WORKBOOK

Economics 2

TOPICS 9–14

The national and international economy

- ✔ Build confidence with practice questions and worked examples
- ✔ Prepare for assessment with exam-style questions

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Contents

Topic 9 The measurement of macroeconomic performance

The objectives of government economic policy

Economic performance is measured by achievement of the government's objectives for the economy. These objectives represent goals to be achieved. The main priorities of these objectives include low unemployment, stable (and low) inflation, positive and sustainable economic growth, and a balance on the current account of the balance of payments.

There are also potential policy conflicts, where achieving one objective means moving away from achieving other objectives. Some disagree that these conflicts exist.

Practice questions ?

AO1: Knowledge and understanding

1 Define the term 'unemployment'. **3 marks**

> **Worked example**
>
> Unemployment refers to those from the population of working age who are currently without a job but are actively seeking work.

AO1: This answer covers the three main aspects of the definition: population of working age; currently without a job; actively seeking work. It therefore scores full marks.

2 Distinguish between the terms 'microeconomics' and 'macroeconomics'. **2 marks**

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3   Define the term 'economic growth'. **3 marks**

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4 Distinguish between macroeconomic objectives and macroeconomic policies. **3 marks**

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5 Explain why a fall in economic growth does not necessarily mean a fall in national income. **3 marks**

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6 Which of the following would be used to calculate the current account balance? **2 marks**

   a government revenue from taxation of foreign trade

   b exports of services

   c government expenditure on UK industry

   d imports of raw materials

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7 Explain why income inequality may fall even if the richest 10% of households see their incomes rise over time. **3 marks**

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AO2: Application

8 If GDP was £4,865.60 billion in 2019, and the economy grew by 1.6% between 2019 and 2020, calculate the level of GDP for 2020. **2 marks**

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9 Economic growth in an economy was 2.1%. GDP at the start of the year was measured at £22,378,900 million. Calculate the value of GDP at the end of the current year. **2 marks**

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10 GDP in 2018 was £1,087,500 million. By 2019 GDP had risen to £1,115,529 million. Calculate economic growth for 2018–19 to one decimal place. **2 marks**

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11 The following table relates to the output of an economy and the number of people in employment.

Year	Output (units)	Number in employment
1	145,600	2,000
2	148,400	2,120

Calculate the productivity per worker for both years. **2 marks**

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Macroeconomic indicators and index numbers

Economic objectives are measured through a number of official indicators. Macroeconomic indicators include real gross domestic product (GDP), real GDP per capita, the inflation rate, the unemployment rate, the budget balance as well as the balance on the current account of the balance of payments. All of these are expressed in numerical form — as values or rates. Index numbers can be used to make it easier to monitor changes in these indicators.

Practice questions ?

AO1: Knowledge and understanding

12 State the two measures of unemployment used in the UK. **2 marks**

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13 Distinguish between real and nominal GDP. **3 marks**

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14 Define the term 'GDP per capita'. **3 marks**

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15 Explain what is meant by the term 'price level'. **2 marks**

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16 Fill in the missing economic indicators in the following table. **4 marks**

Description	Economic indicator
a National income adjusted for price changes	
b Average real national income	
c Measure of price increases over 1 year	
d Value of exports exceeds value of imports	

17 Explain what is meant by a 'weighted basket of goods' as used in the CPI calculation. **3 marks**

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AO2: Application

18 The table below shows details for a weighted price index that contains three products: A, B and C.

Product	Year 1 price (£)	Year 2 price (£)	Weight
A	5	8	2
B	20	22	4
C	25	20	1

If year 1 is the base year, what is the value of the weighted price index in year 2?   **4 marks**

Worked example

Based on the year 2 prices, the year 2 price index: A 160, B 110, C 80

Year 2 weighted price index: A 320, B 440, C 80

Total of weights divided by weights = 840/7 = 120. Price index in year 2 = 120

> **AO1:** There is a correct use of data, with correct calculations for the year 2 index numbers. These are then 'weighted', apparently with a final calculation of the price index in full for year 2. **AO2:** Full workings are shown and carried out methodically, gaining full marks.

19 Based on the following data, calculate the GDP per capita for 2020.   **2 marks**

GDP in 2019	$640 billion
Economic growth (2019–20)	4%
Population in 2020	25 million

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20 At December 2018, the CPI was 224.5. By December 2019, the CPI had risen to 228.4. Calculate the inflation rate for the year to December 2019.   **2 marks**

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21 The following table contains the price index for an economy between 2016 and 2020. What was the highest and lowest inflation rate over this period?   **4 marks**

Year	Price index
2016	100
2017	105
2018	108
2019	112
2020	117

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AO3: Analysis

22 Explain two reasons why the labour force survey and the claimant count measures of unemployment give different results. **4 marks**

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23 Analyse two limitations of the CPI as a measure of inflation used in the UK. **6 marks**

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24 Analyse two benefits of using index numbers compared with using actual numbers when analysing economic data. **6 marks**

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Uses of national income data

Gross domestic product (GDP) represents national income for the economy. GDP can be useful in representing the standard of living enjoyed by an economy's population, though this approach does have limitations. When making GDP comparisons between countries, an appropriate exchange rate should be used, and the concept of purchasing power parity (PPP) is useful in making comparisons more meaningful.

Practice questions ?

AO1: Knowledge and understanding

25 State three uses of national income. **3 marks**

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26 State three adjustments that could be made to nominal GDP to make it a more accurate indicator of living standards. **3 marks**

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27 State three non-financial factors that contribute to the standard of living. **3 marks**

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28 Explain the term 'purchasing power parity'. **3 marks**

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29 Explain what is meant by the term 'non-marketed output'. **3 marks**

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30 Explain what is meant by the 'shadow economy'. **3 marks**

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AO2: Application

31 Explain why the composition of GDP matters when assessing living standards. **3 marks**

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32 Using knowledge of purchasing power parity (PPP), explain what happens to the exchange rate if prices are higher in one country compared with another. **3 marks**

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33 Based on the following information about price indices, what would you expect the (£/$) exchange rate to be if PPP alone can explain exchange rate movements? **2 marks**

Price index in USA	180
Price index in UK	120

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34 Price index data for two countries appear below. The exchange rate is currently £1 = $1.95. Explain what you think would happen to the exchange rate in country 1 based on PPP theory. **4 marks**

Country	Price index
Country 1 (uses £)	242
Country 2 (uses $)	395

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AO3: Analysis

35 Analyse two reasons why real GDP does not reflect living standards in an economy. **8 marks**

The worked example below shows a model paragraph from a possible response to this question, explaining one reason why real GDP does not reflect living standards. Study this closely and then attempt to provide a full answer to the question on a separate piece of paper.

Worked example

One reason why real GDP does not reflect living standards is that it does not take into account inequality in the distribution of income. Per capita GDP shows an average amount of income for the population but this is not representative of most people's incomes. Incomes vary and this means many people have an income either above or below this average level, and their living standards may be significantly different from those of people on average incomes. The greater the level of inequality, the less likely it is that the average income reflects the living standards of many of the population. This could mean that although the average income is high, it may only be high due to a small number of very high earners pulling up the average, i.e. most do not enjoy the income level that the average level would suggest.

AO1: Valid reason is identified — that incomes are not evenly distributed.

AO2: Explanation of why this means per capita income does not always reflect living standards is applied to the question and correctly developed.

AO3: Analysis is included here by developing how the level of inequality may make per capita income less reliable — depending on how unequally income is distributed.

36 Explain two uses of national income. **6 marks**

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37 Explain two non-income factors that affect the standard of living for individuals. **4 marks**

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38 Explain how the production of negative externalities can both add to and subtract from an individual's quality of life. **4 marks**

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39 Explain one limitation of PPP as a theory of exchange rate determination. **3 marks**

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40 A large welfare state financed by high taxes may mean that GDP per capita is less effective at reflecting living standards. Explain why this is the case. **3 marks**

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AO4: Evaluation

Write your answers to these questions on separate sheets of paper and keep them with your workbook.

41 To what extent does using PPP data make GDP per capita a reliable measure of living standards? **25 marks**

WORKBOOK

Economics **2**

TOPICS 9–14

Improve key skills and reinforce understanding with this write-in workbook, providing extra guidance, practice and scaffolding to support you in AQA A-level Economics.

- ✔ Develop and consolidate understanding using practice questions targeting each Assessment Objective and including calculations and worked examples

- ✔ Build key skills and practise the different question types

- ✔ Prepare for assessment using exam-style questions on every topic

- ✔ Study independently with answers available online

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9781510483231   AQA A-level Economics Workbook 1
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