You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

● Answer two questions in total:
  Section A: answer Question 1.
  Section B: answer one question.

● Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.

● You may use a calculator.

● You may answer with reference to any economy you have studied where relevant to the question.

INFORMATION

● The total mark for this paper is 40.

● The number of marks for each question or part question is shown in brackets [ ].
Section A

Answer this question.

1 Economic growth in Russia has slowed to well below the global average

In 2019, Russia set an aim to quicken its economic expansion – to grow faster than the world as a whole. So far, the plan is off to an uncertain start.

This has also led to a fall in the value of the exchange rate for the Russian currency, the rouble.


Table 1.1: Russia: Government budget balance as % of national output

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>–2.4</td>
<td>–3.4</td>
<td>–1.5</td>
<td>2.9</td>
<td>1.8</td>
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(a) Using Fig. 1.1

(i) Compare the rate of inflation in Russia in March 2015 with that in March 2020. [1]

(ii) What has happened to the price level over this period? [1]

(iii) Explain what could have caused real wages in Russia to decline between 2016 and 2018. [2]

(b) Explain whether school lunches provided free-of-charge by the Russian government would be classified as private goods or public goods. [4]

(c) Assess, using aggregate demand and aggregate supply analysis, the likely impact of the changes shown in Table 1.1 upon the rate of inflation in Russia. [6]

(d) Discuss whether the 'huge decrease in the price of oil' and the fall in the value of the rouble might bring more opportunities than threats to the Russian economy. [6]
Section B

Answer one question.

2 (a) With the help of a production possibility curve diagram(s) compare growth in the productive capacity of an economy and growth that results from a reduction in the quantity of unused resources in an economy. Explain one reason that might cause each to occur. [8]

(b) Discuss the disadvantages of a planned economy and consider whether the transition to an economy in which many resources are allocated by market forces is likely to be of overall benefit. [12]

3 (a) With the help of diagrams, use the concept of income elasticity of demand to explain the impact of a fall in incomes on the equilibrium price and equilibrium quantity of a normal good and an inferior good. [8]

(b) Discuss the difficulties that businesses might have when they try to control the factors that determine the price elasticity of demand for a product and consider whether attempts to control these factors are likely to be successful. [12]

4 (a) An economy moves from a deficit to a surplus on the current account of the balance of payments.

Explain what is meant by a surplus on the current account of the balance of payments and consider the possible impact on the level of employment and prices when there is a change from a deficit to a surplus current account balance in an economy. [8]

(b) Discuss whether expenditure-reducing or expenditure-switching policies are more likely to be of greater overall benefit if adopted to remove a persistent deficit on the current account of the balance of payments. [12]