IGCSE ECONOMICS · PAPER 2 (UNITS 2.1 AND 2.2) · PRACTICE MOCK

Paper 2 Mock: Macroeconomics and the Global Economy

Mock paper MOCK2 | **Total: 80 marks** | **Time: 90 minutes**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Question 1: Economic Growth, Inflation and Unemployment

1(a) A recession is usually defined as a fall in GDP for: **(1)**

A one month
B two successive quarters
C one year
D five years

1(b) Which of the following is most likely to cause cost-push inflation? **(1)**

A A rise in consumer spending
B A rise in the world price of oil
C A cut in interest rates
D A rise in exports

1(c) Define **inflation**. **(1)**

The table shows the consumer price index (CPI) and labour market data for a country.

	2022	2023	2024
CPI	100	104	110.24
Labour force (millions)	23.0	23.5	24.0
Unemployed (millions)	1.4	1.3	1.2

1(d) Calculate the rate of inflation in 2024. You are advised to show your working. **(2)**

1(e) Calculate the unemployment rate in 2024. You are advised to show your working. **(2)**

1(f) State **one** limitation of using GDP to measure living standards. **(1)**

1(g) Explain **one** cause of structural unemployment. **(3)**

Source: Rapid Growth in Navaro

The fictional country of Navaro has grown by 7% a year for five years. Millions of people have moved from farms to factory jobs in the cities, and the share of people in absolute poverty has fallen from 30% to 18%.

However, inflation has risen to 6%, house prices in the capital have doubled, and air pollution in industrial cities is among the worst in the world. Some rural regions have seen little benefit.

Fictional case, written for this paper.

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1(h) With reference to the extract, assess the impact of rapid economic growth on the people of Navaro. **(9)**

(Total for Question 1 = 20 marks)

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Question 2: The Balance of Payments, the Environment and Redistribution

2(a) Which of the following is an example of an invisible export for the UK? **(1)**

A A UK car sold to Spain
B An American tourist staying in a London hotel
C UK whisky sold to Japan
D A UK family holidaying in France

2(b) A tax is progressive if: **(1)**

A everyone pays the same amount
B the proportion of income paid in tax rises as income rises
C the poor pay a higher proportion
D it is a tax on spending

2(c) Define a **current account deficit**. **(1)**

2(d) What is meant by **relative poverty**? **(2)**

The table shows trade figures for a country (US$bn).

Visible exports	Visible imports	Invisible balance
52	61	+4

2(e) Calculate the country's balance of trade and its current account balance. You are advised to show your working. **(3)**

2(f) Explain how tradable pollution permits can reduce pollution. **(3)**

2(g) Explain how high inflation can lead to a current account deficit. **(3)**

Source: Inequality in Corvalia

In the fictional country of Corvalia, the richest 10% of households receive 45% of national income, while the poorest 40% receive 12%. About a quarter of children live in households below 60% of median income.

The government plans to introduce a progressive income tax, with rates rising from 0% to 40%, and to use the revenue for a child benefit and free school meals. Business groups warn that high earners may move abroad.

Fictional case, written for this paper.

2(h) With reference to the extract, analyse how the government's plans could reduce inequality in Corvalia. **(6)**

(Total for Question 2 = 20 marks)

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Question 3: Fiscal, Monetary and Supply-Side Policies

3(a) Which of the following is an example of contractionary fiscal policy? **(1)**

A Cutting income tax
B Raising government spending
C Raising VAT
D Cutting interest rates

3(b) If a central bank raises interest rates, the most likely effect is: **(1)**

A more borrowing
B higher saving
C higher inflation
D a weaker currency

3(c) Define a **fiscal deficit**. **(1)**

3(d) What is meant by **supply-side policies**? **(2)**

3(e) A government spends US$210bn and receives US$195bn in revenue. GDP is US$600bn. Calculate the fiscal deficit as a percentage of GDP. You are advised to show your working. **(2)**

3(f) State **one** direct tax. **(1)**

3(g) Explain how a cut in interest rates can increase aggregate demand. **(3)**

Source: Unemployment in Ostland

The fictional country of Ostland has unemployment of 11% and inflation of just 1%. Interest rates are already low at 1%. The fiscal deficit is 4% of GDP.

The government is considering a US$20bn programme of road, rail and broadband building over three years, partly funded by borrowing. Critics say this would increase national debt, and that cutting taxes for businesses would create more jobs in the long run.

Fictional case, written for this paper.

3(h) With reference to the extract, assess whether expansionary fiscal policy is the best way to reduce unemployment in Ostland. **(9)**

(Total for Question 3 = 20 marks)

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Question 4: The Global Economy

4(a) A tariff is: **(1)**

A a limit on the quantity of imports
B a tax on imports
C a subsidy to exporters
D a ban on trade

4(b) A depreciation of a country's currency is likely to: **(1)**

A make its exports cheaper abroad
B make its imports cheaper
C worsen its current account
D reduce demand for its exports

4(c) Define **globalisation**. **(1)**

4(d) A Marozan textile firm sells a batch of cloth for R2000. Calculate its price in US dollars before and after the fall in the rand. You are advised to show your working. **(2)**

4(e) Explain **one** reason why a government might use protectionism. **(3)**

Source: Should Maroza Join the Coastal Customs Union?

The fictional country of Maroza exports cocoa and textiles. It has been invited to join the Coastal Customs Union (CCU), a group of six neighbouring countries with 180 million people. CCU members trade freely with each other and charge a common external tariff of 15% on imports from outside.

Maroza's textile firms would gain tariff-free access to the CCU market, and foreign car makers have said they would build factories in Maroza if it joins. However, Maroza currently buys cheap machinery from Asia, which would face the 15% tariff, and its small farmers would face competition from larger CCU producers. The Marozan currency, the rand (R), recently fell from R1 = US$0.25 to R1 = US$0.20.

Fictional case, written for this paper.

4(f) With reference to the extract, evaluate whether Maroza should join the Coastal Customs Union. **(12)**

(Total for Question 4 = 20 marks)

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Mark scheme: Paper 2 Mock: Macroeconomics and the Global Economy

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Question 1

1(a) *A recession is usually defined as a fall in GDP for: (1 mark)*

Answer: B (two successive quarters). Two quarters in a row.

1(b) *Which of the following is most likely to cause cost-push inflation? (1 mark)*

Answer: B (A rise in the world price of oil). Higher costs pushed on to prices.

1(c) *Define inflation. (1 mark)*

A general and continuing rise in prices (1).

1(d) *Calculate the rate of inflation in 2024. You are advised to show your working. (2 marks)*

(110.24 − 104) ÷ 104 × 100 (1).

Answer: 6% (1).

1(e) *Calculate the unemployment rate in 2024. You are advised to show your working. (2 marks)*

1.2 ÷ 24.0 × 100 (1).

Answer: 5% (1).

1(f) *State one limitation of using GDP to measure living standards. (1 mark)*

Any one (1): ignores inflation (use real GDP); ignores population (use per capita); hidden economy; home production; ignores distribution, leisure, pollution.

1(g) *Explain one cause of structural unemployment. (3 marks)*

Point: changes in the structure of the economy, e.g. a declining industry or new technology (1).

Development: workers lose jobs in that sector (1) and lack the skills or mobility to move to new jobs (1).

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1(h) *With reference to the extract, assess the impact of rapid economic growth on the people of Navaro. (9 marks · levels)*

Benefits: jobs in factories; absolute poverty down from 30% to 18%; higher incomes and tax revenue for services.

Costs: inflation 6% erodes purchasing power; house prices doubled; severe pollution harms health; uneven gains in rural regions.

Judgement: overall positive for most, especially the poorest, but costs are serious; depends on controlling inflation and pollution and spreading the gains.

Levels: L1 1–3 (points listed, little use of the data) · L2 4–6 (developed points, some use of the data, limited evaluation) · L3 7–9 (developed points on both sides using the data, with a supported judgement).

Question 2

2(a) *Which of the following is an example of an invisible export for the UK? (1 mark)*

Answer: B (An American tourist staying in a London hotel). A service sold to a foreigner.

2(b) *A tax is progressive if: (1 mark)*

Answer: B (the proportion of income paid in tax rises as income rises). The rich pay a higher proportion.

2(c) *Define a current account deficit. (1 mark)*

When the value of imports exceeds the value of exports (1).

2(d) *What is meant by relative poverty? (2 marks)*

Poverty defined relative to average living standards in a country (1), e.g. below 60% of median income (1).

2(e) *Calculate the country's balance of trade and its current account balance. You are advised to show your working. (3 marks)*

Balance of trade = 52 − 61 = −US$9bn (1).

Current balance = −9 + 4 (1).

= −US$5bn, a deficit (1).

2(f) *Explain how tradable pollution permits can reduce pollution. (3 marks)*

Point: permits limit the total amount of pollution allowed (1).

Development: firms that cut pollution can sell spare permits (1), giving an incentive to use cleaner technology (1).

2(g) *Explain how high inflation can lead to a current account deficit. (3 marks)*

Point: domestic goods become relatively more expensive (1).

Development: exports fall (1) and consumers buy more imports (1).

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2(h) *With reference to the extract, analyse how the government's plans could reduce inequality in Corvalia. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): progressive taxation; redistribution through benefits and public services.

Application (2): richest 10% get 45%; tax rates 0–40%; child benefit and free school meals.

Analysis (2): higher earners pay a larger share, narrowing post-tax incomes; benefits raise incomes of poor families now; better-fed children learn more and earn more later.

Knowledge 2 · Application 2 · Analysis 2.

Question 3

3(a) *Which of the following is an example of contractionary fiscal policy? (1 mark)*

Answer: C (Raising VAT). Higher taxes reduce demand.

3(b) *If a central bank raises interest rates, the most likely effect is: (1 mark)*

Answer: B (higher saving). Saving becomes more rewarding.

3(c) *Define a fiscal deficit. (1 mark)*

The amount by which government spending exceeds government revenue (1).

3(d) *What is meant by supply-side policies? (2 marks)*

Government measures (1) designed to increase aggregate supply/productive potential of the economy (1).

3(e) *A government spends US$210bn and receives US$195bn in revenue. GDP is US$600bn. Calculate the fiscal deficit as a percentage of GDP. You are advised to show your working. (2 marks)*

Deficit = 210 − 195 = US$15bn; 15 ÷ 600 × 100 (1).

Answer: 2.5% (1).

3(f) *State one direct tax. (1 mark)*

Any one (1): income tax; corporation tax; capital gains tax; inheritance tax; social insurance tax.

3(g) *Explain how a cut in interest rates can increase aggregate demand. (3 marks)*

Point: borrowing becomes cheaper (1).

Development: consumers borrow and spend more, mortgage payments fall (1), and firms invest more, so AD rises (1).

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3(h) *With reference to the extract, assess whether expansionary fiscal policy is the best way to reduce unemployment in Ostland. (9 marks · levels)*

For: unemployment 11% and inflation only 1%, so little risk of inflation; interest rates already 1%, so monetary policy has little room; infrastructure is labour intensive and raises productive potential.

Against: deficit (4%) and national debt rise, with interest costs; time lags; business tax cuts (supply-side) may create lasting jobs.

Judgement: fiscal expansion is the best short-run option given low rates and inflation, ideally combined with supply-side measures; depends on borrowing costs.

Levels: L1 1–3 (points listed, little use of the data) · L2 4–6 (developed points, some use of the data, limited evaluation) · L3 7–9 (developed points on both sides using the data, with a supported judgement).

Question 4

4(a) *A tariff is: (1 mark)*

Answer: B (a tax on imports). A tax that makes imports dearer.

4(b) *A depreciation of a country's currency is likely to: (1 mark)*

Answer: A (make its exports cheaper abroad). Foreigners need less of their own currency.

4(c) *Define globalisation. (1 mark)*

The growing interconnection of the world's economies (1).

4(d) *A Marozan textile firm sells a batch of cloth for R2000. Calculate its price in US dollars before and after the fall in the rand. You are advised to show your working. (2 marks)*

Before: 2000 × 0.25 = US$500 (1).

After: 2000 × 0.20 = US$400 (1).

4(e) *Explain one reason why a government might use protectionism. (3 marks)*

Point: e.g. to protect infant industries / prevent dumping / protect jobs (1).

Development: domestic firms face cheaper foreign rivals (1), so barriers give them time to grow or prevent unfair competition (1).

4(f) *With reference to the extract, evaluate whether Maroza should join the Coastal Customs Union. (12 marks · levels)*

For: tariff-free access to 180m consumers for textiles and cocoa; economies of scale; FDI from car makers (jobs, technology); closer cooperation.

Against: common external tariff of 15% raises the cost of Asian machinery (higher costs, less efficient); small farmers face larger CCU rivals; loss of control over trade policy; possible trade diversion.

Judgement: likely beneficial if exporters and FDI gains outweigh dearer imports; the weaker rand already helps exports; depends on the size of the CCU market for Maroza's goods and support for farmers.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

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