

- Lower production costs for firms as they can cheaply import materials from elsewhere
- Lower prices for consumers to import goods from other countries
- Increases consumption and pushes out demand for imported and exported goods
- Leads to increase in economic growth

EV1:

- Some trading blocs impose common external tariffs on countries outside of the bloc (customs unions)
- Can lead to trade diversions
- Countries will no longer be able to import cheaper materials from countries they used to which can lead to an increase in production cost raising prices of goods

KAA2:

- Trading blocs such as common markets allow the free movement of people between countries
- Allow the free flow of labour
- Can allow for more people to immigrate to a country to get better paid jobs and make the population more productive
- Can increase the ppf of a country if they're receiving more trained/higher skilled workers

EV2:

- Can lead to less developed nations losing a lot of their labour force and their ppf shifting inwards as people move to more developed nations for better paid jobs and more opportunities
- Can increase income inequality within the bloc if some countries lose most of their labour force and can no longer be as productive

In 2011, Germany recorded a trade in goods surplus of €146.1 billion whereas the USA recorded a trade in goods deficit of \$737 billion and the UK a deficit of £99.7 billion. Assess the possible causes of such differences in trade balances. (15)

KAA1:

Germany surplus can be due to

Highly educated and productive workforce who has a reputation for producing high quality and highly reliable goods - cars

Also has a strong manufacturing base with many factories in places like Munich

and quick effect and does not have to rely on banks being willing to spend the extra cash reserves by giving investments

Assess macroeconomic policies which might be used to respond to rising commodity prices during a period of slow economic growth. (15)

KAA1:

Fiscal - reduce corporation tax

Firms may use commodities for manufacturing consumer or capital goods such as copper wires

Thus a rise in commodity prices will cause an increase in a firm's average costs. Subsidising this rise in costs by lowering corporation tax will see profits and margins be maintained.

Thus firms will be able to keep prices the same for consumers so they do not experience a negative income effect.

AS shifts outwards

EV1:

Government revenue will see a fall from corporation tax.

Will mean they are forced to reduce spending.

AD will shift inward.

Although may help to reduce inflationary pressure from commodity prices rising, P level and Y level thus seeing economic growth fall.

KAA2:

Supply side - increase minimum wage

As commodities are used to make consumer goods, rise in their cost can see cost of goods go up.

By raising minimum wage, consumers will see their income rise and so the increased cost of living will be negated in real terms.

Increased wages will also see an increase in consumption overall.

Raise AD and economic growth.

EV2:

Not all consumers are either working or on MW.

Workers on MW are likely to be in secondary sectors so this may have and so this can lead to an increase in costs for those firms and push the prices of goods up further, creating more inflationary pressure.

Discuss macroeconomic policies that could be used to reduce levels of income inequality in the UK (15)

KAA1:

This will in turn move the UK trade deficit towards a surplus
But increase production to make more exports as more demanded
More transportation
Increase in emissions
Conflict between trade balance and environmental

EV2:

Maybe the environment isn't actually going to be hurt
Extra profits being made by firms being spent on environmentally friendly processes and production line said transport

Discuss whether providing substantial government financial support to the banks is the best policy response during a financial crisis. (15)

KAA1:

Bailing out banks good

EV1:

Bailing out bad

KAA1:

Other policy - alternative policy QE

EV2:

QE creates danger of inflation

Rapid rise in currency

Macro 2017 Past Paper Questions

With reference to the information provided and your own knowledge, examine two factors which might explain the change in the rate of Eurozone inflation as shown in Figure 2. (8)

KAA1:

- Fall in confidence due to the recession consumers were unwilling to spend large amounts of money and were more likely to save meaning the MPC fell
- Firms were unwilling to invest as they thought they wouldn't see significant returns
- Leads to a fall in investment
- Lead to an inward shift in AD and thus price falls
- Inflation decreases

KAA2:

- Fall in exports
- Global recession people were less willing to buy EU exports
- Reduce injections into the economy as well as a fall in x-m
- Inward shift in AD
- Worsened the effects of the fall in domestic consumption and investment
- Led to lower inflation

EV:

- Less likely to be as significant as consumption and investment falling as they make up larger proportions of AD
- Also likely imports fell so the impact on net trade may have balanced out
- Depreciation of the EU value would have also helped competitiveness and thus may have helped to increase exports