A-level
ECONOMICS

Paper 2 National and International Economy

Monday 22 May 2023 | Afternoon | Time allowed: 2 hours

Materials
For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front cover of your answer book.
  The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

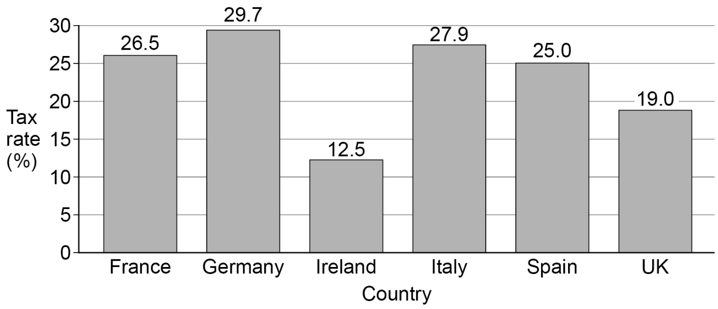
Context 1 **Total for this context: 40 marks**

Corporation tax in Ireland

Study **Extracts A**, **B** and **C** and then answer **all** parts of Context 1 which follow.

Extract A

Figure 1: Corporation tax rates (%) in selected European nations, 2021



Note: Main tax rates only.
Some figures rounded.

Figure 2: Macroeconomic performance indicators for selected European nations, 2021

	France	Ireland	Spain
GDP at current prices ($bn)	2935	499	1202
Exports ($bn)	775	641	462
Inflation (%)	1.6	2.4	3.1
Unemployment (thousands)	3074	127	3105
Labour force (millions)	31.0	2.5	23.3

Source: Official statistics, 2022

Extract B: Irish corporation tax

Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world's biggest companies, including Google and Facebook, to site their European headquarters in Ireland. Countries who are members of the Organisation for Economic Co-operation and Development (OECD), have agreed to a minimum corporation tax rate of 15%. Initially, Ireland was one of nine countries that refused to join the scheme but they have now all agreed to do so.

The deal brings an end to the country's 12.5% corporation tax rate that has applied since January 2003, which has been criticised in other EU countries and the UK, where higher corporation tax rates have applied. The new tax, which will be limited to firms with annual global revenues of over €750m, will come into force in 2023. According to some estimates, it will cost the Irish government between €800m and €2bn a year in lost tax revenue. Multinational corporations (MNCs) located in Ireland and elsewhere, employing up to 500 000 staff, could be affected.

Over the years, as a consequence of its low corporate tax policy, Ireland has attracted an estimated 1000 MNCs in the technology, finance and pharmaceutical sectors, including Pfizer, Intel, Yahoo, LinkedIn, TikTok, Apple, IBM and Twitter. Such is the importance of MNCs to the Irish economy, that figures released in May showed that just 100 companies accounted for almost 80% of government tax revenue. The figures exclude those sectors closed due to the lockdown, including hospitality and travel, but showed Ireland's reliance on MNCs for employment and tax revenue. In 2020, about 32% of all jobs in Ireland were in MNCs and those employees contributed 49% of all taxes on income.

Source: News reports, 2021

Extract C: Extra tax revenue?

According to figures published by the EU Tax Observatory, an independent research group, Ireland could collect an extra €12.4bn in corporation tax under the 15% global minimum corporation tax rate. The group stated that Ireland should not be that concerned about MNCs leaving the country. The biggest blow to Ireland's low-tax regime came in 2015 when, under pressure from the EU, tax avoidance schemes known as the "double Irish" were made illegal. Under this scheme multinationals paid as little as 1% tax on their profits, a fraction of the 12.5% headline corporation tax rate.

The argument that the Irish Government would raise more tax revenue is simple: if all OECD members have a common minimum corporation tax rate, then global MNCs would not move to where taxation is lowest, and would just pay more tax in the countries in which they are located. The report finds developing and low-income countries will benefit less than more-economically-developed countries as most MNCs operate in high-income countries. High economic growth rates allowed Ireland to run a budget surplus in 2018 and 2019. However, Ireland is now running a large budget deficit, made worse by the pandemic, and any additional government revenue would be welcomed. Ireland also has an ageing population and could use the money to pay for pensions, social care and improved welfare.

Source: News reports, 2021

0 1 Using the data in **Extract A** (**Figure 1**), calculate the difference between Ireland's corporation tax rate and the mean corporation tax rate of the other five European nations.

Give your answer to **one** decimal place.

[2 marks]

0 2 Explain how the data in **Extract A** (**Figure 2**), show that Ireland's economy performed better than the economies of France and Spain in 2021.

[4 marks]

0 3 **Extract C** (line 13) states: 'High economic growth rates allowed Ireland to run a budget surplus in 2018 and 2019.'

With the help of a diagram, explain how high economic growth could help to create a budget surplus.

[9 marks]

0 4 **Extract B** (lines 1–3) states: 'Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world's biggest companies, including Google and Facebook, to site their European headquarters in Ireland.'

Using the data in the extracts and your knowledge of economics, assess the view that a rise in Ireland's corporation tax rate is likely to have a damaging effect on its macroeconomic performance.

[25 marks]

Do **not** answer Context 2 if you have answered Context 1.

OR

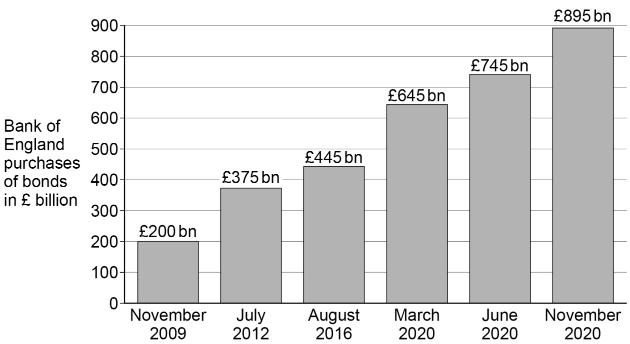
Context 2 **Total for this context: 40 marks**

Quantitative easing in the UK

Study **Extracts D**, **E** and **F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: Cumulative value of quantitative easing in the UK



Source: Bank of England, 2022

Figure 4: Macroeconomic performance indicators for the UK, averages, 2006 to 2021

	2006 –2009	**2010 –2013**	**2014 –2017**	**2018 –2021**
Economic growth rate (%)	0.1	1.8	2.5	0.4
CPI inflation rate (%)	2.6	3.3	1.2	2.0
Unemployment rate (%)	6.0	7.9	5.2	4.2
Balance of payments on current account (% of GDP)	–3.3	–3.3	–4.8	–3.1

Source: ONS, 2022

Extract E: Unconventional monetary policy?

Since March 2009, an experiment has been underway in the UK. The Bank of England reduced Bank Rate to almost zero and introduced a new policy to the UK, known as quantitative easing (QE). Back then, financial markets around the world were in crisis and banks in the UK decreased lending, reducing the availability of credit for households and firms. This damaged the real economy and created high unemployment.

Faced with these problems, the Monetary Policy Committee (MPC) decided to cut Bank Rate to 0.5%, down from 5% in October 2008, but this was not enough on its own. Emergency meetings with the Chancellor at the time, Alistair Darling, led to the use of unconventional monetary policy in the form of QE. Initially, the Bank of England bought bonds worth £75bn but soon began to purchase more.

QE was originally intended to be an emergency measure but has remained in place. The total spent on buying government bonds under QE has been expanded repeatedly, reaching £895bn, with the latest round coming during the coronavirus pandemic. However, the fact that the Bank of England has continued increasing its bond purchases, and that interest rates remain close to zero, indicate that QE may not have been as successful as was hoped. Andrew Sentance, an economist who was on the MPC and who helped draw up the plan, said that financial markets in March 2009 pointed to Bank Rate returning to 3% by 2011. He also stated that he didn't think anybody on the MPC believed that QE was anything other than an emergency measure.

In some respects, the policy worked wonders. The UK enjoyed a strong recovery from the 2008 crash and had the longest run of unbroken quarterly growth of any major economy. UK unemployment peaked at 8.5%, compared to 10% in the US and 12.1% in the eurozone. It then dropped to 3.8% before the pandemic, the lowest rate since the mid-1970s.

Source: News reports, 2022

Extract F: Quantitative easing – a dangerous addiction?

While helping to keep borrowing costs down, low interest rates and QE created huge inequalities. Those with assets such as property have seen their prices soar. The FTSE 100 share index reached record highs and more than doubled between 2009 and 2021. The least wealthy 10% of households saw their real wealth rise by an average of £3000 between 2008 and 2014, compared to an average rise of £350 000 for the wealthiest 10%. However, the Bank of England argues that QE has helped to keep people in work.

Low interest rates meant that the return on savings fell but families with mortgages had cheaper repayment costs. This encouraged spending, helping to fuel the economic recovery. Cheap borrowing costs have, however, allowed debts to build up. Borrowing on credit cards, personal loans and car finance have soared above pre-2008 levels. There is also the effect on the cost of living through higher inflation rates.

Rock-bottom interest rates and QE stimulated the economy. However, the Conservative-led coalition government, elected in 2010, adopted a policy of austerity, cutting government spending to reduce the budget deficit. Monetary policy fuelled growth, but austerity pulled in the opposite direction. This made it harder to raise Bank Rate as growth was low. Although interest rates began to rise in late 2017 and 2021, they are still below the rates seen before the 2007–08 financial crisis.

Some say that the use of QE is a dangerous addiction and its overuse can lead to problems in the future. Many economists believe QE has lost some of its effectiveness and warn that a fresh round could lead to higher inflation and increase wealth inequality. It is argued that, in the future, the Treasury should use fiscal policy to stimulate the economy rather than relying on QE.

Source: News reports, 2022

0 5 Using the data in **Extract D** (**Figure 3**), calculate the value of bonds that had been purchased by November 2020 for every £1 worth of bonds purchased by November 2009.

Give your answer in £s and to **two** decimal places.

[2 marks]

0 6 Explain how the data in **Extract D** (**Figure 4**), show that the growth in quantitative easing (shown in **Figure 3**) may have been successful in helping the UK achieve its macroeconomic objectives since 2009.

[4 marks]

0 7 **Extract E** (lines 4–5) states: '…banks in the UK decreased lending, reducing the availability of credit for households and firms. This damaged the real economy and created high unemployment.'

With the help of a diagram, explain how reduced availability of credit from banks may lead to increased unemployment.

[9 marks]

0 8 **Extract F** (lines 18–19) states: 'Some say that the use of QE is a dangerous addiction and its overuse can lead to problems in the future.'

Using the data in the extracts and your knowledge of economics, assess the view that the continued use of quantitative easing (QE) is damaging for the UK economy.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

Over the last two centuries, international trade has grown faster than global GDP, completely transforming the world economy. Today, about one quarter of total global output is exported. Globalisation has generated gains for the UK economy but has also made it vulnerable to external shocks.

0 9 Explain the main causes of globalisation.

[15 marks]

1 0 Assess the view that increased globalisation has been beneficial for the UK economy.

[25 marks]

OR

Essay 2

Throughout 2021 and 2022, the UK suffered from supply-side problems which caused prices to rise. Within an economic cycle, there are often trade-offs between different macroeconomic objectives. However, many economists argue that the government should do more to reduce the likelihood of these trade-offs persisting in the long run.

1 1 Explain the possible causes of a shift in the short-run aggregate supply curve to the left.

[15 marks]

1 2 Evaluate how, in the long-run, governments could try to reconcile conflicts between the various objectives of economic policy.

[25 marks]

OR

Essay 3

According to the Office for National Statistics, the UK's real gross domestic product (GDP) increased by an estimated 7.5% in 2021, the fastest rate in 80 years. This followed a fall in real GDP of 9.4% in 2020.

1 3 Explain possible causes of economic growth.

[15 marks]

1 4 Evaluate the view that economic growth usually leads to an improvement in living standards.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page