [4

[illegible]

[illegible]

6 (a) State ONE similarity and ONE difference between GDP and real GDP.

Similarity _____

Difference _____

_____ [2]

(b) Using information from the case study, calculate the expected increase in the UK’s real GDP between 2012 and 2013.

_____ [3]

[18]

[illegible]

[illegible]

[illegible]

[illegible]

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).

[illegible]

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