



Oxford Cambridge and RSA

A Level Economics

H460/02 Macroeconomics

Tuesday 12 June 2018 – Afternoon

Time allowed: 2 hours



You may use:

- a scientific or graphical calculator



First name										
Last name										
Centre number						Candidate number				

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided. If additional space is required, use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the barcodes.

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **20** pages.

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SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

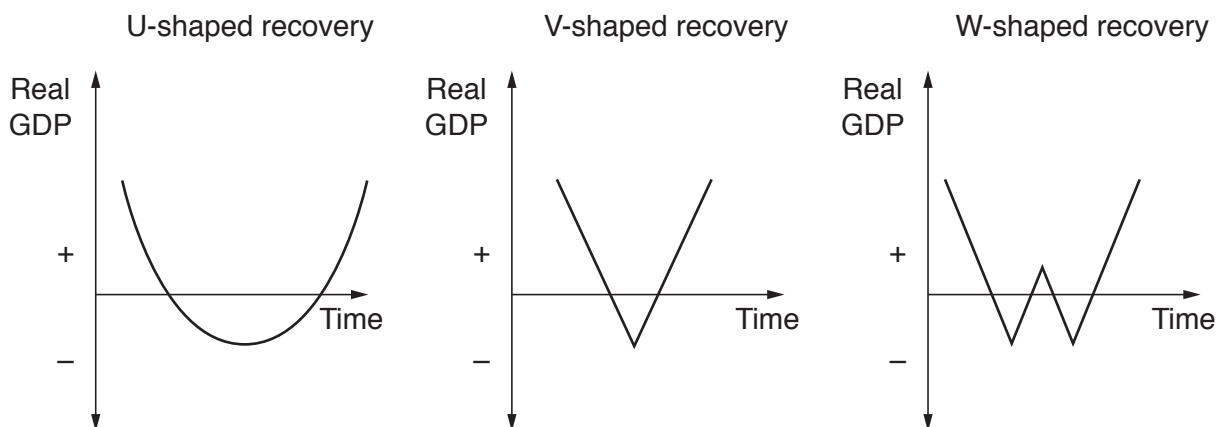
The recovery of the Icelandic economy

In the last two decades the Icelandic economy has experienced some significant changes in economic activity. One influencing factor has been changes in the standard rate of income tax. The rate was cut in a number of stages from 46% to 36% in 2006. Despite the lower income tax rate, government income tax revenue rose, allowing the government to spend more on the country's infrastructure. In 2009 and 2010 the income tax rate was increased.

In the period 2008 to 2011, the economy experienced a serious recession. The country's three largest banks were allowed to fail. It was the third largest bankruptcy in history and, according to the size of the economy, the biggest banking failure in history. The value of the country's stock market fell by 95%, the currency declined in value by 60%, unemployment increased by 8% and inflation rose to 12%.

From 2011 the economy has made a remarkable recovery. In 2014 its real GDP was US\$14.85bn and it grew by 4% in 2015, one of the fastest rates in Europe. Economists have developed an 'alphabet' of recoveries with the three most common types shown in Fig. 1.

Fig. 1 Different types of economic recovery



In 2015 the Icelandic government was paying back its loans to the International Monetary Fund early. It had removed capital controls and had reformed the country's financial sector. A number of the country's industries were expanding, most noticeably its tourist industry. Income from tourism can fluctuate significantly. In 2015 the total contribution of Iceland's tourist industry to the country's GDP was 23%. The impressive growth of Iceland's tourist industry was contributing to a fall in unemployment due to a rise in hotel construction, and an increase in infrastructure, although this was also putting pressure on house prices as people were buying them to rent out to tourists. In 2015 the unemployment rate was 5.3%, which was lower than in many European countries, but it was predicted to rise in 2016.

A series of 25 horizontal dotted lines spanning the width of the page, intended for writing.

ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

A large area of lined paper for writing. It features a vertical margin line on the left side and horizontal dotted lines for writing. The lines are evenly spaced and extend across the width of the page.

A blank sheet of lined paper with a vertical margin line on the left and horizontal ruling lines across the page. The lines are evenly spaced and extend across the width of the page.

A large area of the page is reserved for writing, featuring a vertical solid line on the left side and horizontal dotted lines extending across the page.



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