

Modified Enlarged 24pt
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?

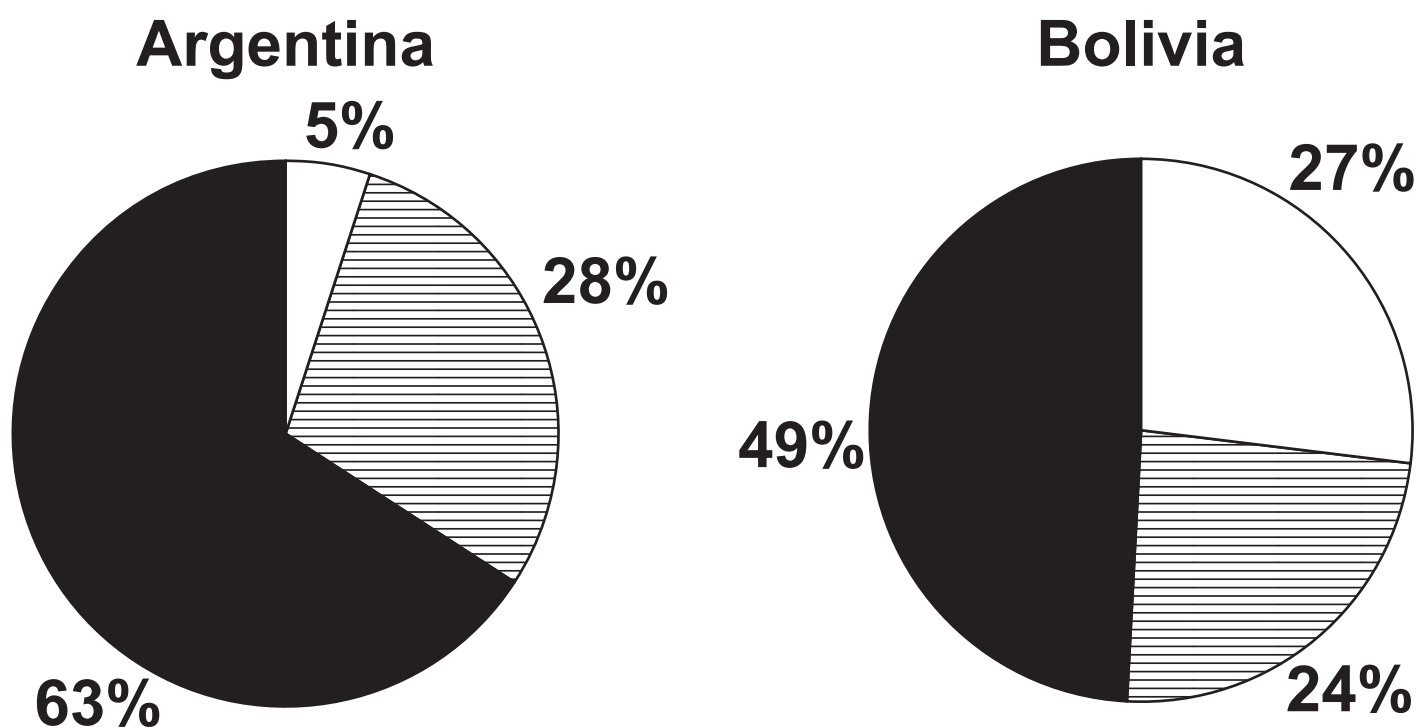
Export tariffs and quotas are imposed by a number of countries. Reducing exports can increase domestic supply which can affect the price of products sold on the home market and the country's tax revenue. It can also affect the supply of the country's raw materials available to rival foreign producers. 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 20

FIG. 1

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

- ☐ Primary sector
- ☒ Secondary sector
- ☐ Tertiary sector



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.

25

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%. 30

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. 35

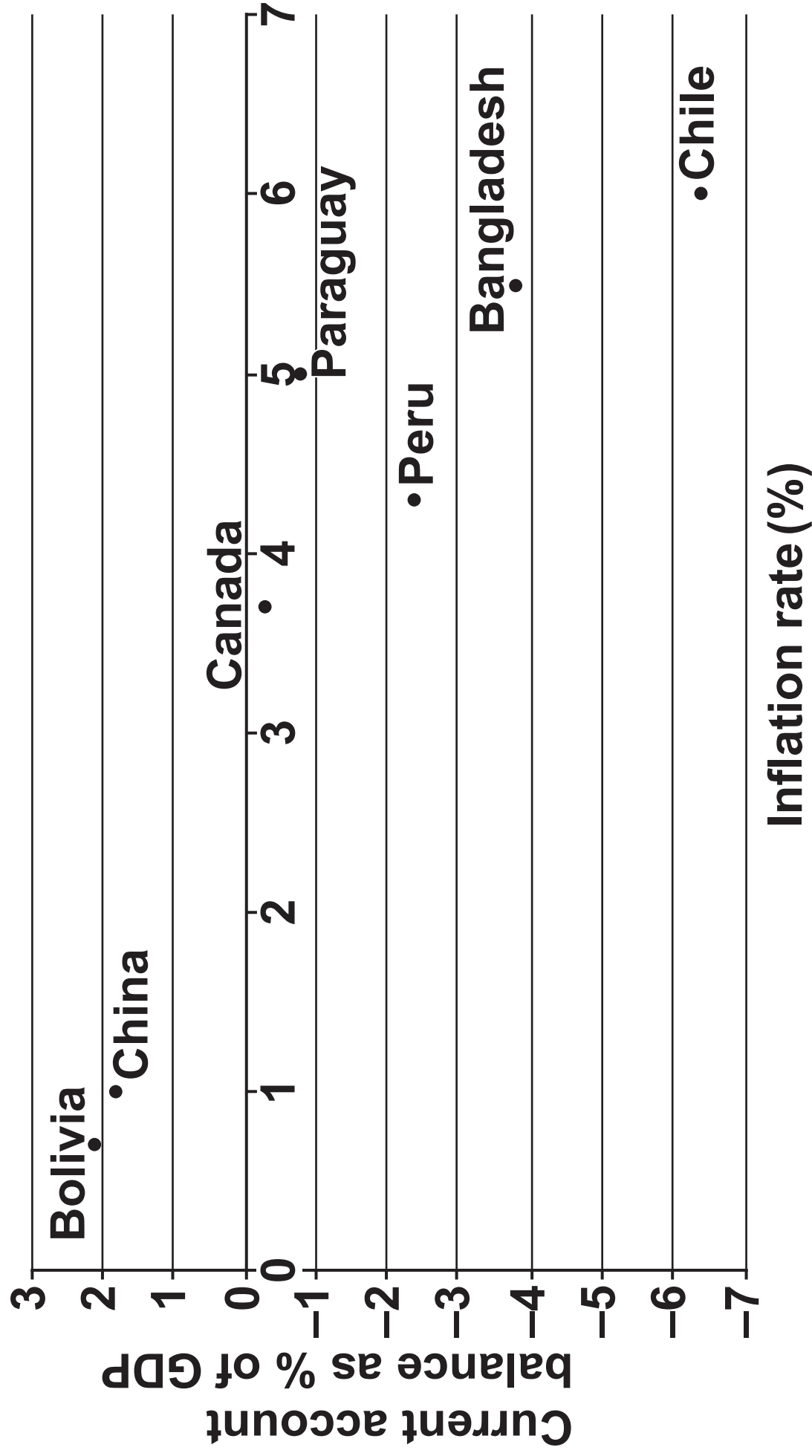
This fixed exchange rate has provided some certainty and is credited with helping to keep inflation low. In 2023, speculation put downward pressure on the exchange rate. Bolivia's central bank, Banco Central de Bolivia, 40

intervened to support the value of the boliviano which significantly reduced the country's foreign exchange reserves. 45

50

FIG. 2

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



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. 55

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 60

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 65

have suggested that Bolivia should introduce a progressive income tax system. Bolivia has the highest income inequality in South America, that is gradually reducing. 70

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. 75

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