Edexcel A-Level Economics (A)
60 Minute Mock

THEME 2: PAPER 5

Total marks: 60

Time allowed: 1 hour (or as directed by your teacher)

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Section A
ANSWER ALL THE QUESTIONS

1a The multiplier is calculated using which of the following formulae?

A 1/(1-MPC) ☐
B 1/(1-MPW) ☐
C 1-MPC/1 ☐
D 1-(MPS+MPT+MPM) ☐

(1 mark)

b Explain why the multiplier process is important when considering the effectiveness of expansionary fiscal policy.

(4 marks)

[Total for Question 1 = 5 marks]

2 The term 'animal spirits' was used by John Maynard Keynes in 1936 in his book entitled The General Theory of Employment, Interest and Money.

a Explain what is meant by the term 'animal spirits'.

(2 marks)

b Using an example, outline the likely influence that demand for exports has on levels of investment.

(2 mark)

c Which of the following would be the main influence on the level of government expenditure?

A The rate of interest paid on a budget deficit ☐
B The amount of quantitative easing undertaken by a government ☐
C The rate of the national living wage ☐
D The trade cycle ☐

(1 mark)

[Total for Question 2 = 5 marks]

Section B
READ THE EXTRACTS AND THEN ANSWER ALL THE QUESTIONS

Extract A: UK economic performance in the past decade

Figure 1

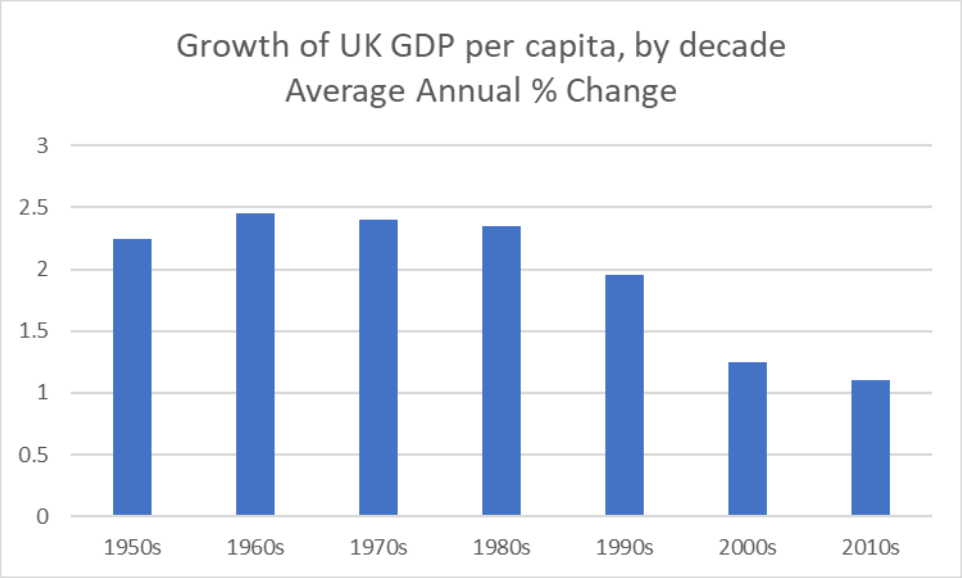
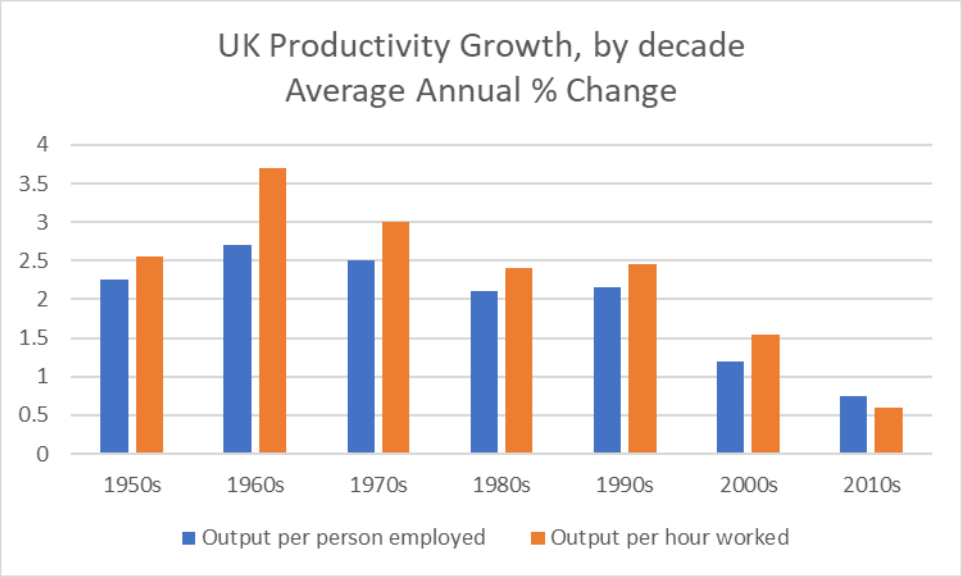


Figure 2



The 2010s saw living standards in the UK grow at their slowest rate since the second world war, even though the economy enjoyed uninterrupted expansion and employment grew at a record rate. The record employment figures have been undermined by weak productivity which grew at its slowest level in sixty years.

Growth per capita output is the biggest driver of increased living standards, but in the UK over the past 10 years it averaged less than half the rate of the post war period, growing at a rate estimated by the IMF of 1.1%, below the rate of the 2000s when output was dragged down by the financial crisis. During the same time, US GDP per

capita grew by an average of 2.2%, Germany's GDP per capita grew at an average of 2% and China at an average of 7.4%.

Whilst growth has been uninterrupted, it has been slow, averaging an annual rate of 1.8% growth in real national output, far below the overall average of 2.4% in the post war period. Jobs, however, have experienced a boom with employment growing at its fastest rate since the 1950s. The IMF estimates there were an extra 3.7 million jobs in 2019 compared to 2009, and the number of hours has increased at its fastest rate since the 1950s. However, economists warn that the employment boom hides poor quality jobs which leads to insecure contracts and in-work poverty.

The UK's sluggish economic expansion in the 2010s was largely as a result of more people being in work, rather than greater efficiency, leading to the slowest expansion in productivity growth since the second world war. The IMF forecast states that output per person grew at a rate of 0.6% in the past decade, compared to an average post war rate of 2%. Poor productivity undermines employers' ability to pay their workers more which would allow living standards to rise.

Source: https://www.ft.com/content/44401594-2ca0-11ea-bc77-65e4aa615551

Extract B: Income inequality and low productivity rates

Income inequality in the UK is a major concern for the government. The UK is near the top of the league on international income inequality, coming behind the US and Korea. Research carried out by the OECD in 2016 has demonstrated significant links between low labour productivity and inequality. A lack of human investment by firms in low skill, low paid jobs has created a toxic mixture of sluggish productivity growth and in-work poverty. Manufacturing jobs tend to see higher productivity growth as firms invest in new technologies which increase efficiency, output and profit levels, allowing these firms to invest further. Knowledge industries and digitised industries have also seen slightly higher rates of productivity growth, enabling these firms to invest in their workers and raise pay rates. However, many service sector roles have had little human investment, particularly in catering, retail and entertainment industries, resulting in very poor pay rises, widening the gap in income inequality. The Equality Trust data for 2018 shows that the poorest 20% of the population earn just 4% of total income in the UK, whereas the richest 20% earn 47%.

Sources: http://www.oecd.org/social/productivity-equality-nexus.htm

https://www.equalitytrust.org.uk/scale-economic-inequality-uk

https://www.ft.com/content/d70f351c-764d-11e9-bbad-7c18c0ea0201

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(a) With reference to Extract A, explain the meaning of real national output growth.

(5 marks)

(b) Examine two reasons why greater income equality may be a government macroeconomic objective.

(8 marks)

(c) With reference to the information provided, discuss the limitations of using GDP per capita as a measure of the standard of living between countries and over time.

(12 marks)

(d) With reference to the information provided, discuss the supply side policies that the UK government could use to increase productivity rates in the UK.

(15 marks)

[Total for Question 3 = 40 marks]

End of Questions