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**OXFORD CAMBRIDGE AND RSA EXAMINATIONS
ADVANCED SUBSIDIARY GCE**

F582

ECONOMICS

The National and International Economy

WEDNESDAY 3 JUNE 2009: Afternoon

DURATION: 1 hour 30 minutes

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

Candidates answer on the question paper.

OCR SUPPLIED MATERIALS:

None

OTHER MATERIALS REQUIRED:

None

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

- **Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes on the first page.**
- **Use black ink. Pencil may be used for graphs and diagrams only.**
- **Read each question carefully and make sure that you know what you have to do before starting your answer.**
- **Answer ALL the questions.**
- **Write your answer to each question in the space provided, however, additional paper may be used if necessary.**

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.**

WILL RUSSIA MOVE INTO THE PREMIER LEAGUE?

A few years ago the Russian economy was in trouble. Real Gross Domestic Product (GDP) was falling and unemployment was rising. More recently, however, Russian macro-economic performance has improved. The economy, consisting of approximately 150m people in 2007, grew at an average annual rate of 7% between 2003 and 2007. In 2007, Russian GDP reached US \$1200bn. The country's inflation rate has fallen since 2003, although it did pick up in 2007. The country's stronger macro-economic performance has been reflected more in its unemployment data (see Fig. 1 which compares Russian and UK unemployment).

5

10

Fig. 1 Russian and UK unemployment figures (2006)

UNEMPLOYMENT RATE	RUSSIA (%)	UK (%)
Lower measure (claimant count or equivalent)	2.0	3.0
Higher measure (ILO measure)	5.8	5.5
Highest regional rate	8.2	4.4
Lowest regional rate	1.5	1.8
Percentage of unemployed who have been out of work for more than a year	18.6	21.2

Another indicator of macro-economic performance is a country's current account position on its balance of payments. This indicator, though, is harder to interpret. Fig. 2 compares Russia's current account position in 2007 with four other countries.

15

Fig. 2 Current account balance of selected countries, 2007

COUNTRY	% OF GDP
China	10.9
Russia	5.6
Japan	4.7
UK	-3.3
USA	-5.5

Russia's greater economic strength has raised its government's ambitions. At the end of 2007 the Russian government set itself the target of becoming one of the world's top five economies by 2020. 20

To help achieve this objective, the Russian government is seeking to reverse the trend of under-investment by spending more on improving the country's infrastructure. The government is also trying to ensure that aggregate demand can grow steadily, whilst avoiding a high inflation rate. In 2007 Russia's inflation rate was 9.5% and its interest rate was 10%. Raising its interest rate should reduce inflationary pressure but it will do so, in part, by lowering consumer expenditure which may, in turn, reduce aggregate demand. 25 30

Answer ALL questions.

- 1 Using information from the case study (lines 5–8), calculate Russia’s GDP per head in 2007.**

[2]

- 2 (a) Define the term ‘unemployment’.**

[2]

(b) Using Fig. 1, describe how Russia's unemployment differed from the UK's unemployment in 2006.

[4]

3 (a) Define the term 'inflation rate' (line 8).

[3]

(b) State and explain TWO costs of inflation.

1

2

[6]

- 4 (a) Using Fig. 2, describe how Russia's current account position differed from that of the other countries shown.

[3]

(b) Comment on the effectiveness of ONE supply side policy in improving a country's current account position.

[7]

5 (a) Consumer expenditure is one of the components of aggregate demand. Identify THREE of the other components.

1 _____

2 _____

3 _____

_____ [3]

(b) Comment on the effectiveness of cutting income tax to increase consumer expenditure.

[6]

(c) State and explain TWO other causes of an increase in consumer expenditure.

1 _____

2 _____

[6]

6 Discuss the extent to which an increase in aggregate demand may affect output, unemployment and inflation.



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