

AQA A LEVEL ECONOMICS MACROECONOMICS

CHALLENGE BOOK



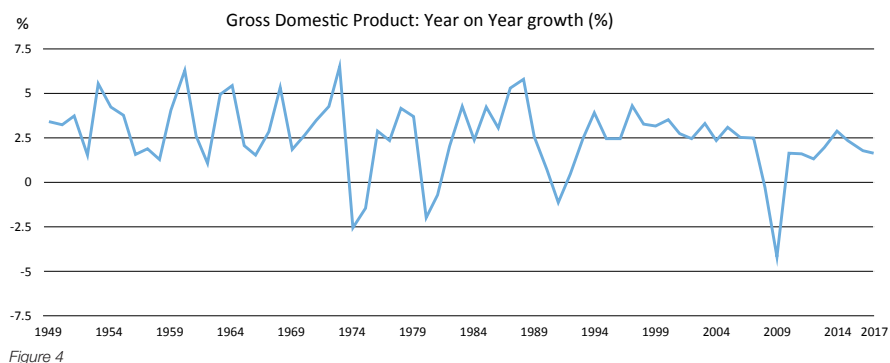
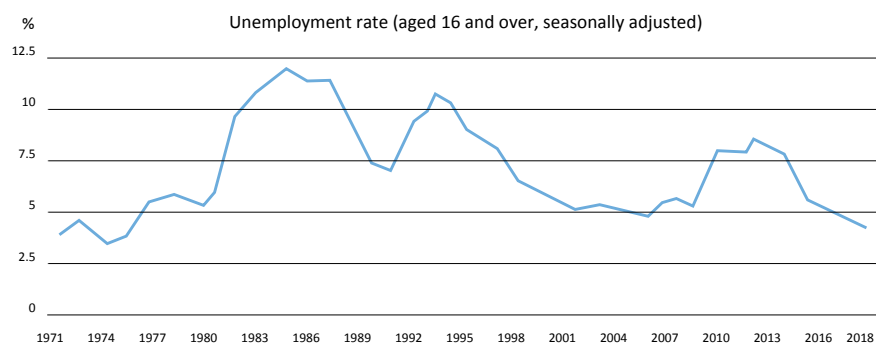
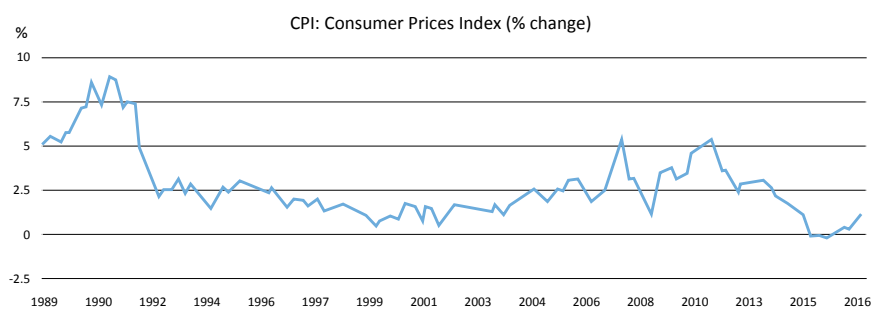
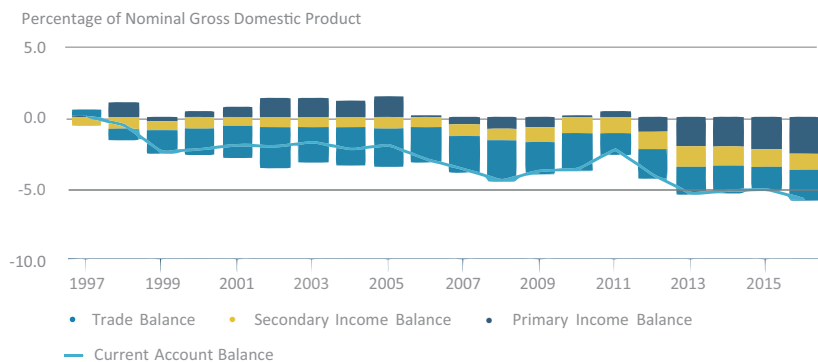
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Task 3

Consider the information from the ONS given below. To what extent does it suggest that there may be conflicts between the main macroeconomic objectives?



Task 11

Follow this link to access a number of articles from the World Economic Forum suggesting economists should not be too quick to criticise GDP. Read the articles and note down the main points you could use in analysis or evaluation. Be selective and choose the very best!



4.2.2 HOW THE MACRO ECONOMY WORKS: THE CIRCULAR FLOW OF INCOME, AGGREGATE DEMAND/AGGREGATE SUPPLY ANALYSIS AND RELATED CONCEPTS

4.2.2.1 THE CIRCULAR FLOW OF INCOME

Task 1

The circular flow model is one of the two main macroeconomic models we use at A Level. Why do we have this separate model? See if you can come up with 2 reasons.

1

2

4.2.2.4 AGGREGATE DEMAND AND THE LEVEL OF ECONOMIC ACTIVITY

Task 9

Use your knowledge of AD to fill in the gaps in the passage below, which relates to the multiplier process.

The _____ flow of income model can be used to explain the multiplier process. The multiplier occurs when a change in an _____ or _____ from the circular flow leads to a larger impact on national income.

Injectors into the circular flow include _____, _____ and _____. Withdrawals include _____. Withdrawals are assumed to vary with _____, whereas injections are assumed to be exogenous.

Imagine that the circular flow is in equilibrium with _____ exactly equal to withdrawals, and that now exports increase. One possible reason for this could be an _____ in incomes in a major trading partner such as the _____. The increase in injections represents an increase in _____ demand and firms will need to run down _____ of finished and semi-finished goods to meet the demand. More factors of production are employed and _____ income is increased. The economy starts to grow.

However, households will now spend some of their additional income. The proportion of the additional income they spend is called the _____ to _____. This represents a further increase in _____ demand for firms who will increase their employment of _____ and there will be another increase in household incomes. The economy has now increased in size by more than the original change.

However, in each round, some of the additional income is _____ or withdrawn from the circular flow. The higher the proportion that is withdrawn then the _____ the amount that continues around the circular flow in the next round.

The process continues until a new _____ is reached. As withdrawals are _____ to be a function of _____, as the economy grows then the amounts lost in withdrawals increase in each round. Eventually, withdrawals will have risen to _____ the size of the change in the initial injection and a new _____ is reached. The economy will have grown by an amount greater than the initial change and the amount by which it is greater is called the _____.

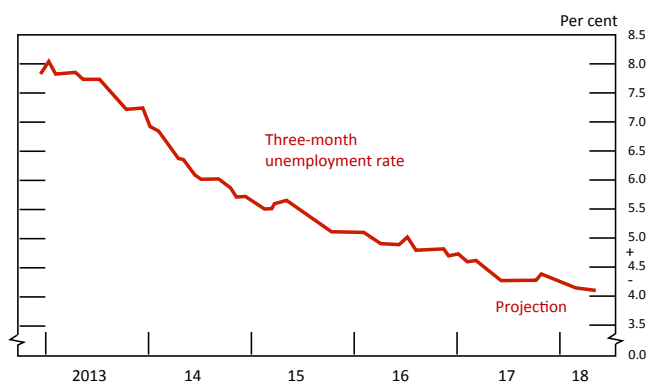
The size of the marginal propensity to consume determines the magnitude of the multiplier effect. The greater the marginal propensity to consume then the _____ the multiplier will be.

There are different multipliers associated with each of the injections and _____.

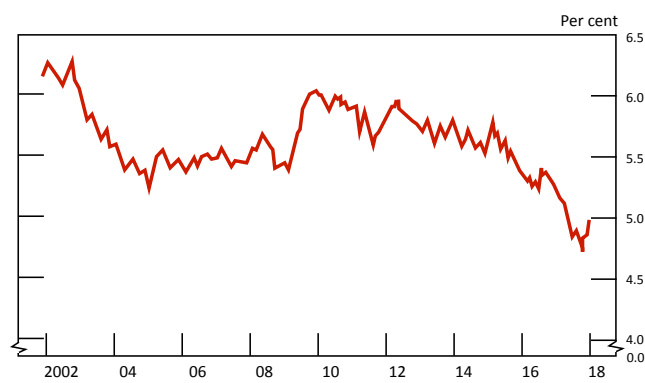
Task 5

Consider the following information taken from the May 2018 Bank of England Inflation report. Write a paragraph, based on the information provided, as to the current state of the UK labour market. Remember to use as much theory and as many technical terms as you can.

Unemployment rate and Bank staff's near-term projection



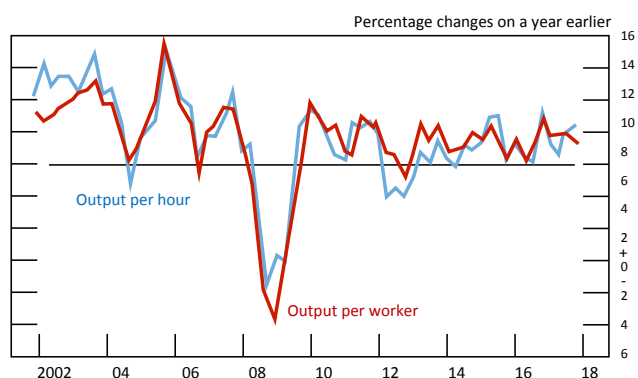
The proportion of people not currently looking for work, but who would like a job, is low
Marginal attachment ratio



Involuntary part-time work remains slightly elevated
People working part-time as a proportion of total employment



Productivity growth remains subdued
Measures of labour productivity



Your summary paragraph:

4.2.4 FINANCIAL MARKETS AND MONETARY POLICY

4.2.4.1 THE STRUCTURE OF FINANCIAL MARKETS AND FINANCIAL ASSETS

Task 1

Economists are becoming increasingly aware of the role that financial markets play in the wider economy. Fill in as many as you can think of in the spaces below.



- 1
- 2
- 3
- 4
- 5
- 6

Task 2

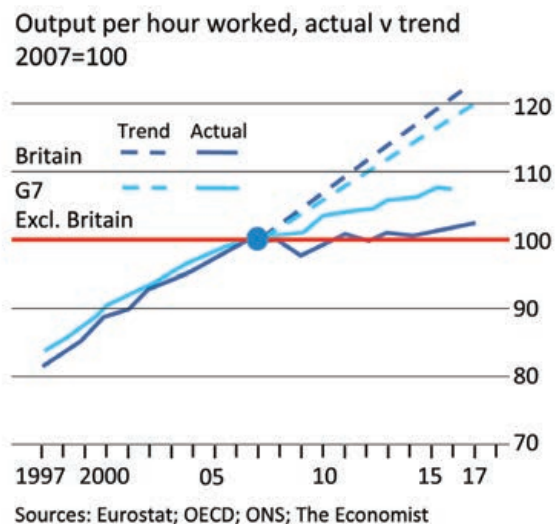
Allocate each of the following to the correct financial market:

Corporate bond, spot currency transaction, primary share issue, treasury bill, secondary gilt market, forward currency transaction, QE

Money Market	Capital Market	Foreign Exchange Market

Task 5

Arguably, one of the biggest supply-side challenges that needs to be dealt with in the UK is the productivity gap. The diagram below, taken from an article published in the Economist, does suggest there might be some grounds for optimism. Study the diagram, and then read the article linked with the QR code.



What do you think would be the most effective supply-side policies to improve UK productivity performance and why? Note your thoughts below.

Task 3

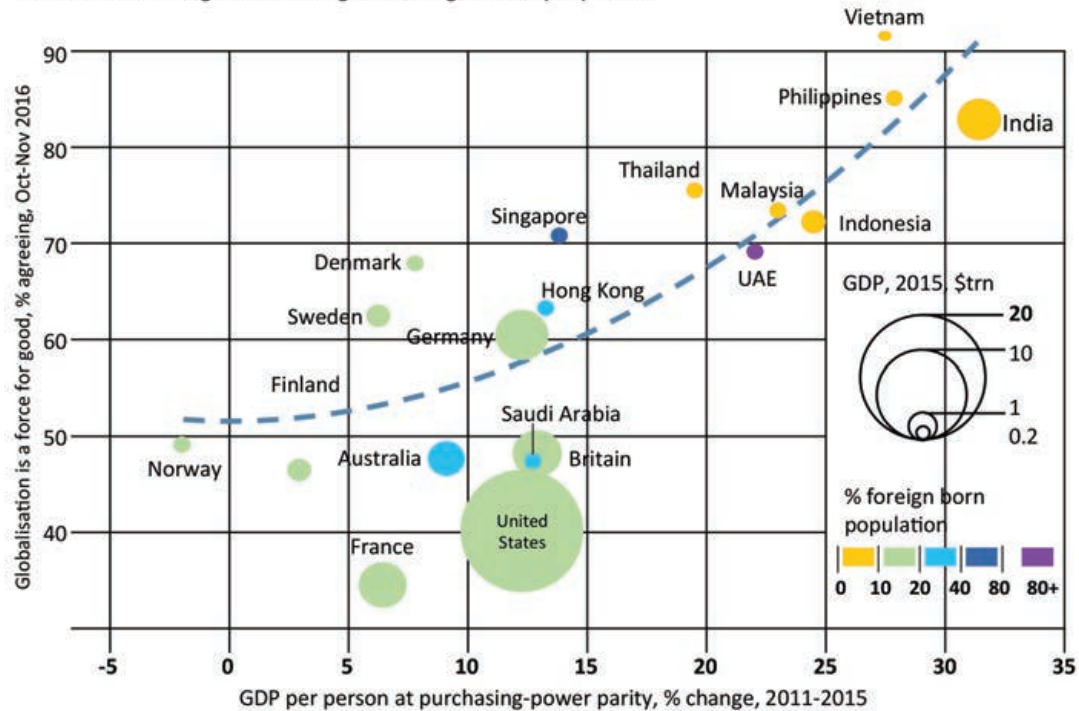
The chart to the right is taken from the Economist and was published in November 2016. What possible economic reasons can you think of that might explain the relationship shown?

What the world thinks about globalisation

Liberalism is falling out of favour in the West

Enough to go round?

Attitudes towards globalisation against change in GDP per person



Sources: YouGov/The Economist; World Bank; UN

A What possible economic reasons can you think of to explain the relationship shown?

B Do you think there will have been any changes since the chart was published, and if so why?

C Now read the article that accompanied the chart, and summarise the key points.



Shares of UK business counts, employment, aGVA and acquisitions of capital expenditure attributable to firms based on foreign direct investment status, 2016

	UK Businesses	Employment		aGVA (i.e. output)		Acquisitions of capital expenditure	
	%total	mn	% total	£ billion	% total	£ billion	% total
1 FDI recipients	1.1	4.0	16.8	335.1	27.0	54.7	27.2
2 Non-FDI recipients	98.9	19.8	83.2	907.4	73.0	146.3	72.8

Source: Office for National Statistics

Write your answer here:

4.2.6.4 EXCHANGE RATE SYSTEMS

Task 12 Can you give an explanation of what is meant by each of the following types of exchange rates / systems?

Free Float	Crawling Peg	Managed Float	Forward Exchange Rate
Fully Fixed	Spot Exchange Rate	Crawling Band	Effective Exchange Rate