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OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Monday 6 June 2022 – Morning

GCSE (9–1) Economics

J205/02 National and International Economics

Resource Booklet

Time allowed: 1 hour 30 minutes
plus your additional time allowance

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21 EXTRACT 1

Inflation and Monetary Policy

The inflation rate is the percentage change in the consumer price index (CPI), which is an indexed measure of expenditure on a basket of goods. Unexpected inflation causes falls in real interest rates and real wages. A zero rate of inflation (complete price stability) usually occurs when an economy is not growing, which is likely to increase unemployment. Recently governments have become worried that inflation rates could become persistently negative, which would raise the real value of government debt above its nominal value.

Monetary policy is used to stabilise the rate of inflation in Chile. When inflation is more than 1% beyond its target rate the Central Bank of Chile (CBoC) adjusts interest rates to change the level of borrowing and total spending in the economy. The money supply can also be changed by the CBoC. If the rate of inflation is expected to fall below zero, then the CBoC can adopt quantitative easing, which provides more funds to banks for lending to consumers and firms.

Inflation Rate in Chile
Annual %
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Year

22 EXTRACT 2
Determinants of Economic Growth and Fiscal Policy

Burkina Faso	2010	2015	2019
Females in the workforce (% aged 15–64)	61.2	59.8	59.8
Females enrolled in university (% of relevant age group)	2.3	3.5	5.1
Males enrolled in university (% of relevant age group)	4.8	6.6	9.0
GDP per capita growth (annual %)	5.2	0.9	2.7
China			
Females in the workforce (% aged 15–64)	69.8	69.1	68.5
Females enrolled in university (% of relevant age group)	25.0	50.2	59.5
Males enrolled in university (% of relevant age group)	23.5	42.3	48.7
GDP per capita growth (annual %)	10.1	6.5	5.7

The proportion of people, especially females, who have a university education varies considerably across different countries. Knowledge and training improve labour productivity. Education is, therefore, a significant determinant of economic growth. Another important determinant is the size of the workforce. Consequently, when there are more educated women in the workforce, economic growth is higher. Percentage gains in real GDP measure economic growth. GDP per capita is an approximate measure of the average income in a country.

Average years in education is one of the factors that is used to measure social and economic development. Another important factor is life expectancy, which reflects how healthy a country's population is. When development economists measure social and economic development, they find that the index for China is almost twice that for Burkina Faso.

23 EXTRACT 3

Current Account Balance and Exchange Rate

Since trade is the major component of the current account, a wider deficit is primarily due to either imports rising or exports falling. As a result, there will be a shift in the demand or supply of the UK's currency (the pound £), which will change its exchange rate.

Current Account Balance (% of GDP)

Year	2011	2015	2019
UK	–1.76	–4.90	–3.78
USA	–2.87	–2.24	–2.33
Germany	6.20	8.59	7.15

The table shows that the UK's current account deficit is persistent and also represents a relatively high proportion of GDP. The deficit reflects the fact that British consumers can choose to buy imported goods at relatively low prices. On the other hand, British producers face competition in the global market both when attempting to produce goods for export and when competing with imported goods. Consequently, a trade deficit results in output being lower and unemployment being higher than when there is a surplus. Such global competition does mean, however, that scarce resources are being used more efficiently.

UK Current Account Balance
Year
2011
2012
2013
2014
2015
2016
2017
2018
2019
£ million
–30 000
–40 000
–50 000
–60 000
–70 000
–80 000
–90 000
–100 000
–110 000

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