

Modified Enlarged 18pt

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Monday 19 May 2025 – Afternoon

A Level Economics

H460/02 Macroeconomics

Resource Booklet

**Time allowed: 2 hours
plus your additional time allowance**



SECTION A

Read the stimulus material and answer ALL parts of Question 1.

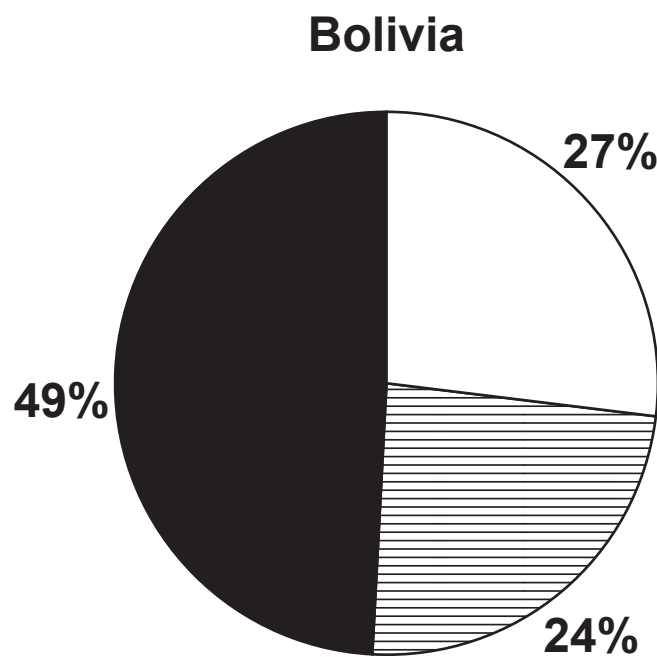
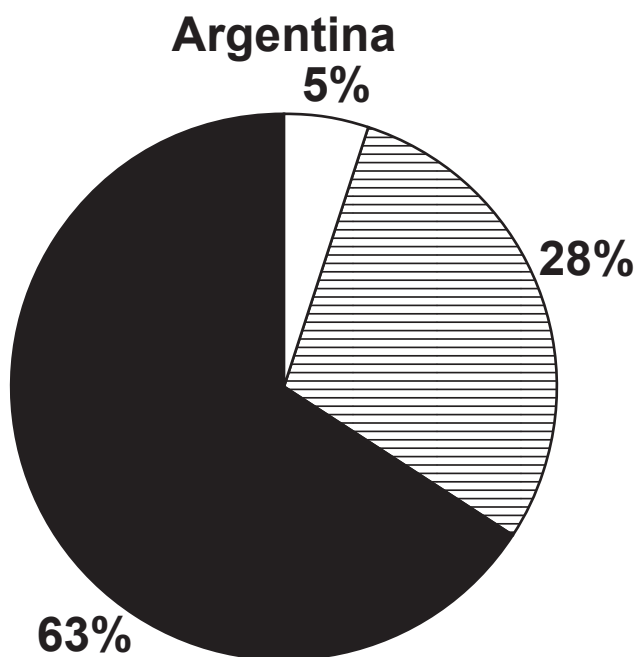
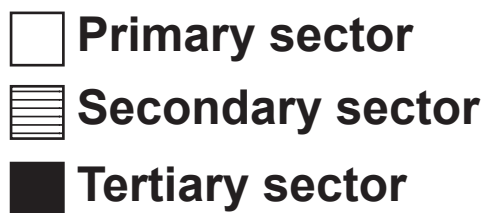
What is the future for Bolivia?

Export tariffs and quotas are imposed by a number of countries. Reducing exports can increase domestic supply which can affect the price of products sold on the home market and the country's tax revenue. It can also affect the supply of the country's raw materials available to rival foreign producers. 5

Both Argentina and Bolivia, impose export tariffs on soya beans. Argentina also imposes an export tariff on lithium, a rare earth metal used in the production of electric cars. Bolivia has the world's largest resources of lithium which it is just beginning to extract. Bolivia already mines gold, silver, nickel and other natural metals. Mining is part of the primary sector. Fig. 1 opposite shows the share of the labour force in the different sectors in Argentina and Bolivia in 2021. 10 15

FIG. 1

Share of the labour force in the different sectors in Argentina and Bolivia 2021



Exporting lithium can affect Bolivia's terms of trade and the current account of its balance of payments. In 2021, Bolivia's terms of trade were 62 and its index of average export prices was 85.56. In that year, Bolivia had a surplus on its current account. It also had the lowest inflation rate in South America.

Fig. 2 opposite shows the inflation rate and current account balance as a percentage of GDP of selected countries in 2021, when the global average inflation rate was 3.5%. 25

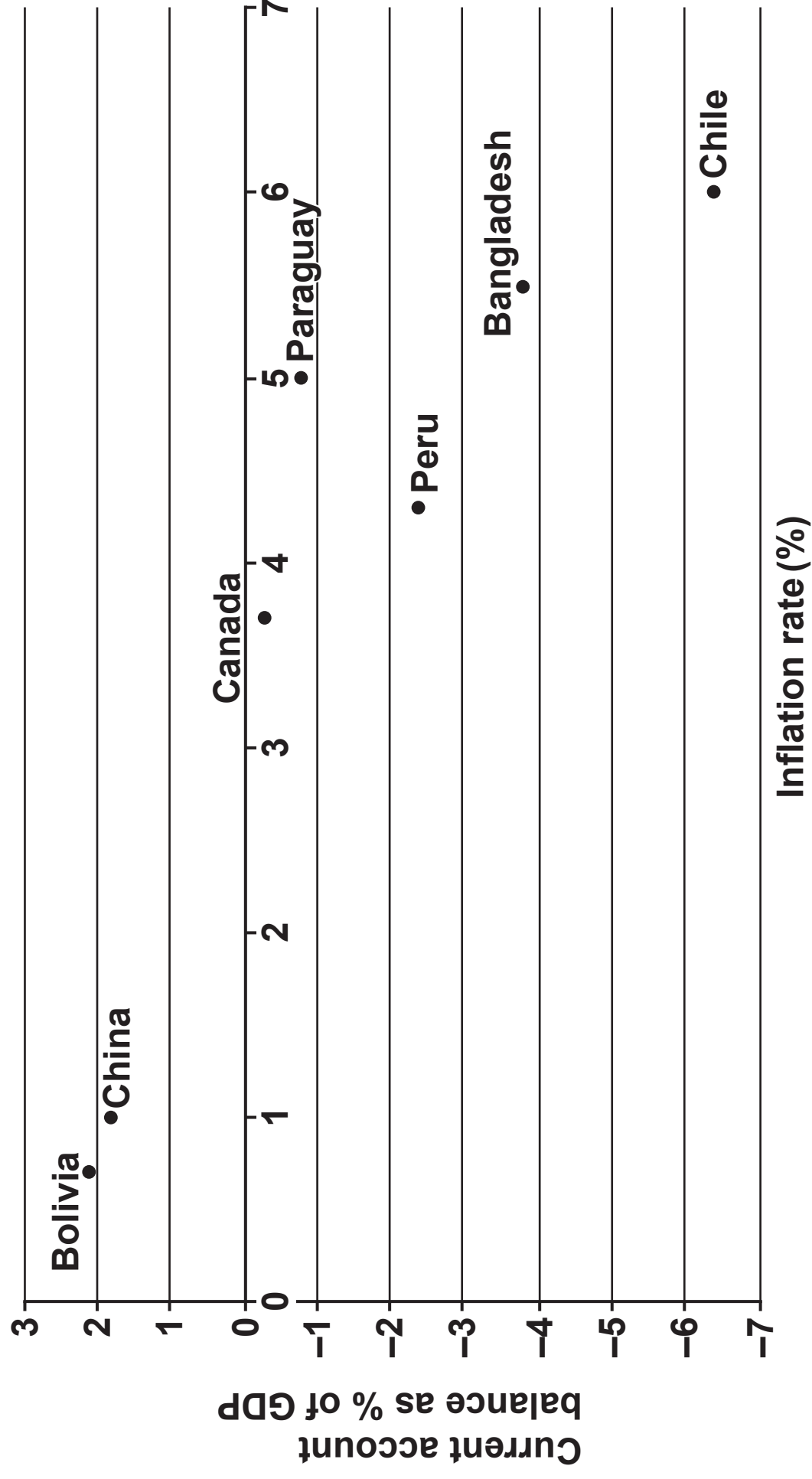
A current account surplus can put upward pressure on a country's exchange rate. There are, however, other influences on a country's exchange rate. Bolivia has a fixed exchange rate against the US dollar. This fixed exchange rate has provided some certainty and is credited with helping to keep inflation low. In 2023, speculation put downward pressure on the exchange rate. Bolivia's central bank, Banco Central de Bolivia, intervened to support the value of the boliviano which significantly reduced the country's foreign exchange reserves. 30 35

As well as maintaining the exchange rate, the Banco Central de Bolivia manages the country's national debt. A country's national debt increases as a result of government budget deficits. Bolivia has had a government budget deficit for many years. A relatively high proportion of Bolivians work in the informal economy and do not pay any income tax. The country has a relatively low flat rate of income tax of 13%. Some economists suggest that a rise in this rate of income tax would increase government tax revenue and reduce the budget deficit. Others have suggested that Bolivia should introduce a progressive income tax system. Bolivia has the highest income inequality in South America, that is gradually reducing. 40 45 50

Bolivia has a standard rate of VAT of 13%. Additional indirect taxes are imposed on other products such as cigarettes, alcohol and luxuries, including perfume and cosmetics. 55

FIG. 2

The inflation rate and current account balance as a percentage of GDP of selected countries 2021



BLANK PAGE

BLANK PAGE



Copyright Information

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact The OCR Copyright Team, The Triangle Building, Shaftesbury Road, Cambridge CB2 8EA.

OCR is part of Cambridge University Press & Assessment, which is itself a department of the University of Cambridge.