

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS
ADVANCED SUBSIDIARY GCE**

2883

ECONOMICS

The National and International Economy

WEDNESDAY 3 JUNE 2009: Afternoon

DURATION: 1 hour

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

Candidates answer on the Answer Booklet

OCR SUPPLIED MATERIALS:

Designated Answer Booklet [2883/AB]

OTHER MATERIALS REQUIRED:

None

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

- **Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.**
- **Use black ink. Pencil may be used for graphs and diagrams only.**
- **Read each question carefully and make sure that you know what you have to do before starting your answer.**
- **Answer ALL the questions.**
- **Write all your answers in the separate Answer Booklet provided.**

INFORMATION FOR CANDIDATES

- **The number of marks is given in brackets [] at the end of each question or part question.**
- **The total number of marks for this paper is 45.**
- **The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).**

BLANK PAGE

Answer **ALL** parts of this question in the accompanying answer booklet.

**AN INDEPENDENT SCOTLAND –
A CELTIC TIGER OR A CELTIC MOUSE?**

The Scottish National Party (SNP) argues in favour of independence for Scotland. It claims that small countries achieve a better economic performance than large ones (Fig. 1 shows some information on a number of countries.)

5

**FIG. 1 SELECTED ECONOMIC DATA ON
A NUMBER OF COUNTRIES IN 2007**

Country	Population (m)	Unemployment (%)	Economic growth (%)
Norway	5	2.7	2.4
Taiwan	23	4.0	4.2
UK	60	5.5	2.5
Russia	142	7.0	6.7
Brazil	180	10.1	8.9

The citizens of Norway, for example, enjoy a significantly higher gross domestic product (GDP) per head than those in the UK, even though the country has a much lower GDP. Fig. 2 provides information on the components of aggregate demand in Norway and the UK.

10

**FIG. 2 THE COMPONENTS OF AGGREGATE
DEMAND IN 2005 (\$bn)**

	Norway	UK
Consumer expenditure	112.5	1 380
Investment	47.5	361
Government spending	55	446
Exports	109	531
Imports	74	594

Scottish independence would have a number of effects on both the Scottish economy and the economies of England, Wales and Northern Ireland. For instance, some of what is currently regarded as internal trade, when drawing up the UK balance of payments, would become external trade. 15

An independent Scotland is likely to pursue different economic policies and may have different economic priorities than in the remaining parts of the UK. The SNP has already stated that it wants to reduce corporation tax (a tax on company profits) to 20%. It is also committed to raising the level of government spending. One Scottish economist has estimated that a rise in government spending of £5bn would cause the country's GDP to increase by £10bn. 20
25

Opponents of Scottish independence, however, argue that the Scottish economy would suffer as a result of independence. They point out that the country currently benefits from the highest level of government spending per head in the UK. It has 8.6% of the UK's population but receives 10% of UK government spending. Opponents also claim that an independent Scotland would have a significant 30

<p>budget deficit which would grow as North Sea oil production declines. They question some of the policies put forward by the SNP and suggest that the effects of a cut in corporation tax on investment are uncertain. Measures designed to increase aggregate demand, they argue, are likely to increase Scotland's real GDP in the short run, but there is no guarantee that they will continue to do so in the long run. Opponents also express concern that an independent Scotland may give too much attention to reducing unemployment and too little to controlling inflation.</p>	<p>35</p> <p>40</p> <p>45</p>
---	-------------------------------

- (a) Define the term 'budget deficit' (line 35). [2]
- (b) Assess whether the data in Fig. 1 supports the view that countries with smaller populations have a better economic performance than those with larger populations. [5]
- (c) (i) What is the difference between internal and external trade? (lines 16–17) [2]
 - (ii) State and explain TWO reasons why a country's imports may decline. [4]
- (d) (i) Using Fig. 2, calculate Norway's aggregate demand. Show your working. [2]
 - (ii) Using an aggregate demand and aggregate supply diagram, explain why an increase in aggregate demand may have no impact on the real GDP of an economy. [7]

- (e) (i) State ONE injection into the circular flow and ONE leakage from the circular flow. [2]
- (ii) What evidence is there in the passage of the multiplier effect? [2]
- (f) Comment on the likely impact on investment of a reduction in corporation tax. [7]
- *(g) Discuss the economic effects of a reduction in unemployment. [12]
- [Total: 45 marks]

Copyright Information

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations, is given to all schools that receive assessment material and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact the Copyright Team, First Floor, 9 Hills Road, Cambridge CB2 1PB.

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.